



CHAPTER 2

ACCOUNTING PROCESS - BOA AND TRIAL BALANCE AND THEORY

THEORY SECTION

UNIT I - BASIC ACCOUNTING PROCEDURES – JOURNAL ENTRIES



Double Entry System

Double entry system of accounting is more than 500 years old. Double entry system of accounting owes its origin to “Luca Pacioli” an Italian mathematician. It is the only scientific system of accounting. According to it, every transaction has two-fold aspects debit and credit and both the aspects are to be recorded in the books of accounts. Therefore, in every transaction at least two accounts are effected.



Advantages of Double Entry System

- (i) By the use of this system the accuracy of the accounting work can be established, through the trial balance.
- (ii) The profit earned or loss suffered during a period and financial position of enterprise can be known by preparation of P & L Statement and balance sheet at the end of each year.
- (iii) The system permits accounts to be kept in as much details as necessary and, therefore affords significant information for the purposes of control etc.
- (iv) Result of one year may be compared with those of previous years and reasons for the change may be ascertained.



Transactions

Transactions are performance of business act. These transactions are recorded in books accounts as per two approaches –

1. Accounting Equation Approach.
2. Traditional Approach.



1. Accounting Equation Approach:

The relationship of assets with that of liabilities and owners' equity (capital) in the equation form is known as 'Accounting Equation'. Under double entry system, every business transaction has two-fold effect on the business enterprise where each transaction affects changes in assets, liabilities or capital in such a way that an accounting equation is completed and equated. This accounting equation holds good at all points of time and for any number of transactions and events except when there are errors in accounting process. The accounting equation is as follows–

$$\text{Capital (owners' equity) + Liabilities = Assets}$$

Therefore all transaction will change accounting equation items in such a way that accounting equation will always tally.

2. Traditional Approach:

Transactions are recorded on the basis of the rules of debit and credit only. For the purpose of recording, these transactions are classified in three groups:

- (i) Personal transactions.
- (ii) Transactions related to assets and properties.
- (iii) Transactions related to expenses, losses, income and gains.

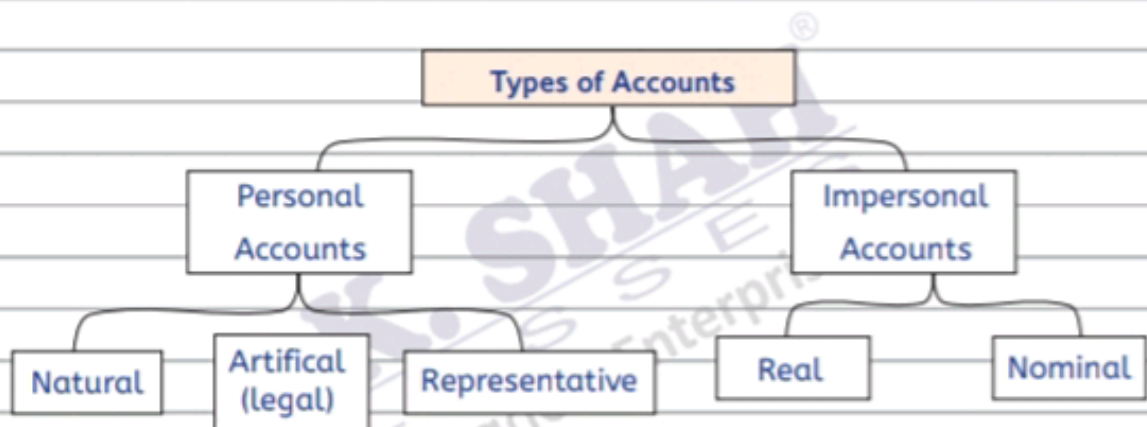
Accordingly accounts are classified as under –

- (i) **Personal Accounts:** Personal accounts relate to persons, trade receivables or trade payables. This account is further classified into three categories:
 - (a) **Natural personal accounts:** It relates to transactions of human beings like Ram, Rita, etc.
 - (b) **Artificial (legal) personal accounts:** For business purpose, business entities are treated to have separate entity. They are recognised as persons in the eye of law for dealing with other persons. For example: Government, Companies (private or limited), Clubs, Co-operative societies etc.
 - (c) **Representative personal accounts:** These are not in the name of any person or organisation but are represented as personal accounts. For example: outstanding liability account or prepaid account, capital account, drawings account.

(ii) **Impersonal Accounts:** Accounts which are not personal such as machinery account, cash account, rent account etc. These can be further sub-divided as follows:

(a) **Real Accounts:** Accounts which relate to assets of the firm but not debt. For example, accounts regarding land, building, investment, fixed deposits, cash etc. are real accounts.

(b) **Nominal Accounts:** Accounts which relate to expenses, losses, gains, revenue, etc. like salary account, interest paid account, commission received account. The net result of all the nominal accounts is reflected as profit or loss which is transferred to the capital account. Nominal accounts are, therefore, temporary.



Note: That procedure for analysis of transactions, classification of accounts and rules for recording business transactions under accounting equation approach and traditional approach are different. But the accounts affected and entries in affected accounts remain same under both approaches. Thus, the recording of transactions in affected accounts on the basis of double entry system is independent of the method of analysis followed by a business enterprise. In other words, accounts to be debited and credited to record the dual aspect remain same under both the approaches.



Rules of Debit and Credit

1. Traditional Approach (Golden Rules of Accounting)

All the above classified accounts have two rules each, one related to Debit and one related to Credit for recording the transactions which are termed as golden rules of accounting, as transactions are recorded on the basis of double entry system.

Types of Account	Account to be Debited	Account to be Credited
Personal Account	Receiver	Giver
Real Account	What comes in	What goes out
Nominal Account	Expense and losses	Income and gains

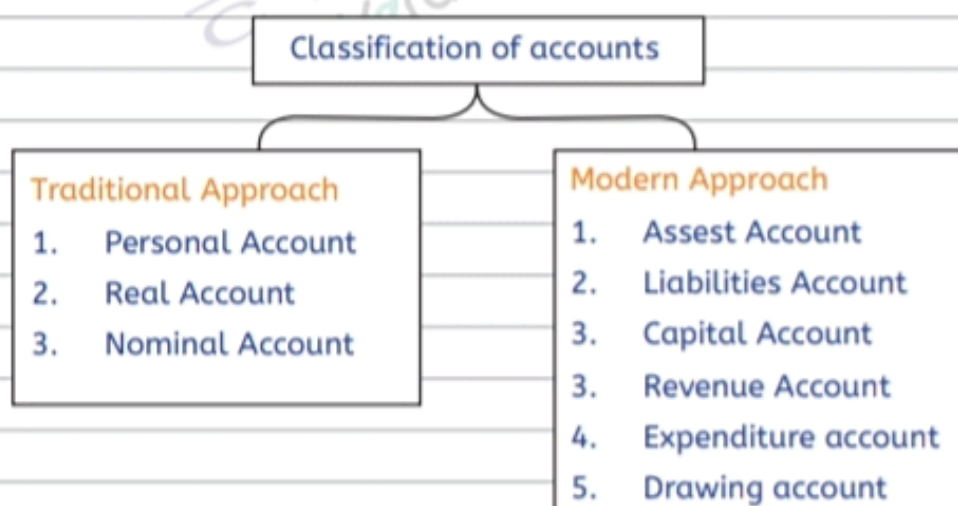
2. Modern Approach

Real, nominal and personal accounts is the traditional classification of accounts.

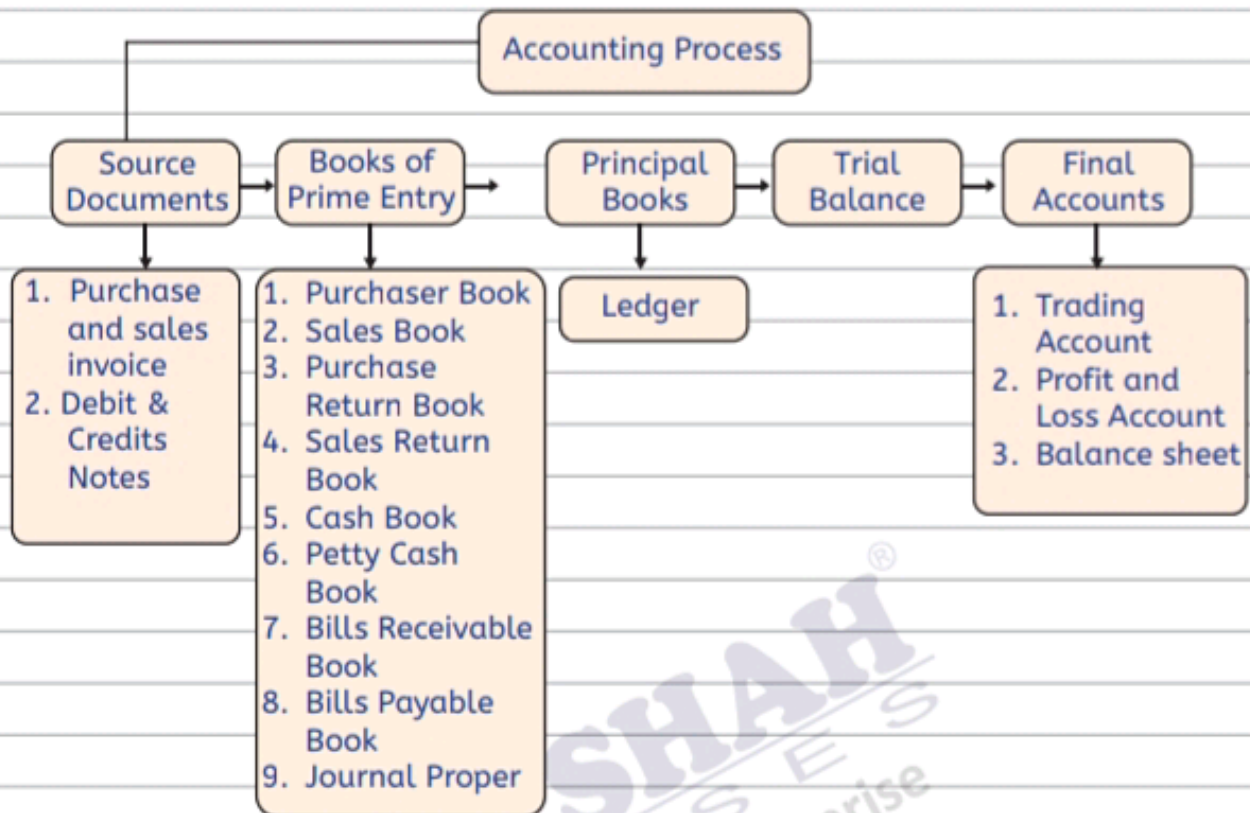
The modern classification of accounts

Types of account	Normal balance of account	Account to be debited when there is:	Account to be credited when there is:
Asset account	Debit	Increase	Decrease
Liabilities account	Credit	Decrease	Increase
Capital account	Credit	Decrease	Increase
Revenue account	Credit	Decrease	Increase
Expenditure account	Debit	Increase	Decrease
Drawing account	Debit	Increase	Decrease

Therefore in nutshell, account classification can be done as follows –



Journey of transaction & events in accounts



Journal

Transactions are first entered in this book to show which accounts should be debited and which credited.

All financial transactions are initially recorded in the journal (a book of prime entry) which is prepared in chronological order (date wise).

Recording of transactions in journal is termed as journalizing the entries.

There are basically two types of journals:

1. General journal
2. Specialized journal (Subsidiary Books)

Journal entries can be single entry (i.e. one debit and one credit) or compound entry (i.e. one debit and two or more credits or two or more debits and one credit or two or more debits and credits).

Advantages of Journal

1. As transactions are recorded in chronological order, one can get complete information about the business transactions on time basis.
2. 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.
3. Journal forms the basis for posting the entries in the ledger. This eases the accountant in their work and reduces the chances of error.

Example of classification of accounts under traditional and accounting equation approach Nature of Account

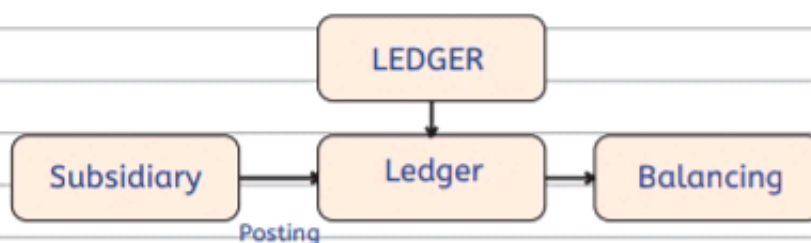
Sl. No.	Title of Account	Traditional Approach	Accounting Equation Approach
(a)	Building	Real	Asset
(b)	Purchases	Real	Asset
(c)	Sales	Real	Revenue
(d)	Bank Fixed Deposit	Personal	Asset
(e)	Rent	Nominal	Expense
(f)	Rent Outstanding	Personal	Liability
(g)	Cash	Real	Asset
(h)	Adjusted Purchases	Nominal	Expense
(i)	Closing Inventory	Real	Asset
(j)	Investment	Real	Asset
(k)	Trade receivables	Personal	Asset
(l)	GST Payable	Personal	Liability
(m)	Discount Allowed	Nominal	Expense
(n)	Bad Debts	Nominal	Expense
(o)	Capital	Personal	Capital
(p)	Drawings	Personal	Drawings
(q)	Interest receivable	Personal	Asset
(r)	Rent received in advance	Personal	Liability
(s)	Prepaid salary	Personal	Asset
(t)	Bad debts recovered	Nominal	Revenue
(u)	Depreciation	Nominal	Expense
(v)	Personal Income Tax	Personal	Drawings
(w)	Bank	Personal	Asset

Note: There are two views on classification of "Purchase Account" and "Sales Account". One view is that they represent "flow of goods", so they should be classified as 'Real A/c'. However, others are of the opinion that only nominal a/cs are closed by transferring to 'Trading or Profit and Loss 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.

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UNIT II - LEDGERS



Introduction

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

- Account is a statement showing the summary of transactions and the final balance in respect of a person or an item. Each account is kept on a separate page of folio. All the pages or folios are bound together in a book which is called Ledger. Ledger contains a separate account for every person, a debtor or a creditor, and for each item of asset, income, expenses, gain or loss. i.e. entries from journal are transferred to ledger (also called as principal books) which are prepared in analytical order.
- The process of transferring the debit and credit items from journal to classified accounts in the ledger is known as posting.
- At the end of the each month or year or any particular day it may be necessary to ascertain the balance in an account. The technique of finding the net balance of an account after considering the totals of both debits and credits appearing in the account is known as balancing of accounts.
- Nominal accounts are closed down (not balanced) and its balance in the end are transferred to the profit and loss account. Only personal and real accounts ultimately show balances (are balanced) and their balances are taken to balance sheet which will become opening balance next year.
- If in a ledger account debit side total is more than credit side, then balance is known as debit balance and if credit side total is more than debit side then balance is known as credit balance.

Reading of ledger account

- If personal account shows debit balance then that account is Accounts receivable (debtors) & if personal account shows credit balance then that account is Accounts payable (creditors).
- Real account (asset a/c) will always show debit balance. Debit entry in real account is an indication of increase / purchase of asset & credit entry in real account is an indication of decrease / sale / depreciation of asset.
- Nominal account (expense) will show debit balance & Nominal account (income) will show credit balance.

Example of ledger accounts

Dr.	Trade Receivable A/c		Cr.
To balance b/d	x	By Cash / Bank /	
To Sales (credit)	x	Bills receivable	x
		By Discount	
		allowed	x
		By bad	
		debts	x
		By sales	
		returns	x
		By balance c/d	x
	<u>xx</u>		<u>xx</u>

Dr.	Trade Payable A/c	Cr.	
To Discount		To balance b/d	x
received	x	To purchase (credit)	x
To Cash / Bank /			
Bills payable	x		
To balance c/d	x		
	<u>xx</u>		<u>xx</u>

UNIT III - TRIAL BALANCE



Introduction

- Trial Balance is a statement containing the list of the balances of all the Ledger Accounts on a particular day. It is a table showing all debit and credit ledger balances.
- The main object of preparing a Trial Balance is to check the arithmetical accuracy of the books. If there is no arithmetical error in writing the books, the total debit balances will be equal to the total credit balances. An agreed Trial Balance thus means that the books are arithmetically accurate i.e., the figures are written correctly.
- If the Trial Balance does not tally, it is an indication that the books contain some errors.
- Talled trial balance is not a conclusive proof that there are no errors in the accounts.
- Once the trial balance tallies, there is reasonable confidence that the accounting work is free from clerical errors, though it is not proof of cent per cent accuracy, because some errors of principle and compensating errors may still remain.
- Some errors which do not cause any difference in the Trial Balance are called two sided errors. Thus, even if the Trial Balance tallies, there may be some two sided errors in the books.
- Generally, to check the arithmetic accuracy of accounts, trial balance is prepared at monthly intervals. But because double entry system is followed, one can prepare a trial balance any time. Though a trial balance can be prepared any time but it is preferable to prepare it at the end of the accounting year to ensure the arithmetic accuracy of all the accounts before the preparation of the financial statements.
- It may be noted that trial balance is a statement and not an account.

Objectives of Preparing the Trial Balance

The preparation of trial balance has the following objectives:

- (i) Trial balance enables one to establish whether the posting and other accounting processes have been carried out without committing arithmetical errors. In other words, the trial balance helps to establish arithmetical accuracy of the books.
- (ii) Financial statements are normally prepared on the basis of agreed trial balance; otherwise the work may be cumbersome.
- (iii) The trial balance serves as a summary of what is contained in the ledger; the ledger may have to be seen only when details are required in respect of an account.

Methods of Preparation of Trial Balance

1. TOTAL METHOD (Gross Method)

Under this method, every ledger account is totalled and that total amount (both of debit side and credit side) is transferred to trial balance. In this method, trial balance can be prepared as soon as ledger account is totalled. Time taken to balance the ledger accounts is saved under this method as balance can be found out in the trial balance itself. The difference of totals of each ledger account is the balance of that particular account. This method is not commonly used as it cannot help in the preparation of the financial statements.

2. BALANCE METHOD (Net Method)

Under this method, every ledger account is balanced and those balances only are carried forward to the trial balance. This method is used commonly by the accountants and helps in the preparation of the financial statements. Financial statements are prepared on the basis of the balances of the ledger accounts

3. TOTAL AND BALANCE METHOD

Under this method, total method and balance method are combined i.e. trial balance will consist of four amount columns, two for total of ledger accounts (as done in total method) and two for balance of ledger accounts (as done in balance method)



Adjusted Trial Balance (Through Suspense Account)

If the trial balance does not agree after transferring the balance of all ledger accounts including cash and bank balance and also errors are not located timely, then the trial balance is tallied by transferring the difference of debit and credit side to an account known as suspense account. This is a temporary account opened to proceed further and to prepare the financial statements timely.

Rules of Preparing the Trial Balance

While preparing the trial balance from the given list of ledger balances, following rules should be taken into consideration:

1. The balances of all (i) assets accounts (ii) expenses accounts (iii) losses (iv) drawings (v) cash and bank balances are placed in the debit column of the trial balance.
2. The balances of all (i) liabilities accounts (ii) income accounts (iii) profits (iv) capital are placed in the credit column of the trial balance.



UNIT IV - SUBSIDIARY BOOKS



Introduction

- In a business, most of the transactions generally relate to receipts and payments of cash, sale of goods and their purchase. It is convenient to keep a separate register for each such class of transactions one for receipts and payments of cash, one for purchase of goods and one for sale of goods. A register of this type is called a book of original entry or of prime entry. For transactions recorded in such books there will be no journal entry. The system by which transactions of a class are first recorded in the book, specially meant for it and on the basis of which ledger accounts are then prepared is known as the Practical System of Book keeping or even the English System.
- These books of original or prime entry are also called subsidiary books since ledger accounts are prepared on their basis and, without the further process of ledger posting, a trial balance cannot be taken out. Normally, the following subsidiary books are used in a business:
 - (i) Cash book to record receipts and payments of cash, including receipts into and payments out of the bank.
 - (ii) Purchases book to record credit purchases of goods dealt in or of the materials and stores required in the factory.
 - (iii) Purchase Returns Books to record the returns of goods and materials previously purchased.
 - (iv) Sales Book to record the sales of the goods dealt in by the firm.
 - (v) Sale Returns Book to record the returns made by the customers.
 - (vi) Bills Receivable Books to record the receipts of promissory notes or bills receivables from various parties.
 - (vii) Bills Payable Book to record the issue of the promissory notes or bills payables to other parties.
 - (viii) Journal (proper) to record the transactions which cannot be recorded in any of the seven books mentioned above.
- It may be noted that in all the above cases the word "Journal" may be used for the word "book"

Advantages of Subsidiary Books

The use of subsidiary books affords the under mentioned advantages:

- (i) Division of work: Since in the place of one journal there will be so many subsidiary books, the accounting work may be divided amongst a number of clerks.
- (ii) Specialization and efficiency: When the same work is allotted to a particular person over a period of time, he acquires full knowledge of it and becomes efficient in handling it. Thus the accounting work will be done efficiently.
- (iii) Saving of the time: Various accounting processes can be undertaken simultaneously because of the use of a number of books. This will lead to the work being completed quickly.
- (iv) Availability of information: Since a separate register or book is kept for each class of transactions, the information relating to each transactions will be available at one place.
- (v) Facility in checking: When the trial balance does not agree, the location of the error or errors is facilitated by the existence of separate books. Errors and frauds will be checked by the use of various subsidiary books.

Distinction between Subsidiary Books and Principal Books

	Subsidiary Books	Principal Books
1.	Transaction is initially recorded in these books.	Transaction is subsequently recorded in these books.
2.	These books furnish information for ledger.	These books furnish information for trial balance & financial statements.
3.	e.g. Purchase Book, Sales Book, Purchase Return Book, Sales Return Book, Bills Receivable Book, Bills Payable Book, Cash Book, Petty Cash Book and Journal Proper.	e.g. Ledger

**Purchases Book / Journal**

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Format of Purchase Book

Date	Supplier's Name	Particulars of purchase	Invoice No.	L.F.	Gross ₹	Trade Discount ₹	Net ₹	Freight ₹	Total ₹

Points to remember:

- (i) Cash purchases are not entered in this book since these will be entered in the cash book.
- (ii) Credit purchases of goods or material dealt by business are entered in purchase book but credit purchase of assets are journalised and are not entered in the Purchases Book.
- (iii) The purchase book is prepared on basis of inward invoice.

Posting the Purchases Book

1. Total of individual entries in the purchase book are posted to credit side of creditors account.
2. The total of purchase book i.e. total of net column is posted to debit side of purchase account and total of freight column is posted to debit side of freight account

Sales Book / Journal**Format of Sales Book**

Date	Customer's Name	Particulars of sales	Invoice No.	L.F.	Gross ₹	Trade Discount ₹	Net ₹

The Sales Book is a register specially kept to record credit sales of goods dealt in by the firm.

Points to remember:

- (i) Cash sales are not entered in this book since these will be entered in the cash book.
- (ii) Credit sales of goods or material dealt by business are entered in sales book but credit sales of assets are journalised and are not entered in the sales Book.

- (iii) The sales book is prepared on basis of outward invoice.
- (iv) In case of GST, Separate column of GST can be prepared after net column in the above of format of sales book. After GST column a total column should also prepared in Sales book.

Posting the Sales Book:

1. Total of individual entries in the sales book are posted to debit side of debtors account.
2. The total of sales book i.e. total of net column is posted to credit side of sales account.
3. If GST column is prepared in the sales book then total of GST column will be posted to GST payable account in the credit side, total of net column will be posted to credit side of sales a/c and total of individual entries (including GST) will be debited to customer account.

Sales Returns Book or Returns Inward Book:

Format of Sales Returns Book or Returns Inward Book

Date	Customer's Name	Particulars of sales returns	Credit No.	L.F.	Gross ₹	Trade Discount ₹	Net ₹

If customers frequently return the goods sold to them, it would be convenient to record the returns in a separate book, which is named as the Sales Returns Book or the Returns Inward Book.

Points to remember:

- (i) Only those sales returns which are not adjusted against cash is entered in above book. I.e. only credit transaction.
- (ii) Sales returns of goods or material (and not assets) dealt by business are entered in sales returns book.
- (iii) The sales returns book is prepared on basis of credit note.
- (iv) The credit note is issued by seller (to whom goods are returned) to buyer (who returns the goods).

Posting the Sales Returns Book

1. Total of individual entries in the sales return book are posted to credit side of debtors account.
2. The total of sales return book i.e. total of net column is posted to debit side of sales returns account.

Purchase Returns or Returns Outward Book**Format of Purchase Returns or Returns Outward Book**

Date	Customer's Name	Particulars of sales returns	Debit Note No.	L.F.	Gross ₹	Trade Discount ₹	Net ₹

If purchase returns are frequent it would be convenient to record the returns in a separate book, which is named as the Purchase Returns or Returns Outward Book.

Points to remember:

- (i) Only those purchase returns which are not adjusted against cash is entered in above book. I.e. only credit transaction.
- (ii) purchase returns of goods or material (and not assets) dealt by business are entered in purchase returns book.
- (iii) The purchase returns book is prepared on basis of debit note.
- (iv) The debit note is issued by buyer (who returns the goods) to seller (to whom goods are returned).

Posting the Purchase Returns Book:

1. Total of individual entries in the purchase return book are posted to debit side of creditors account.
2. The total of purchase return book i.e. total of net column is posted to credit side of purchase returns account.

Bills Receivable Books and Bills Payable Book

Format of Bills Receivable Books

Date of receipt	Party from whom Received	Acceptor	Date of Bill	Due Date	L.F.	Amount ₹

Format of Bills Payable Book

Date of Acceptance	Drawer	Payee	Date of Bill	Due Date	L.F.	Amount ₹

Point to Remember:

1. When transaction of bill receivable & payable are large it is better to maintain bills receivable & bills payable book. Both these books are subsidiary books.
2. Individual entries posting is done from bills receivable book to Credit side of debtors account & total of bills receivable book is posted to debit side of bills receivable account.
3. Individual entries posting is done from bills payable book to debit side of creditors account & total of bills payable book is posted to credit side of bills payable account.

Journal Proper

This is a residual part of the journal which will cover all remaining transactions which cannot go in the special books listed above.

In fact, if there is no special book meant to record a transaction, it is recorded in the journal (proper). The role of the journal is thus restricted to the following types of entries.

- (i) Opening entries:** When books are started for the new year, the opening balance of assets and liabilities are journalised.
- (ii) Closing entries:** At the end of the year the profit and loss account has to be prepared. For this purpose, the nominal accounts are transferred to this account. This is done through journal entries called closing entries. (refer final accounts chapter).



- (iii) **Rectification entries:** If an error has been committed, it is rectified through a journal entry. (refer rectification of errors chapter).
- (iv) **Transfer entries:** If some amount is to be transferred from one account to another, the transfer will be made through a journal entry.
- (v) **Adjusting entries:** At the end of the year the amount of expenses or income may have to be adjusted for amounts received / paid in advance or for amount receivable / payable (outstanding). Such an adjustment is also made through journal entries. Usually, the entries pertain to the following:
- (a) Outstanding expenses, i.e., expenses incurred but not yet paid;
 - (b) Prepaid expenses, i.e., expenses paid in advance for some period in the future;
 - (c) Interest on capital, i.e., the interest on proprietor's investment in the business and
 - (d) Depreciation, i.e., fall in the value of the assets used on account of wear and tear.
- (vi) **Entries on dishonour of Bills:** If someone who accepted a promissory note (or bill) is not able to pay in on the due date, a journal entry will be necessary to record the non-payment or dishonour.
- (vii) **Miscellaneous entries :**
The following entries will also require journalising:
- (a) Credit purchase / sales of assets e.g. credit purchase of furniture or machinery will be journalised.
 - (b) An allowance to be given to the customers or a charge to be made to them after the issue of the invoice.
 - (c) On an amount becoming irrecoverable, say, because, of the customer becoming insolvent.
 - (d) Effects of accidents such as loss of property by fire.
 - (e) Transfer of net profit to capital account.



UNIT V - CASH BOOK

Cash Book - A Subsidiary Book and A Principal Book

Cash transactions are straightaway recorded in the Cash Book and on the basis of such a record, ledger accounts are prepared. Therefore, the Cash Book is a subsidiary book. But the Cash Book itself serves as the cash account and the bank account; the balances are entered in the trial balance directly. (as no cash a/c & bank a/c is prepared in ledger). The Cash Book, therefore, is part of the ledger also. Hence, it has also to be treated as the principal book. The Cash Book is thus both a subsidiary book and a principal book.



Kinds of Cash Book

The main Cash Book may be of the three types:

- (i) Simple Cash Book;
- (ii) Two-column Cash Book;
- (iii) Three-column Cash Book.

In addition to the main Cash Book, firms also generally maintain a petty cash book but that is purely a subsidiary book.

Simple Cash Book:

Such a cash book appears like an ordinary account, with one amount column on each side. The left-hand side records receipts of cash and the right-hand side the payments. The cash book is balanced like other accounts. The total of receipts column is always greater than total of payments column.

Double-Column Cash Book

- This cashbook consists of two columns on debit as well as on credit side, one cash column and second discount or bank column.
- In the cash column on the debit side, actual cash received is entered; the amount of the discount allowed, if any, to the customer concerned is entered in the discount column. Similarly, actual cash paid is entered in the cash column on the credit side and discount received in the discount column. Also the bank column on the debit side records all receipts through bank and the same column on the credit side shows payment through bank. (Debit side denotes receipt & credit side denotes payment).



➤ **Posting the Cash Book Entries to Various Accounts**

From the debit side of the cash book posting will be done to the credit of the accounts mentioned in the particular column with their respective amounts (including any discount that may have been allowed); from the credit side of cash book the posting will be to the debit of the accounts mentioned in the particular column with their respective amounts (including the discount which may have been received).



Petty Cash Book

➤ In a business house a number of small payments, such as for stationery, taxi fare, cartage, etc., have to be made. If all these payments are recorded in the cash book, it will become unnecessarily heavy. Also, the main cashier will be overburdened with work. Therefore, it is usual for firms to appoint a person as 'Petty Cashier' and to entrust the task of making small payments say below ₹ 200, to him. Of course he will be reimbursed for the payments made.

➤ Petty Cash Book records all petty expenses of the business and the balance in petty cash book at the end of the month represents petty cash on hand which is shown as an asset.

➤ **Imprest System of Petty Cash**

1. It is convenient to entrust a definite sum of money to the petty cashier in the beginning of a period and to reimburse him for payments made at the end of the period. Thus, he will have again the fixed amount in the beginning of the new period. Such a system is known as the imprest system of petty cash.
2. The amount fixed for petty cash should be sufficient for the likely small payments for a relatively short period, say for a week or a fortnight.
3. The reimbursement should be made only when petty cashier prepares a statement showing total payments supported by vouchers, i.e., documentary evidence.

➤ **Advantages of Petty Cash Book**

There are mainly three advantages:

- (i) Saving of time of the chief cashier;
- (ii) Saving in labour in writing up the cash book and posting into the ledger; and
- (iii) Control over small payments.

➤ **Posting the Petty Cash Book**

1. In the ledger, a petty cash account is maintained; 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. The petty cash account will then show the balance in the hand of the cashier; at the end of the year, the balance is shown in the balance sheet as part of cash balance.
2. From the petty cash book the total of the various columns showing expenses may be directly debited to the concerned expenses accounts; or
3. Alternatively a journal entry may first be prepared on the basis of the petty cash book, debiting the expenses accounts shown by the various analysis columns, and crediting the total of the payment to the petty cash account.

Entries for Sale through Credit/Debit Cards

- Now a days sales through Credit/Debit Cards are issued by almost every Bank in India either directly or with collaboration of some other agencies. HSBC Card, SBI Card, BOB Card, ICICI Bank Card, HDFC Card and Andhra Bank Card are some of the popular Cards.

Accounting For Credit/Debit Card Sale

- From the seller's point of view, this type of sale is equivalent to a cash sale. Commission charged by the bank will be treated as selling expenses. The following journal entries will be made in the seller's books of accounts.

1. Bank A/c Dr.
To Sales Account (Sales made through Credit/Debit Card)
2. Commission Account Dr.
To Bank Account (Commission charged by bank)

CLASSWORK SECTION

UNIT I - BASIC ACCOUNTING PROCEDURES – JOURNAL ENTRIES

Q.1 Following is the information provided by Mr. Gopi pertaining to year ended 31st March 2019. Find the unknowns, showing computation to support your answer:

Particulars	₹	Particulars	₹
Machinery	12,00,000	Trade Receivables	B
Accounts Payable	1,00,000	Loans	C
Inventory	60,000	Closing Capital	D
Total Liabilities including capital	14,15,000	Opening Capital	10,00,000
Cash	A	Loss incurred during the year	35,000
Bank	80,000	Capital Introduced during the year	1,00,000

Additional Information: During the year sales of ₹ 15,55,000 was made of which ₹ 15,00,000 have been received.



UNIT II - LEDGERS

Q.1 The following data is given by Mr. S, the owner, with a request to compile only the two personal accounts of Mr. H and Mr. R, in his ledger, for the month of April, 2019.

- 1 Mr. S owes Mr. R ₹ 15,000; Mr. H owes Mr. S ₹ 20,000.
- 4 Mr. R sold goods worth ₹ 60,000 @ 10% trade discount to Mr. S.
- 5 Mr. S sold to Mr. H goods prices at ₹ 30,000.
- 17 Record a purchase of ₹ 25,000 net from R, which were sold to H at a profit of ₹15,000.
- 18 Mr. S rejected 10% of Mr. R's goods of 4th April.
- 19 Mr. S issued a cash memo for ₹10,000 to Mr. H who came personally for this consignment of goods, urgently needed by him.
- 22 Mr. H cleared half his total dues to Mr. S, enjoying a ½% cash discount (of the payment received, ₹ 20,000 was by cheque).
- 26 R's total dues (less ₹10,000 held back) were cleared by cheque, enjoying a cash discount of ₹1,000 on the payment made.
- 29 Close H's Account to record the fact that all but ₹ 5,000 was cleared by him, by a cheque, because he was declared bankrupt.
- 30 Balance R's Account.