

UNIT-II

System of Bookkeeping : Accounting Process, Double Entry System, Books of Prime Entry, Subsidiary Books Recording of Cash and Bank Transactions.

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Accounting Process		
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on some set of rules known as principles, postulates, conventions, usages or policies. Those rules and principles bring uniformity and consistency to the process of accounting, which increases its utility for the users.

Q.7. State the meaning of Accounting Conventions and enumerate any four of them.

Ans.: The term 'convention' denotes customs, traditions and the usages. These customs and traditions guide the Accountants while preparing accounting statements, viz., Balance Sheet and Profit & Loss statement. The following are some of the important conventions in use—

- (i) Convention of Conservatism,
- (ii) Convention of Full disclosure,
- (iii) Convention of Consistency,
- (iv) Convention of Materiality.

Essay Type or Long Answers Questions :

1. What is meant by the terms 'Principles and Postulates of Accounting' ? Explain.
(See page nps. 2.1) [MDS Univ., Ajmer 1998]
2. "Cost concept does not give a true and fair view of the state of affairs of a Business." Comment.
(See page nps. 2.2) [MDS Univ., Ajmer 1996]
3. Write explanatory notes on :
 - (i) Generally Accepted Accounting Principles.(See page nps. 2.1) [MDS Univ., Ajmer 1996]
 - (ii) Going Concern Concept. (See page nps. 2.2) [MDS Univ., Ajmer 1997]
4. Discuss in brief the following concepts and conventions, giving examples :
 - (a) The Accrual Concept (See page nps. 2.3)
 - (b) The Matching Concept (See page nps. 2.3)
 - (c) The Materiality Convention (See page nps. 2.4) [MDS Univ., Ajmer 2001]
5. What do you mean by Accounting. Concepts and conventions ? Explain any five important accounting concepts and conventions. [R.U. BCA, 2010, 2006]
(See page nps. 2.1 to 2.5)



Accounting Process

3

Accounting Equation

The entire system of recording business transactions is based on accounting equation. All business transactions are recorded as having a *Dual Aspect*. Accounting equation is a statement of equality between debits and credits. It signifies that the Assets of a business are always equal to the total of Liabilities and Capital (Owner's Equity). When this relationship is shown in the equation form it is known as 'Accounting Equation'. Thus,

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

The above equation may be elaborated as under :

- or Capital = Assets – Liabilities
- or Liabilities = Assets – Capital
- or Assets = Capital + Liabilities
- or Assets – Capital – Liabilities = Zero.

Accounting equation is thus an accounting formula expressing equivalence of the two expressions of Assets and Liabilities as shown just above. Since the accounting equation depicts the fundamental relationship among the components of the Balance Sheet, it is also called the Balance Sheet Equation. An example of the simple Balance Sheet in T-shape form is given as under :

M/s ABC & Sons.

Balance Sheet as on

Liabilities	Rs.	Assets	Rs.
Capital	1,50,000	Land and Buildings	1,20,000
General Reserve	50,000	Plant and Machinery	60,000
Mortgage Loan	70,000	Furniture	50,000
Bills Payable	30,000	Stock	40,000
Creditors	25,000	Debtors	45,000
Expenses Due	5,000	Cash at Bank	15,000
	3,30,000		3,30,000

In the above Balance Sheet, Capital plus General Reserve, represent Owner's Equity or Capital. Mortgage Loan, Bills payable, Creditors and Outstanding Expenses represent External Liabilities. All these taken together are equal to the Assets or aggregate of Fixed Assets (i.e. Land and Building, Plant and Machinery and Furniture); and, Current Assets (i.e., Stock, Debtors and Cash at Bank). On the basis of above study, the important points to be noted are :

- (i) Every transaction or event has two aspects.
- (ii) Total Assets are always equal to Capital and Liabilities or in other words, Capital is always equal to Assets minus Liabilities.

(iii) The Profit belongs to the owner which shall increase his Capital.

(iv) The owner has to bear the losses, as such his Capital will be reduced by the amount of the loss.

Thus, the recording of both the aspects of transactions and events answer that account books will also show the accuracy of the Accounting Equation.

Effect of Transactions on Accounting Equation :

Illustration 1.3.1 :

Suppose Manav started a new business and the following successive transactions take place :

Transaction 1. Manav started business with Rs. 1,50,000 as Capital.

The effect of this transaction will be that the firm has received assets totalling Rs. 1,50,000 in the form of Cash and the claims against the firm are also Rs. 1,50,000 in the form of Capital. The transaction can be expressed in the form of an accounting equation as follows :

$$\begin{aligned} \text{Assets} &= \text{Liabilities} + \text{Capital} \\ \text{Cash} &= \text{Liabilities} + \text{Capital} \\ 1,50,000 &= 0 + 1,50,000 \end{aligned}$$

Transaction 2. Manav purchased Plant for Cash Rs. 10,000.

The effect of this transaction is that the cash is reduced by Rs. 10,000, but a new assets of the same amount has been acquired. The transaction decreases one asset and at the same time increases the other asset with the same amount, leaving the total of the assets unchanged. The equation now will appear as follows :

	Assets		+	=	Liabilities		+	Capital
Old Equation	Cash	Plant	+	=	Liabilities	+	Capital	
	1,50,000	0	+	=	0	+	1,50,000	
Transaction (2)	(-)10,000	+ 10,000	+	=	0	+	0	
New Equation	1,40,000	+ 10,000	+	=	0	+	1,50,000	

Transaction 3. Manav purchased goods for Cash Rs. 40,000.

As a result of this transaction, cash balance is reduced and another Assets (Stock of goods) has come into existence, leaving the total of the Assets unchanged. The equation will appear as follows :

	Assets			=	Liabilities		+	Capital
	Cash	Plant	Stock of Goods	=	Liabilities	+	Capital	
Old Equation	1,40,000	+ 10,000	+ 0	=	0	+	1,50,000	
Transaction (3)	(-) 40,000	+ 0	+ 40,000	=	0	+	0	
New Equation	1,00,000	+ 10,000	+ 40,000	=	0	+	1,50,000	

Transaction 4 : He purchased goods on credit for Rs. 32,000.

This transaction will increase stock of goods on the assets side and will create a liability in the form of Creditors. The persons from whom goods have been bought on credit are called (Creditors). The equation will be as follows :

	Assets			=	Liabilities		+	Capital
	Cash	Plant	Stock of Goods	=	Creditors	+	Capital	
Old Equation	1,00,000	+ 10,000	+ 40,000	=	0	+	1,50,000	
Transaction (4)	0	+ 0	+ 32,000	=	32,000	+	0	
New Equation	1,00,000	+ 10,000	+ 72,000	=	32,000	+	1,50,000	

Transaction 5 : Goods costing Rs. 12,000 sold on credit for Rs. 15,000.

This transaction will give rise to a new assets in the form of Debtors to the extent of Rs. 15,000. Debtors are those persons to whom goods have been sold on credit. But the stock of goods will be reduced by Rs. 12,000, the cost of goods sold. The net increase in Assets Rs. 3,000 is the amount of Profit which will be added to the Capital. The effect of the transaction has been explained in the following equation.

	Assets				=	Liabilities		+	Capital
	Cash	Plant	Stock of Goods	Debtors	=	Creditors	+	Capital	
Old Equation	1,00,000	+ 10,000	+ 72,000	+ 0	=	32,000	+	1,50,000	
Transaction (5)	0	+ 0	- 12,000	+ 15,000	=	0	+	3,000	
New Equation	1,00,000	+ 10,000	+ 60,000	+ 15,000	=	32,000	+	1,53,000	

Transaction 6 : Paid Rs. 4,000 for Rent.

The effect of the transaction is that firstly, it reduces Cash and since the Rent is an expense, it results in a Loss which decreases the Capital also. The revised equation will appear as below :

	Assets				=	Liabilities		+	Capital
	Cash	Plant	Stock of Goods	Debtors	=	Creditors	+	Capital	
Old Equation	1,00,000	+ 10,000	+ 60,000	+ 15,000	=	32,000	+	1,53,000	
Transaction (6)	(-)4,000	+ 0	+ 0	+ 0	=	0	+	(-)4,000	
New Equation	96,000	+ 10,000	+ 60,000	+ 15,000	=	32,000	+	1,49,000	

From the study of the aforesaid transactions it may be concluded that every transaction has a double effect and in each case Assets = Liabilities + Capital. In other words 'Accounting Equation is true in all cases'. The last equation appearing in the books of Manav may also be presented in the form of a statement named as Balance Sheet which will appear as below :

Balance Sheet of Manav as on

Liabilities	Rs.	Assets	Rs.
Sundry Creditors	32,000	Cash	96,000
Capital of Manav	1,49,000	Plant	10,000
		Stock (Goods)	60,000
		Sundry Debtors	15,000
	1,81,000		1,81,000

Illustration 3.2

Prove that Accounting Equation is satisfied in all the following transactions and prepare a Balance Sheet of Mr. Prateek.

	Rs.	Rs.	
1. Prateek started business with cash	80,000	6. Received commission	5,000
2. Purchased goods for cash	50,000	7. Withdrew cash for private use	5,000
3. Purchased goods on credit	20,000	8. Sold goods on credit (cost price Rs. 30,000)	40,000
4. Purchased furniture for cash	10,000	9. Paid to trade creditors	5,000
5. Paid rent of the Premises	5,000		

Solution :

Accounting Equation

Transaction	Assets				=		Liabilities + Capital	
	Cash	Stock	Furniture	Debtors	Debtors	Creditors	Capital	
1. Prateek started business with Rs. 80,000	80,000	0	0	0	0	0	80,000	
Equation	80,000	0	0	0	0	0	80,000	
2. Purchased goods for Cash Rs. 50,000	(-) 50,000	50,000	0	0	0	0	0	
New Equation	30,000	50,000	0	0	0	0	80,000	
3. Purchased goods on Credit Rs. 20,000	(-) 0	20,000	0	0	0	20,000	0	
New Equation	30,000	70,000	0	0	0	20,000	80,000	
4. Purchased Furniture for Cash Rs. 10,000	(-) 10,000	0	10,000	0	0	0	0	
New Equation	20,000	70,000	10,000	0	0	20,000	80,000	
5. Paid Rent Rs. 5,000	(-) 5,000	0	0	0	0	0	(-) 5,000	
New Equation	15,000	70,000	10,000	0	0	20,000	75,000	
6. Received Commission Rs. 5,000	5,000	0	0	0	0	0	5,000	
New Equation	20,000	70,000	10,000	0	0	20,000	80,000	
7. Withdrew Cash for Private use Rs. 12,000	(-) 12,000	0	0	0	0	0	(-) 12,000	
New Equation	8,000	70,000	10,000	0	0	20,000	68,000	
8. Sold goods on Credit for Rs. 40,000 (Cost Rs. 30,000)	0	30,000	0	0	40,000	0	10,000	
New Equation	8,000	40,000	10,000	40,000	20,000	0	78,000	
9. Paid to Creditors Rs. 5,000	(-) 5,000	0	0	0	0	(-) 5,000	0	
Final Equation	3,000	40,000	10,000	40,000	15,000	0	78,000	

Accounting Equation

Balance Sheet of Prateek As on.....

Liabilities + Capital	Rs.	Assets	Rs.
Trade Creditors	15,000	Cash in hand	3,000
Capital	78,000	Stock of goods	40,000
		Furniture	10,000
		Trade Debtors	40,000
	93,000		93,000

Illustration 3.3

Show the Accounting Equation of the basis of the following transactions :

	Rs.	Rs.	
1. Pritivi commenced Business	40,000	6. Withdrew for private use	1,400
2. Purchased goods on credit	8,000	7. Received Interest	200
3. Purchased goods for cash	2,000	8. Sold goods on credit (cost Rs. 1,000) for	1,500
4. Purchased furniture	400	9. Paid to Creditors	1,400
5. Paid rent	500	10. Paid Salaries	500

Solution :

Accounting Equation

Transaction	Assets				=		Liabilities + Capital	
	Cash	Stock of goods	Furniture	Debtors	Debtors	Creditors	Capital	
1. Pritivi started business with Rs. 40,000	40,000	0	0	0	0	0	40,000	
2. Purchased goods on credit Rs. 8,000	0	8,000	0	0	0	8,000	0	
New Equation	40,000	8,000	0	0	0	8,000	40,000	
3. Purchased goods for cash Rs. 2,000	(-) 2,000	0	0	0	0	0	0	
New Equation	38,000	8,000	0	0	0	8,000	40,000	
4. Purchased furniture Rs. 1,000	(-) 1,000	0	1,000	0	0	0	0	
New Equation	37,000	8,000	1,000	0	0	8,000	40,000	
5. Paid Rent Rs. 400	(-) 400	0	0	0	0	0	(-) 400	
New Equation	36,600	8,000	1,000	0	0	8,000	39,600	
6. Withdrew for private use Rs. 1,400	(-) 1,400	0	0	0	0	0	(-) 1,400	
New Equation	35,200	8,000	1,000	0	0	8,000	38,200	
7. Received Interest Rs. 200	200	0	0	0	0	0	200	
New Equation	35,400	8,000	1,000	0	0	8,000	38,400	

Transaction	Assets		=	Liabilities + Capital	
8. Sold goods on credit costing Rs. 1,000 for Rs. 1,500	0	(-) 1,000 + 1,500	+	0	+ 500
New Equation	35,400 +	9,000 + 1,500 +	1,000 +	8,000 +	38,900 +
9. Paid to Creditors Rs. 1,400	(-) 1,400 +	0 +	0 +	0 =	(-) 1,400 +
New Equation	34,000 +	9,000 + 1,500 +	1,000 +	6,600 +	38,000 +
10. Paid Salaries Rs. 900	(-) 900 +	0 +	0 +	0 =	(-) 900 +
New Equation	33,100 +	9,000 + 1,500 +	1,000 +	6,600 +	38,000 +

Illustration 3.4

Ram and Rahim entered into partnership contributing Rs. 7,00,000 and 5,00,000 as Capital and opened a showroom for manufacturing and selling furniture. Show the accounting equation for the following transactions and present a Balance Sheet on the basis of last new equation balances :

- Timber purchased by them Rs. 4,00,000
- Wages paid to carpenters 3,00,000
- Furniture sold (costing Rs. 4,00,000) 5,00,000
- Furniture sold on credit (costing Rs. 90,000) 1,00,000
- Amount received from debtors 8,100
Discount allowed 1,000
- Timber purchased on credit Rs. 60,000
- Furniture purchased 50,000
- Payment to creditors in full settlement 59,500
- Amount withdrawn by Ram Rs. 20,000 and Rahim 10,000
- Interest on Capital provided 10% for 3 months 8,100

Solution :**Accounting Equation**

Transaction	Assets			Liabilities + Capital		
	Cash	+ Stock of goods	+ Debtors	=	Creditors	+ Capital
Started Business with Capital Rs. 12 lakhs	12,00,000	0	0	=	0	+ 12,00,000
1. Timber Purchased	(-) 4,00,000	+	4,00,000	+	0	+ 0
New Equation	8,00,000	+	4,00,000	+	0	+ 12,00,000
2. Wages paid to Carpenters Rs. 3,00,000	(-) 3,00,000	+	3,00,000	+	0	+ 0
New Equation	5,00,000	+	7,00,000	+	0	+ 12,00,000
3. Furniture sold Rs. 5,00,000 (Cost Rs. 4,00,000)	5,00,000	(-)	4,00,000	+	0	+ 1,00,000
New Equation	10,00,000	+	3,00,000	+	0	+ 13,00,000

Transaction	Assets			Liabilities + Capital		
	Cash	+ Stock of goods	+ Debtors	=	Creditors	+ Capital
4. Furniture sold Rs. 1,00,000 (Cost Rs. 90,000)	0	(-) 90,000	+ 1,00,000	=	0	+ 10,000
New Equation	10,00,000	+	2,10,000	+	0	+ 13,10,000
5. Received from Debtors Rs. 80,000 discount allowed Rs. 1,000	80,000	+	0	-	90,000	= 0
New Equation	10,80,000	+	2,10,000	+	10,000	= 0
6. Credit Purchases of Timber Rs. 60,000	0	+	60,000	+	0	= 60,000
New Equation	10,80,000	+	2,70,000	+	10,000	= 60,000
7. Bought Furniture Rs. 50,000	(-) 50,000	+	50,000	+	0	= 0
New Equation	10,30,000	+	3,20,000	+	10,000	= 60,000
8. Payment to Creditors Rs. 24,500 and discount received Rs. 1,500	(-) 24,500	+	0	+	10,000	= (-) 24,000
New Equation	10,14,500	+	3,20,000	+	34,000	= 13,10,500
9. Drawings by Ram Rs. 20,000 and Rahim Rs. 10,000	(-) 20,000	+	0	+	0	= (-) 20,000
New Equation	9,94,500	+	3,20,000	+	10,000	= 12,80,500
10. Interest on Capital Rs. 30,000	0	+	0	+	0	= 30,000
New Equation	9,94,500	+	3,20,000	+	10,000	= 12,80,500

Balance Sheet of Ram and Rahim*As on 31st March*

Liabilities + Capital		Assets	
Rs.		Rs.	
Creditors	34,000	Cash	9,84,500
Capital (Combined) Ram & Rahim	12,80,500	Debtors	10,000
		Stock of Goods	3,20,000
	13,14,500		13,14,500

Illustration 3.5 :

Calculate Total Equity (Total Assets) on the basis of information given below and also owner's equity at end :

- (1) Capital at the start of business (Owner's equity Rs. 1,00,000)
- (2) Creditors at end Rs. 30,000.
- (3) Revenue earned during the year Rs. 80,000.
- (4) Expenses incurred during the year Rs. 30,000.

Solution :

$$\begin{aligned} \text{Closing Capital} &= \text{Opening Capital} + \text{Revenue Earned} - \text{Expenses Incurred} \\ &= \text{Rs. } 1,00,000 + 80,000 - 30,000 \\ &= \text{Rs. } 1,50,000 \text{ (Increase in Capital since Profit earned)} \\ \text{Total Equity (Total Assets)} &= \text{Owner's Equity} + \text{Creditors} \\ &= \text{Rs. } 1,50,000 + 30,000 \text{ or Rs. } 1,80,000 \end{aligned}$$

Illustration 3.6 :

Fill in the blank (missing information in the following chart :

Owner	Capital as on 1.4.2014	Fresh Capital introduced during 2014-15	Drawing during 2014-15	Profit or Loss during 2014-15	Capital on 31.3.2015
	Rs.	Rs.	Rs.	Rs.	Rs.
A	1,00,000	20,000	16,000	60,000	?
B	1,20,000	30,000	24,000	?	1,60,000
C	1,60,000	40,000	?	24,000	1,74,000
D	1,40,000	?	40,000	16,000	1,46,000
E	?	40,000	60,000	24,000	2,16,000

Solution :

Equation is : Opening Capital + Additional Capital + Profit (- Drawing = Final or Capital at End.

Owner	Capital 1.4.2014	Additional Capital during 2014-15	Drawing during 2014-15	Profit or Loss during 2014-15	Capital at end 31.3.2015
	Rs.	Rs.	Rs.	Rs.	Rs.
A	1,00,000	20,000	16,000	60,000	1,64,000
B	1,20,000	30,000	24,000	34,000	1,60,000
C	1,60,000	40,000	50,000	24,000	1,74,000
D	1,40,000	30,000	40,000	16,000	1,46,000
E	2,12,000	40,000	60,000	24,000	2,16,000

Note : Brackets means deduction or Loss.

Illustration 3.7 :

State an example for each of the following :

- (a) Increase in one Assets, decrease in another Asset.
- (b) Increase in Asset, increase in Liability.
- (c) Increase in Asset, increase in Owner's Equity.
- (d) Decrease in Asset, decrease in Liability.
- (e) Decrease in Assets, decrease in Owner's Equity.

Solution :

	Remarks
(a) Purchase of Furniture for Cash	Increase in Furniture, decrease in Cash
(b) Bought goods on Credit	Stock increase, Creditors also increases
(c) Additional Capital introduced	Increase in Cash, increase in Owner's Equity.
(d) Payment to Creditors	Decrease in Cash, decrease in Creditors.
(e) Withdrew for Personal use	Decrease in Cash, decrease in Owner's Equity.

Meaning of a Debit and Credit :

In actual practice, the individual transactions of like nature are recorded (added and subtracted) at one place. Such place in business language is called an 'Account'. Account is a record of all business transactions relating to a particular person, firm or an item. The place where such record of Asset, Liability, Incomes, Expenses etc., is kept is termed as 'Account'. For example, Manav's Account, Rent Account, Furniture Account etc. All transactions relating to Manav shall be recorded into his Account Similarly, all purchases of goods will be entered in Purchases Account, cash transactions in Cash Account and so on. In the words of Carter, "An Account is a ledger record in a summarised form, of all the transactions that have taken place with the particular person or things specified." An Account is prepared in 'T' shape divided into two sides. Traditionally, left side is called Debit (Dr.) and right side Credit (Cr.) as under :

Debit (Dr.)	Cash Account	Credit (Cr.)

Rules of Debit and Credit

The rules for debit and credit depend upon the nature of an Account. There are two approaches for the same :

- (i) Modern Approach, called American approach.
- (ii) Traditional Approach called English approach. English or traditional approach is also called as 'Double Entry System', which has been discussed in next chapter.

Modern Approach :

The rules for debit and credit depend on the nature of an account. For this purpose all accounts are classified into the following groups.

- | | |
|---|--------------------------------|
| I. Assets Accounts, | II. Liabilities Accounts, |
| III. Owner's Equity or Capital Account, | IV. Revenue or Income Account, |
| V. Expenses or Losses Account. | |

On perusal of developing Accounting Equations, in foregoing examples we can summarise the rules as under :

- I. Debit the Increase in Assets and Credit the Decrease in Assets.
- II. Credit the Increase in Liabilities and Debit the Decrease in Liabilities.
- III. Credit the Increase in Capital and Debit the Decrease in Capital.
- IV. Credit the Increase in Incomes and Debit the Decrease in Incomes.
- V. Debit the Increase in Expenses and Credit the Decrease in Expenses.

On analysing these five rules we may conclude that the term debit should not be taken to mean favourable things. It may represent favourable or unfavourable, increase or decrease depending on the nature of an account. Similarly, the term credit may represent favourable or unfavourable, increase or decrease depending on the nature of the concerned account. **In case of assets and expenses, debit means increase and credit means decrease in assets and expenses. In case of liabilities, capital and incomes, debit represents decrease and credit represents increase.**

Dr. Assets and Expenses Accounts Cr.			
Record increase in these accounts on this side.	Rs.	Record decrease in these accounts on this side	Rs.

Dr. Liability, Capital or Income Account Cr.			
Record decrease in these accounts on this side.	Rs.	Record increase in these accounts on this side	Rs.

Dr. Capital Account Cr.			
Decrease in Capital will be recorded on this side	Rs.	Increase in Capital will be recorded on this side	Rs.

Dr. Gains & Income Account Cr.			
Decrease in Income or Gain be recorded on this side	Rs.	Increase in Income or Gain be recorded on this side	Rs.

Dr. Loss & Expenses Account Cr.			
Increase in losses & expenses be recorded on this side.	Rs.	Decrease in losses & expenses be recorded on this side	Rs.

Illustration 3.8 :

On which side, of the following Accounts, the increase and decrease will be recorded and also mention the nature of Accounts—

- (1) Furniture, (2) Bank Overdraft, (3) Rent Accrued, (4) Plant & Machinery,
- (5) Sundry Debtors, (6) Dividend Received, (7) Interest paid, (8) Sundry Creditors,
- (9) Capital A/c

Solution :

Name of Accounts	Name of Accounts	Remarks : Debit and Credit	
(1) Furniture A/c	Asset	Debit Increase,	Credit Decrease
(2) Bank Overdraft A/c	Liabilities	Debit Decrease,	Credit Increase
(3) Accrued Rent A/c	Liabilities	Debit Decrease,	Credit Increase
(4) Plant & Machinery	Assets	Debit Increase,	Credit Decrease
(5) Sundry Debtors	Assets	Debit Increase,	Credit Decrease
(6) Dividend Received	Income	Debit Decrease,	Credit Increase
(7) Interest Paid	Expense	Debit Increase,	Credit Decrease
(8) Sundry Creditors	Liabilities	Debit Decrease,	Credit Increase
(9) Proprietor's A/c	Capital	Debit Decrease,	Credit Increase

Test Questions

Very Short Questions and Answers : (Not exceeding 40 words)

1. What do you understand by Accounting Equation ?
 Ans : Accounting equation is an accounting formula expressing equivalence of the two expressions of Assets and Liabilities or between debits and credits.
2. State the fundamental Accounting Equation and elaborate the same.
 Ans : Fundamental Accounting Equation is :
 $Assets = Liabilities + Capital$
 The above equation may be elaborated as under—
 $Capital = Assets - Liabilities$ or $Liabilities = Assets - Capital$ or $Assets - Capital - Liabilities = Zero$.
3. What is meant by Debit and Credit ?
 Ans : When an amount written on left side of an account, it is a debit and the account is said to be debited on the other hand, when an amount is entered on right hand side of an Account, it is a credit and the account is said to be credited.
4. What do you know about an Account ?
 Ans : In actual practice the individual transactions of like nature are recorded at one place. Such a place in business language is called an 'Account'.
5. Define the word Account.
 Ans : In the words of carter, "An account is a Ledger record in a summarised form of all the transactions that have taken place with a particular person or things specified."
6. State the proforma of an Account :
 Ans : An account is prepared in 'T' shape form divided into two sides. Traditionally, left hand side is called debit-side and right-hand side as credit. The proforma is as under—

Dr.		Cash Account		Cr.	
Particulars	Rs.	Particulars	Rs.		

7. Debit and Credit rules are the same for both capital and liabilities. Why is it so ?

Ans : There are two types of Equities, external and internal. Liabilities. According to Separate Entity concept capital is also an internal liability. As such, the rules of debit and credit for both liabilities and the capital are the same.

8. Name the sides on which increase in capital, Drawings, Furniture, Machinery and Creditors are recorded.

Ans : Increase in Furniture, Machinery and Drawings will be recorded on debit side, while that of capital and creditors on credit side.

9. Name the sides on which decrease in Salaries, Rent, Income from Dividend, Bills Payable, Bills Receivable, Transfer fees etc. are recorded.

Ans : Decrease in Salaries, Rent, Bills Receivable will be recorded on credit side, while that of Dividend, Transfer fees and Bills Payable on debit side.

10. Mr. Manu Commenced business on 1 April, 2014 with a capital of Rs. 3,00,000 and on 31st March, 2015, assets were worth Rs. 4,00,000 and liabilities Rs. 20,000. Find out closing capital and the profit for the financial year, 2014-15.

Ans : Closing Capital = Assets - Liabilities on 31st March, 2015 or Rs. 4,00,000 - 20,000 = Rs. 3,80,000.

Profit = Closing Capital - Opening Capital
= Rs. 3,80,000 - 3,00,000 or Rs. 80,000.

Short Questions & Answer : (Not exceeding 80 words)

Q.1. State which transactions will :

- Decrease the Assets and Decrease the Capital.
- Increase the Assets and Increase the Liabilities.
- Increase one Asset and Decrease another Asset.
- Decrease the Assets and Decrease the Liabilities.

Ans : The various transactions will be

- Salaries Rs. 20,000 paid to office staff :
Asset (Cash) decreases, and capital decreases on account of expenditure.
- Bought furniture on credit for Rs. 80,000.
It will increase the Asset (furniture) and also liability (creditors)
- Cash Received from Sundry Debtors Rs. 15,000
It will increase cash and decrease sundry debtors.
- Paid to sundry creditors on account Rs. 10,000
It will decrease sundry creditors and also cash by Rs. 10,000.

Q.2. From the following position of Hussain's business, calculate his External Equity.

Cash Rs. 50,000, Debtors Rs. 2,00,000, Machinery and Plant Rs. 6,00,000, Stock of Goods Rs. 2,50,000, Capital Rs. 7,50,000.

Ans : We know that total Assets are always equal to total liabilities, and liabilities means Internal + External. Accordingly, Total Assets are -

Cash + Debtors + Machinery & Plant + Stock
or Rs. 50,000 + 2,00,000 + 6,00,000 + 2,50,000 = Rs. 11,00,000

Less : Internal Equity being balance of Capital = Rs. (7,50,000)

External Equity or Outside Liabilities : 3,50,000

Q.3. Calculate the amount of total Assets and the Capital at the end (Final Capital) from the following data :

Arun started business on 1st April, 2014 with a Capital of Rs. 1,50,000 and Loan of Rs. 60,000 taken from Baroda Bank. During the year, he made a Profit of Rs. 54,000. The proprietor introduced additional Capital of Rs. 45,000 and had withdrawn Rs. 18,000 for personal use.

Ans : Computation of Capital at the end of financial year :

	Rs.	Rs.
Opening Capital (At start)		1,50,000
Add : Additional Capital	45,000	
Add : Net Profit earned	54,000	99,000
Less : Drawings		2,49,000
		18,000
Final Capital (Closing)		2,31,000

Total Assets = Capital at End + Bank Loan or Rs. 2,31,000 + 60,000 = Rs. 2,91,000

Q.4. Calculate total equity (total assets) and owner's equity at the end if :

- Owners equity (Capital) in the beginning Rs. 3,00,000.
- Equity of Creditors at the end Rs. 90,000
- Revenue (income) during the period is Rs. 1,80,000.
- Expenses during the same period are Rs. 1,05,000.

Ans : Equity means amount payable :

	Rs.	Rs.
External Equity (Sundry Creditors)		90,000
Internal or Owner's Equity :		
Capital at the beginning	Rs. 3,00,000	
Add : Revenue earned during the year (Rs. 1,80,000 - 1,05,000)	75,000	3,75,000
Total Equity		4,65,000

Thus, Owner's Equity = Rs. 3,75,000, Total equity Rs. 4,65,000

Q5. Examine the effect of the following on the Accounting Equation :

- Interest charged on Drawing Rs. 5,000.
- Interest allowed on Capital Rs. 16,000.
- Proprietor's domestic Expenses are still outstanding Rs. 10,000.

Ans : Accounting Equation :

	Assets = Liabilities + Capital
(a) Interest on Drawings	+ 5,000 - 5,000
(b) Interest on Capital	+ 16,000 - 16,000

Note : (a) Interest on Drawings is a profit for the firm, as such it will increase the capital. Drawings will also be increased which shall be deducted from capital. As such, Rs. 5,000 are added and deducted.

(b) Interest On Capital : It is added in capital, but it is also a loss for the firm which is to be deducted from capital.

(c) When proprietor's expenses are outstanding, no entry is passed for it in the books of the firm.

Q6. Show the effect of the following transactions on the Accounting Equation :

- Bought goods for Rs. 40,000 from Ram on credit.
- Sales Rs. 20,000 to Shyam (Cost Rs. 16,000)
- Paid Rent Rs. 1,000 and Salary accrued Rs. 5,000.
- Withdrew for domestic use Rs. 4,000.
- Paid to creditors Rs. 10,000

Ans : Effect of various transaction on Accounting Equation :

- Credit Purchases Rs. 40,000—Assets (stock) will Increase and Liability (creditors) will increase. No effect on capital.
- Credit Sales Rs. 20,000, Cost Rs. 16,000—Asset (stock) will decrease by Rs. 16,000, Debtors will increase by Rs. 20,000, Profit Rs. 4,000 will increase capital by Rs. 4,000.
- Rent paid Rs. 1,000—Cash will be decreased, capital will also be decreased, because of loss. Salary Accrued : Creditors will be increased by Rs. 5,000 and capital will be decreased (being loss)
- Drawings Rs. 4,000—It will reduce cash and capital, both.
- Paid Rs. 10,000 to Creditors—Cash and creditors will decrease by the same amount.

Q7. Open 'T' shape Account for the Plant and write the following items on proper side of the Account—

Purchase of Plant Rs. 2,00,000, sale of plant Rs. 50,000, Purchase of Plant again Rs. 80,000, old and discarded plant sold for Rs. 25,000, value of plant was reduced by Rs. 20,000.

Ans : Dr.	Plant Account	Cr.
	Rs.	
Increase in Plant be recorded on this side		Decrease in plant or depreciation be recorded on this side
Purchase	2,00,000	Sale
Additional Purchase	80,000	Sale of discarded Plant
		Reduction in Value of Plant
		Balance of Plant
	2,80,000	2,80,000

Q8. Open 'T' Shape Account for one of the creditor 'Manav' for the following transactions : (₹)

- Purchases made on Credit 2,00,000
- Payment made to Manav 1,25,000
- New purchases made from Manav on Credit 80,000
- Return of defective goods to Manav 10,000
- Payment made to Manav 1,00,000

Ans : Dr.	Manav's Account	Cr.
	Rs.	
Cash paid (ii)	1,25,000	Purchases (i)
Returns (iv)	10,000	New Purchases (iii)
Cash paid (v)	1,00,000	
Balance	45,000	
	2,80,000	2,80,000

Q9. Open 'T' shape Account of the Owner for the following transactions :

- Commenced business with cash 6,00,000
- Withdrew from business for personal use. 60,000
- Purchased a two wheeler for his son 20,000
- Net Profit for the year 1,50,000
- Additional Capital Introduced 1,00,000

Ans : Dr.	Proprietor's Capital Account	Cr.
	Rs.	
Decrease in Capital		Increase in Capital
(ii) Cash with drawn	60,000	(i) Cash introduced
(iii) Drawings in Cash	20,000	(iv) Net Profit
Balance of Capital (Final)	7,70,000	(v) Cash Additional Capital
	8,50,000	8,50,000

2. Prove that Accounting Equation is satisfied in all the following transactions :
- (1) Started business with Cash Rs. 50,000 and goods Rs. 60,000.
 - (2) Bought goods for cash Rs. 45,000 and on credit for Rs. 30,000.
 - (3) Goods costing Rs. 72,000 sold at a profit of $33\frac{1}{3}\%$. Half the payment received in cash.
 - (4) Purchase furniture for office use Rs. 18,000 and for household use Rs. 12,000.

Solution :

Transaction	Assets					Liabilities + Capital				
	Cash	Stock	Debtors	Furniture	Capital	Cash	Stock	Debtors	Furniture	Capital
1. Started business with Cash Rs. 1,50,000 and goods Rs. 60,000	1,50,000	60,000	0	0	2,10,000	1,50,000	60,000	0	0	2,10,000
2. Bought goods for Cash Rs. 45,000 and on credit for Rs. 30,000	(45,000)	75,000	0	0	30,000	0	0	0	0	30,000
3. Goods costing Rs. 72,000 sold at a profit of $33\frac{1}{3}\%$. Half the payment received in Cash	48,000	(72,000)	48,000	0	30,000	48,000	(72,000)	0	0	24,000
4. Purchased Furniture for office use Rs. 18,000 and for household use of Rs. 12,000	1,53,000	63,000	48,000	0	30,000	(30,000)	0	18,000	0	(12,000)
Final Equation	1,23,000	63,000	48,000	18,000	30,000	1,23,000	63,000	18,000	18,000	2,22,000

O.3. Show the effect of following transactions on the accounting equation and present the data in Balance Sheet : Rs.

- (1) Bhanu started business with (i) Cash 2,30,000 (ii) Goods 1,00,000 (iii) Furniture 2,00,000
- (2) He purchased goods for cash 50,000
- (3) He sold goods (costing Rs. 20,000) 35,000
- (4) He purchased goods from Mohan 55,000
- (5) He sold goods to Sohan (costing Rs. 52,000) 60,000
- (6) He paid cash to Rahul in full settlement 53,000
- (7) Salary paid by him 20,000
- (8) Received cash from Varun in full settlement 59,000
- (9) Salary outstanding 3,000
- (10) Prepaid Rent 2,000
- (11) Commission received by him 13,000
- (12) Amount withdrawn by him for personal use 20,000
- (13) Depreciation charged on Furniture 10,000
- (14) Additional capital invested 50,000
- (15) Purchased goods from Rani 6,000

Accounting Equation

S.No.	Transaction	Assets					Liabilities + Capital				
		Cash	Stock	Furniture	Debtors	Prepaid Exps.	Creditors	Outstanding exps	Capital	Capital	
(1)	Started business with Cash, goods and furniture	2,30,000	1,00,000	2,00,000			0	0	0	5,30,000	
	New Equation	2,30,000	1,00,000	2,00,000						5,30,000	
(2)	Purchased goods for Cash	(50,000)	50,000	0						0	
	New Equation	1,80,000	1,50,000	2,00,000						5,30,000	
(3)	Sold good costing ₹ 20,000 for ₹ 35,000 +	35,000	(20,000)	0						15,000	
	New Equation	2,15,000	1,30,000	2,00,000						5,45,000	
(4)	Purchased goods from Mohan	0	55,000	0			55,000			0	
	New Equation	2,15,000	1,85,000	2,00,000			55,000			5,45,000	
(5)	Sold good to Sohan costing ₹ 52,000 for ₹ 60,000	0	(52,000)	0	60,000		0			8,000	
	New Equation	2,15,000	1,33,000	2,00,000	60,000		55,000			5,53,000	

(6) Paid cash to Mohan in full settlement	₹ 53,000	- (53,000)	+ 0	+ 0	- (55,000)	+ 2,000
New Equation	1,62,000	+ 1,33,000	+ 2,00,000	+ 60,000	- 0	+ 5,55,000
(7) Salary paid	- 20,000	0	0	0	0	- 20,000
New Equation	1,42,000	+ 1,33,000	+ 2,00,000	+ 60,000	- 0	+ 5,35,000
(8) Received cash from Varun in full settlement	₹ 59,000	+ 59,000	0	0	- (60,000)	+ 1,000
New Equation	2,01,000	+ 1,33,000	+ 2,00,000	+ 0	- 0	+ 5,34,000
(9) Rent outstanding	0	0	0	0	0	+ 3,000
New Equation	2,01,000	+ 1,33,000	+ 2,00,000	+ 0	- 0	+ 3,000
(10) Prepaid Insurance	(2,000)	0	0	0	0	- 2,000
New Equation	1,99,000	+ 1,33,000	+ 2,00,000	+ 0	- 0	+ 3,000
(11) Received commission	13,000	0	0	0	0	+ 13,000
New Equation	2,12,000	+ 1,33,000	+ 2,00,000	+ 0	- 0	+ 5,44,000
(12) Drawings	(20,000)	0	0	0	0	- (20,000)
New Equation	1,92,000	+ 1,33,000	+ 2,00,000	+ 0	- 0	+ 5,24,000
(13) Depreciation on Furniture	0	0	0	0	0	- (10,000)
New Equation	1,92,000	+ 1,33,000	+ 1,90,000	+ 0	- 0	+ 5,14,000
(14) Capital Introduced	+ 50,000	0	0	0	0	+ 50,000
New Equation	2,42,000	+ 1,33,000	+ 1,90,000	+ 0	- 0	+ 5,64,000
(15) Credit Purchases	0	0	0	0	0	+ 6,000
Final Equation	2,42,000	+ 1,39,000	+ 1,90,000	+ 0	- 0	+ 5,64,000

Balance Sheet of Mr. Bhanu
as on.....

Liabilities & Capital	Rs.	Assets	Rs.
Creditors	6,000	Cash	2,42,000
Outstanding Expenses	3,000	Stock	1,39,000
Capital	5,64,000	Furniture	1,90,000
		Prepaid Expenses	2,000
	5,73,000		5,73,000

4. Show the Accounting Equation on the basis of the following transactions and prepare the Balance Sheet :

- Mr. Varun started business with Rs. 2,00,000
- Purchase Plant for Rs. 35,000
- Bought furniture from ABC for Rs. 15,000
- Paid Rent as advance Rs. 10,000
- Purchased goods from Z for cash Rs. 1,00,000
- Sold goods to M for cash Rs. 1,50,000 (Cost Rs. 1,00,000)
- Bought goods from K for Rs. 1,50,000.
- Sold goods to M for Rs. 2,50,000 (Cost Rs. 1,50,000)
- Bought household goods for Rs. 1,25,000, giving Rs. 25,000 cash and balance through Bank Loan.
- Goods destroyed by fire costing Rs. 2,500 (sale price Rs. 3,000)
- Paid half the amount owed to ABC
- Paid Rs. 25,000 for Bank Loan and Rs. 15,000 as Interest.
- Withdrew goods for domestic use Rs. 2,500 (Sale price Rs. 3,000)
- Received Rs. 2,47,500 from M in full settlement.
- Paid to K Rs. 1,48,500 in full settlement
- Paid salary Rs. 2,500 and Rs. 500 remained unpaid
- Depreciate furniture by Rs. 1,500 and Rs. 3,500 for plant.

[Ans. : Total of B/s 2,79,000]

S.No.	Transaction	Accounting Equation					Liabilities = Assets + Capital				
		Cash	Stock	Debtors	Plant	Furniture	Prepaid Exps.	Creditors	Bank Loan	Unpaid Exps.	Capital
(₹)	(₹)	(₹)	(₹)	(₹)	(₹)	(₹)	(₹)	(₹)	(₹)	(₹)	(₹)
(a)	Started business	2,00,000									2,00,000
(b)	Plant bought	(35,000)			35,000						2,00,000
(c)	New Equation Furniture purchased on credit	1,65,000				15,000		15,000			2,00,000
(d)	New Equation Prepaid Rent	(10,000)			35,000	15,000		10,000			2,00,000
(e)	New Equation Cash Purchases	1,55,000	1,25,000			35,000	15,000	10,000	15,000		2,00,000
(f)	New Equation Cash Sales	30,000	1,25,000			35,000	15,000	10,000	15,000		2,00,000
(g)	New Equation Credit Purchases	1,80,000	25,000			35,000	15,000	10,000	15,000		2,50,000
(h)	New Equation Credit Sales	1,80,000	(1,75,000)			35,000	15,000	10,000	15,000		2,50,000
(i)	New Equation Drawings	1,80,000	25,000			35,000	15,000	10,000	15,000		2,25,000
(j)	New Equation Goods destroyed	1,55,000	25,000			35,000	15,000	10,000	15,000		2,25,000
(k)	New Equation Cash Paid to ABC	(7,500)				35,000	15,000	10,000	15,000		2,22,500
(l)	New Equation Bank Loan & Interest paid	1,47,500				35,000	15,000	10,000	15,000		2,22,500

(m)	New Equation Drawings (goods)	1,07,500	22,500	2,50,000	35,000	15,000	10,000	15,000	1,57,500	75,000	0	2,07,500
(n)	New Equation M paid Cash	1,07,500	20,000	2,50,000	35,000	15,000	10,000	15,000	1,57,500	75,000	0	2,05,000
(o)	New Equation Paid to K	3,55,000	20,000	0	35,000	15,000	10,000	15,000	1,57,500	75,000	0	2,02,500
(p)	New Equation Salary paid & O/S	2,06,500	20,000	0	35,000	15,000	10,000	15,000	7,500	75,000	0	2,04,000
(q)	New Equation Depreciation	2,04,000	20,000	0	35,000	15,000	10,000	15,000	7,500	75,000	500	2,01,000
	Final Equation	2,04,000	20,000	0	31,500	13,500	10,000	15,000	7,500	75,000	500	1,96,000

Balance Sheet of Mr. Varun

Liabilities & Capital	Amount (₹)	Assets (₹)	Amount (₹)
Sundry Creditors	7,500	Cash in hand	2,04,000
Bank Loan	75,000	Stock at Cost	20,000
Accrued Expenses	500	Sundry Debtors	31,500
Capital	1,96,000	Plant	13,500
		Furniture	10,000
		Prepaid Expenses	2,79,000
			2,79,000

NOTES

Personal - Dr the receiver
Cr the giver

Real → Dr what comes in
Cr → what goes out

Nominal ⇒ Dr all Expenses/loss
Cr all Incomes/gains

Note :- if any person or before
after → person is placed with
nominal A/c it becomes
representative personal
a/c.

4

Double Entry System and the Journal

● Double Entry System

A book on double entry system was first written by 'Luca Pacioli' who was a resident of Italy. In this book, he discussed the method of recording both the aspects of a transaction. The above book was later on revised and translated in English, in which English System of Book-keeping was introduced.

Meaning of Double Entry System

Double entry book-keeping is the orderly recording of financial transactions of a business in a systematic manner. According to this system every business transaction has two fold aspects or every transaction affects at least two accounts in opposite direction. For example, if a Machine is purchased in business, it will increase Machineries and decrease cash. There can not be a single transaction which has only one aspect. As such both aspects of every transaction are recorded under this system.

Definition of Double Entry System

In the words of Batliboi, "Every business transaction has a two fold effect and that it affects two accounts in opposite direction. If a complete record is to be made of each such transaction, it would be necessary to debit one account and credit another account."

Similarly, William Pickle has defined it as, "double entry system seeks to record every transaction in money or money's worth in its double aspect, the receipt of a benefit by one account and the surrender of the like benefit by another account."

Thus under double entry system both the aspects of all transactions are recorded and in this manner a complete and reliable record of business transactions is provided. On the basis of this reliable records, management is in a position to take proper decisions. A trial balance can be drawn up to verify the arithmetical accuracy of the books of accounts.

Characteristics of Double Entry System :

1. Every business transaction has a two fold effect means every debit has a credit and every credit has a debit.
2. Recording of Debits and Credits is on the basis of some specified rules.
3. Both the aspects, personal and impersonal are recorded.
4. Preparation of Trial Balance is possible with the help of which arithmetical accuracy of ledger posting can be checked.

Merits of Double Entry System—

- (i) A complete record of all transactions is provided.
- (ii) **Detection of frauds possible**—Since it is a scientific and reliable system.
- (iii) **Test of Arithmetical Accuracy** because both aspects of all transactions are recorded, a trial balance can be prepared to test arithmetical accuracy.
- (iv) **Ascertainment of financial results possible**—Trial balance helps in preparing the statement of profit or loss for the financial year.
- (v) **Ascertainment of financial position**—The balance sheet of the business can be prepared to find out financial position on certain date.

The books in which transactions are recorded for the first time from a source document are called, 'Books of Original Entry.' The original records consist of such documents as copies of orders for goods, invoices, cash receipts, customers promissory notes, debit and credit notes, cheques, etc. In the absence of vouchers accounting records can not be prepared easily. Information from the vouchers is entered in books of original entry in which a transaction is recorded for the first time from a source document. Later, transactions from these books are transferred (posted) to the principal book of accounts or book of final entry or final ledger. The following are the main books of original entry:

- | | |
|---------------------------|---------------------------|
| (1) Journal | (2) Purchases Books |
| (3) Sales Book | (4) Purchases Return Book |
| (5) Sales Return Book | (6) Cash Book |
| (7) Bills Receivable Book | (8) Bills Payable Book |
| (9) Journal Proper | |

In this chapter the meaning, format and entries etc. in Journal and Ledger only are explained.

Journal

The Journal is the book of primary entry in which every transactions are recorded before being posted into the Ledger. It is that book of account in which transactions are recorded in a chronological order, as and when they take place. The word 'Journal' has been derived from the french word 'Jour' meaning daily records, Journal is, therefore, a book of primary record and often called a 'book of original entry'. According to Prof. Carter, "The Journal as originally used, is a book of prime entry in which transactions are copied in order of date from a memorandum and waste book. The entries as they are copied, be classified into debits and credits, so as to facilitate their being correctly posted, afterwards in the Ledger."

While learning accountancy, it is very rewarding to know that how can the various transactions be recorded in Journal. If one can record all the transactions in Journal correctly, it is said that he has won more than half the battle. In the examinations also, frequently candidates are asked just to pass the Journal entries for all the transactions given in the question although in actual practice most of these transactions may not actually appear in Journal. The process of recording the transactions in Journal is called Journalising. An entry made in Journal is called Journal entry. The Journal can thus be defined as a book where in the accounts to be debited and that to be credited are specified together with

explanation for the entry, which is called 'Narration'. A Journal is generally kept on a columnar basis. It has the following five columns: (i) Date, (ii) Particulars, (iii) Ledger folio, (iv) Amount (debit); (v) Amount (credit). Since each transaction is ultimately entered in atleast two accounts, no single account will contain the complete record of a transaction. This is available only in the Journal.

Ledger and Journal

Ledger, called the principal book, remains the main book in accounting and provides the complete analytical records of all transactions connected with each person, property, income or expenditure. Journal helps in preparation of various accounts in ledger. That is why, it is called the book of original entry or first entry whereas ledger is called the book of second or final entry or principal book of account. Journal is the original record whereas ledger is the derived record. Thus, the two basic books in the double entry book-keeping system serve different purpose.

Sub-division of Journal :

As explained above all the business transactions are first recorded in the Journal from where they are posted to the ledger accounts and thereafter the final accounts are prepared. A small business may be able to record all its transactions in one book only that is the Journal. But as the business expands and the number of transactions become very large, to record all these in a single Journal involves a good deal of labour and complications. Many of the transactions are repetitive in nature. They can be easily recorded in special Journals (subsidiary books), each meant for recording for a group of similar nature; for example, separate Journals (books) may be kept for recording credit purchases; credit sales, cash receipts and payments, purchases returns, sales returns, Bills receivables, Bills payables etc. All remaining transactions which do not fall in the category of any of the special journal are recorded in Journal Proper. This chapter deals only with Journal Proper. Special journal (subsidiary books) have been dealt with in next chapter.

Uses of Journal

The Journal provides the following uses :

- (1) It provides a permanent record of all the business transactions and can thus help in auditing the account books also.
- (2) It gives complete information at one place about each transaction.
- (3) Journal entries are supported by narrations which enable one to understand the entry properly.
- (4) Both debit and credit accounts of a transaction are recorded side by side in Journal, which reduces the chances of errors and if they are so made, it also helps in locating them.
- (5) When Journal is subdivided into special Journals, it helps administration as all business transactions are classified and the work of recording the transactions become easy and understandable.

Limitations of Journal :

- (1) A single Journal for a big business will become too big and unwieldy, a Book.
- (2) It fails to provide the information which normally will be required by a businessman e.g. Cash balance in hand at the end of each day, total amount of Debtors and Creditors at a particular time etc.

Format of Journal : A specimen ruling of a Journal is as under :

Date	Particulars	L.F.	Debit Amount Rs.	Credit Amount Rs.
(1)	(2)	(3)	(4)	(5)

(1) **Date Column** : Under this column the date of the transaction is entered, the year and month is written only once, till they are changed.

(2) **Particulars Column** : Under this column, the account to be debited is written first, close to the line in the particulars column and in the second line the account to be credited is written a few space away from the margin to make it distinct from the debit account. After each entry, a brief explanation of the transaction, called narration, is also given.

(3) **L.F. i.e., Ledger Folio Column** : This column is completed when entries are posted to the Ledger by entering the page number of the ledger. Till such time, this column remains blank.

(4) **Debit Amount Column** : Under this column the amount to be debited is entered.

(5) **Credit Amount Column** : Under this column, the amount to be credited is entered.

Steps in Journalising : We will now study the process of recording Journal entries. The following procedure is followed for passing Journal entries:

(i) Each transaction is analysed in terms of accounts affected. As a rule every transaction has at least two accounts, corresponding to its giving and receiving aspects.

(ii) Find out the type of accounts affected in a transaction i.e., personal, real or nominal or assets, liabilities or capital.

(iii) Apply the rules of debit and credit to each type of affected accounts.

(iv) So, equality of debit and credit must be established. Sometimes, a Journal entry may have more than one debit or more than one credit. This type of journal entry is called Compound Journal Entry. Regardless of the number of debits or credits in a compound journal entry all debits are entered before any credits are entered. The aggregate amount of debits should be equal to the aggregate amount of credits.

(v) For a business, Journal entries generally extend to several pages, hence, totals of amount column are cast at the end of each page. Against the debit and credit totals at the end of a page, the words, Total c/f (carried forward) are written in the particulars column. The debit and credit totals are then written in the beginning of the next page in the amount columns and against them the words 'Total b/f' (brought forward) are written in the particulars column. On the last page 'Grand Total' is cast.

Classification of Accounts

According to the accounting equation, all ledger accounts may be put into five categories i.e. assets, liabilities, capital, revenue and expense :

(1) **Accounts of Assets** : Assets, indicating the resources which the firm is enjoying. They may be in the form of Cash, Stock of goods, Amounts owing from Customers, Lands, Buildings, Machinery etc.

(2) **Accounts of Liabilities** : Liabilities, indicating the amounts which the firm owes to outsiders.

(3) **Account of Capital** : Capital, indicating the amount which the proprietor has invested in the firm, the accretion to it or a reduction in it. Since capital is affected by expenses and gains, there are two more categories as part of capital.

(4) **Accounts of Expenses** : The accounts which show the amount which has been spent or even lost in carrying on operations.

(5) **Accounts of Revenues** : The accounts which shows the amounts earned by the firm.

Accounts and Ledger

As stated above, each transactions is recorded in the Journal to indicate which account is to be debited and which to be credited. However, the Journal is not adequate. Infact it is no more than a list of transactions. In reality, to get a clear picture of Business, the transactions are to be classified itemwise or subjectwise. All the transactions of like nature pertaining to a particular type of item are recorded at one place and instead of showing the effect of each individual transactions on accounting equation, their cumulative effect is to be shown at the end of the relevant accounting period. Thus the net result for each subject matter or item for a period can then be ascertained. Such a record of individual items or the resulting statement is called 'Account'. The proforma of an account is given as below :

Dr.		Name of the Account				Cr.	
Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
	To.....A/c		—		By.....A/c		—

The following are the important characteristics of the 'Account' stated above :

(i) The 'Account' is divided into two sides. The left hand side is known as Debit side while the right hand side is known as Credit side. The abbreviations 'Dr.' and 'Cr'. are placed at the top left and right hand corners respectively. This is more by of custom rather than under any law.

(ii) The name of account is written in the middle of the account.

(iii) J.F. denotes folio or page number on which its Journal entry may be found.

Alternative form of Account :

An alternative ruling of a ledger account may be as under :

Account					
Date	Particulars	Folio	Dr. Amount Rs.	Cr. Amount Rs.	Balance Amount Rs.

However, Accounts may be classified in traditional approach manner in two classes as under :

(1) Personal Accounts, and (2) Impersonal Accounts.

The later is further sub-divided into (a) Real Accounts, and (b) Nominal Accounts. Thus, all accounts can be classified into Personal, Real and Nominal Accounts.

(1) **Personal Accounts** : Personal accounts are the accounts relating to persons with whom the business deals with. Such accounts can take the following forms :

- (i) Natural person's accounts, for example. Mohan's Account, Sheela's Account, Raju's Account etc.
- (ii) Artificial person's or body of person's accounts, for example. Bank Account, Shyam & Bros. Account or Account of any company club or corporation.
- (iii) Representative personal accounts, for example. Arihant Udyog's Account, Outstanding Wages Account, Prepaid Rent Account, Unexpired Insurance Account, Capital Account, Drawings Account etc.

(2) **Real Accounts** : Real Accounts may be of the following types :

- (i) **Tangible Real Accounts** : Tangible real accounts are the accounts of such things which can be touched, felt, measured, purchased, sold etc. for example Land & Buildings A/c, Furniture & Fittings A/c, Stock A/c etc. It may be noted that Bank Account is a personal account, since it represents the accounts of the Banking company which is an artificial person.
- (ii) **Intangible Real Accounts** : These accounts represent such things which cannot be touched. Of course they can be measured in terms of money, for examples Goodwill, Trade Mark, Patents and Lease hold etc.

(3) **Nominal Accounts** : Accounts of incomes, expenses, gains and losses are called nominal accounts. Interest received, wages, salaries, rent, postage, profit and loss are such items, and a separate account is opened for each one of them.

To sum up, types of Accounts could be learnt with the following chart :

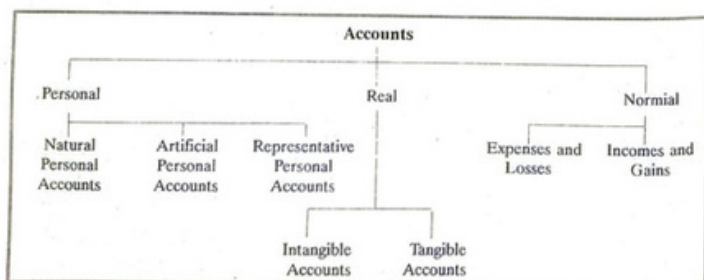


Illustration 4.1 :

Classify the following accounts :

(1) Capital brought in, (2) Purchases account (3) Sales account (4) Drawings account (5) Purchases Return account (6) Sales Return Account (7) Bank Overdraft (8) Telephone, postage and telegram (9) Building purchased (10) Interest accrued account (11) Outstanding salary account (12) Carriage inwards paid (13) Carriage outwards paid (14) Discount received (15) Light, power and electricity (16) Repairs incurred (17) Bank account (18) Commission paid (19) Cash received (20) Cash paid (21) Interest received (22) Interest paid (23) Discount allowed (24) Sales promotion expenses (25) Entertainment expenses (26) Insurance premium paid (27) Bad debts written off (28) Wages and Salaries (29) Loan account of a partner (30) Prepaid rent account.

Solution :

(a) **On the basis of Accounting equation :**

- (1) Accounts of Assets---9, 10, 17, 20, 30.
- (2) Accounts of Liabilities---7, 11, 29.
- (3) Accounts of Capital---1, 4.
- (4) Accounts of Revenues-3, 6, 14, 21.
- (5) Accounts of Expenses---2, 5, 8, 12, 13, 15, 16, 18, 22, 23, 24, 25, 26, 27, 28.

(b) **Traditional Basis :**

- (6) Personal Accounts : 1, 4, 7, 10, 11, 17, 29, 30
- (7) Real Accounts : 2, 3, 5, 6, 9, 19, 20.
- (8) Nominal Accounts : 8, 12, 13, 14, 15, 16, 18, 21, 22, 23, 24, 25, 26, 27, 28

Meaning of Debit and Credit

The two sides of any account are arbitrarily distinguished. Basically, debit means to enter an amount on the left side of an account and credit means to enter an amount on the right side of an account. In the abbreviated form Dr. stands for debit and Cr. stands for credit. An entry on the left side of an account is called the debit side, the right side is called the credit side. An entry on the left side of an account is called a debit entry, or merely a debit, an entry on the right side is called a credit entry or credit. The act of recording an entry on the left side of an account is called crediting the account. The difference between the total debits and total credits is the Account Balance.

Importance of Debit and Credit

Debit in Personal Accounts :

(a) If the account is new, debit implies that the person whose account is being debited has become debtor of the business.

(b) If the account is already there and the person whose account is being debited is already a debtor of the business, the new debit implies that the due from that person has increased. If the account of person who is a creditor of the business is debited, the debit implies that the amount due to that person has decreased by the amount of debit. It is also conceivable that the creditor may become a debtor after a debit entry, it will happen when the amount of the debit exceeds the amount for which the person was a creditor immediately before the debit.

Credit in Personal Accounts :

(a) If the account is new, credit implies that the person whose account is being credited has become creditor of the business.

(b) If the account of a creditor of the business is credited it will mean that the amount which is due to that person has increased by the amount of the fresh credit. Credit in the account of a debtor of the business signifies that the amount for which the debtor was liable to the business has diminished by the amount of the credit entry. It is also possible that a debtor may become a creditor after the credit.

Debit in Real Accounts :

A debit in real account means that either the value of the asset whose account is being debited has increased or the business has acquired more of that asset.

Credit in Real Accounts :

A credit in the real account implies that either the value of the asset whose account is being credited has decreased or the business has disposed off part or the whole of the asset for the amount of the credit.

Debit in Nominal Accounts :

A debit in nominal account signifies that there has been an expense or loss of the amount of the debit or some income or profit has diminished by the amount of the debit.

Credit in Nominal Accounts :

A credit in a nominal account implies that there has been an income or a profit of the amount of credit or some expense or loss has diminished by the amount of the credit.

Traditional Approach : Rules of Debit and Credit for Journalising :

Rules for Debit and Credit when the accounts are classified as Personal, Real and Nominal, are as under :

Types of Accounts	Rules for Debit	Rules for Credit
(1) For Personal Accounts	Debit the Receiver	Credit the Giver
(2) For Real Accounts	Debit what comes in	Credit what goes out
(3) For Nominal Accounts	Debit all expenses and losses	Credit all gains and profits.

Modern Approach : Rules for Debit and Credit when the accounts are classified on the basis of Accounting Equation are as under :

Types of Accounts	Rules for Debit	Rules for Credit
(i) For Assets Accounts	Debit the increase	Credit the decrease
(ii) For Liabilities Accounts	Debit the decrease	Credit the increase
(iii) For Capital Account	Debit the decrease	Credit the increase
(iv) For Revenue Accounts	Debit the decrease	Credit the increase
(v) For Expenses Accounts	Debit the increase	Credit the decrease

Illustration 4.2 :

Analyse the following transactions according to the Traditional Approach :

- (a) Mr. Ganesh started his business with cash. (b) Borrowed from Ram.
(c) Purchased furniture from Mohan on credit. (d) Purchased goods from Ram.

- (c) Sold goods for cash. (f) Deposited into bank.
(g) Withdrew cash for personal use. (h) Withdrew from Bank for office use.
(i) Paid Ram by cheque. (j) Paid Salary.
(k) Paid rent by cheque. (l) Goods withdrawn for Personal use.

Solution :

Analysis of Transactions

Transaction	Accounts involved	Nature of Accounts Involved	How Affected	Whether to be Debited or Credited
(a)	Cash A/c	Real	Cash is coming in.	Debit
	Capital A/c	Personal	Mr. Ganesh is the giver.	Credit
(b)	Cash A/c	Real	Cash is coming in.	Debit
	Loan from Ram A/c	Personal	Ram is the giver.	Credit
(c)	Furniture A/c	Real	Furniture is coming in.	Debit
	Mohan's A/c	Personal	Mohan is the giver.	Credit
(d)	Purchases A/c	Nominal	Purchase is an expense.	Debit
	Ram's A/c	Personal	Ram is the giver.	Credit
(e)	Cash A/c	Real	Cash is coming in.	Debit
	Sales A/c	Nominal	Sales is a revenue.	Credit
(f)	Bank A/c	Personal	Bank is the receiver.	Debit
	Cash A/c	Real	Cash is going out.	Credit
(g)	Drawing A/c	Personal	Ganesh is the receiver.	Debit
	Cash A/c	Real	Cash is going out.	Credit
(h)	Cash A/c	Real	Cash is coming in.	Debit
	Bank A/c	Personal	Bank is the giver.	Credit
(i)	Salary A/c	Nominal	Salary is an expense.	Debit
	Cash A/c	Real	Cash is going out.	Credit
(j)	Rent A/c	Nominal	Rent is an expense.	Debit
	Bank A/c	Personal	Bank is the giver.	Credit
(k)	Drawings A/c	Personal	Ganesh is the receiver.	Debit
	Purchases A/c	Nominal	It is a decrease in expenses.	Credit

Illustration 4.3 :

Pass necessary journal entries :

Ram Started business by Rs. 50,000 on 1st April, 2015. Following are transactions for the month of April :

2015		Rs.	2015		Rs.
April 1	Cash Purchase	20,000	April 27	Total payment to Santosh	4,700
April 4	Sold to Mohan	8,000	April 29	Received from Mohan	7,300
April 11	Purchased from Santosh	5,000		Discount allowed to Mohan	200
April 14	Cash Sales	7,000	April 30	Salaries paid	400
April 18	Goods returned by Mohan	500	April 30	Shop rent paid	300
April 20	Goods returned to Santosh	200	April 30	Withdrawn for personal use	1,000
April 26	Cash purchases from Prateek	10,000			

Solution : Journal of Ram

Date	Particulars	L.F.	Amount (Dr.)	Amount (Cr.)
2015 April 1	Cash A/c To Capital A/c (For cash brought in as capital)	Dr.	Rs. 50,000	Rs. 50,000
1	Purchases A/c To Cash A/c (For goods Purchased)	Dr.	20,000	20,000
4	Mohan To Sales A/c (For goods sold to Mohan on credit)	Dr.	8,000	8,000
11	Purchases A/c To Santosh (For goods purchased on credit)	Dr.	5,000	5,000
18	Cash A/c To Sales A/c (For goods sold for cash)	Dr.	7,000	7,000
	Sales Returns A/c To Mohan (For goods returned by Mohan)	Dr.	500	500
20	Santosh To Purchase Returns A/c (For goods returned to Santosh)	Dr.	200	200
26	Purchases A/c To Cash A/c (Goods Purchased for cash)	Dr.	10,000	10,000
27	Santosh To Cash A/c To Discount A/c (For cash paid to Santosh and discount received)	Dr.	4,800	4,700 100
29	Cash A/c Discount A/c To Mohan (For cash received from Mohan and discount allowed to him)	Dr. Dr.	7,300 200	7,500
30	Salaries A/c Shop Rent A/c Drawings A/c To Cash A/c (For cash paid for salary, shop rent and drawings)	Dr. Dr. Dr.	400 300 1,000	1,700
	Total		1,14,700	1,14,700

Double Entry System and the Journal

Discount : It is of two types :

(1) Trade Discount, and (2) Cash Discount.

(1) **Trade Discount** : The discount allowed by a seller to its customers at a fixed percentage on the List Price of goods is termed as Trade discount. No separate entry is required to be passed for the trade discount since it is deducted from the cash memo or invoice of the goods sold or purchased. For example, if a trader sells goods of the list price of Rs. 40,000 at 5% trade discount, for cash, the entry will be :

Cash A/c	Dr.	38,000	
To Sales A/c			38,000

If the goods sold at trade discount are returned by the customer, the amount of trade discount is again deducted from the list price of the returned goods.

(2) **Cash Discount** : This discount is allowed to the customers for making prompt payment. In other words, cash discount is allowed only if the customer makes the payment within a fixed period. Such discount motivates the customers to make the payment at the earliest. Since it is allowed at the time of making payment, so the entry for cash discount is recorded alongwith the entry for payment. Discount is a nominal account, it is debited when it is allowed to a customer and credited when it is received from the supplier.

Difference between Trade Discount and Cash Discount

Basis of Difference	Trade Discount	Cash Discount
1. Meaning	Trade discount is allowed at the time of sale to the customers or retailers at a fixed percentage on the printed price of the list. Generally, it is allowed to the retailers to enable them to sell the goods to their customers at list price. The purpose is also to increase the sales.	Cash discount is allowed if the customer makes the payment immediately or within a fixed period.
2. Object	It is allowed to encourage quick or prompt payment.	It is allowed to encourage quick or prompt payment.
3. Recording	It is not recorded in the books.	It is recorded in the books.
4. Deduction	It is deducted from the invoice price.	It is not deducted from the invoice.

When a customer is allowed, trade discount as well as cash discount, first trade discount is to be deducted from list price of the goods sold and, on the residual amount, cash discount is to be calculated.

Compound Journal Entries

Sometimes, two or more transactions relating to one particular account take place on the same date. In such cases, instead of passing separate entries for all such transactions, only one entry is passed. Such a Journal entry is termed as compound Journal entry. For example, on 20th October Rs. 5,000 are paid for Salaries and Rs. 2,000 for Rent, the combined (compound) entry would be :

Salaries A/c	Dr.	5,000	
Rent A/c	Dr.	2,000	
To Cash A/c			7,000
(For Salaries and Rent paid)			

Such entries can be passed in either of the following three ways :

- (1) By debiting one account and crediting two or more accounts.
- (2) By crediting one account and debiting two or more accounts.

(3) By debiting two or more accounts and crediting two or more accounts, such as the 'Opening Entry.

Illustration 4.4 :

Give Journal entries for the following transactions in the books of Bhanu Pratap :

Date 2015		Rs.
March 1	Started business with Cash	2,00,000
March 2	Cash Purchases	96,000
March 3	Sold goods to Saleem Bros.	20,000
March 6	Returned defective goods by Saleem Bros.	2,000
March 8	Received Cash from Saleem Bros. and discount allowed to them	17,600
March 9	Chandrakant sold goods to us	400
March 10	Priya purchased goods from us	40,000
March 10	Paid Insurance premium	24,000
March 12	Paid for Life Insurance Premium of Self	1,000
March 15	Paid cash to Chandrakant and Discount allowed by him	4,000
March 18	Lent to Mahesh & Sons.	27,560
March 18	Bought goods from Paliwal, list price Rs. 30,000 less 20% trade discount	440
March 22	Paid to Paliwal	10,000
March 26	Received Cash from Priya	16,000
March 31	Paid wages Rs. 800, Advertisement Expenses Rs. 500 and Salaries	12,000
March 31	Received Interest Rs. 200 and Commission	3,000
		1,200

Solution :

Journal of Bhanu Pratap

Date	Particulars	L.F.	Amount (Dr.)	Amount (Cr.)
2015			Rs.	Rs.
March 1	Cash A/c To Capital A/c (For business started with cash)	Dr.	2,00,000	2,00,000
March 2	Purchases A/c To Cash A/c (For goods purchased for cash)	Dr.	96,000	96,000
March 3	Saleem Bros. To Sales A/c (For goods sold to Saleem Bros.)	Dr.	20,000	20,000
March 6	Sales Return A/c To Saleem Bros A/c (For goods returned by Saleem Bros.)	Dr.	2,000	2,000

March 8	Cash A/c Discount A/c To Saleem Bros. (For cash received from Saleem Bros. and discount allowed to them)	Dr. Dr.	17,600 400	18,000
March 9	Purchases A/c To Chandrakant (For goods purchased from Chandrakant)	Dr.	40,000	40,000
March 10	Priya To Sales A/c (For goods sold to Priya)	Dr.	24,000	24,000
March 10	Insurance Premium A/c To Cash A/c (For insurance premium paid)	Dr.	1,000	1,000
March 12	Drawings A/c To Cash A/c (For life insurance premium paid for self)	Dr.	4,000	4,000
March 15	Chandrakant To Cash A/c To Discount A/c (For cash paid to Chandrakant and discount received)	Dr.	28,000	27,560 440
March 18	Mahesh & Son's Loan A/c To Cash A/c (For loan given to Mahesh sons)	Dr.	10,000	10,000
March 18	Purchases A/c To Paliwal (For goods purchased less trade discount on list price)	Dr.	24,000	24,000
March 22	Paliwal To Cash A/c (For amount paid to Paliwal)	Dr.	16,000	16,000
March 26	Cash A/c To Priya (For cash received from Priya)	Dr.	12,000	12,000
March 31	Wages A/c Advertisement Expenses A/c Salaries A/c To Cash A/c (For expenses paid)	Dr. Dr. Dr.	800 500 3,000	4,300

March 31	Cash A/c	Dr.	1,400	
	To Interest A/c			200
	To Commission A/c			1,200
	(For income received)			
	Total		5,00,700	5,00,700

Illustration 4.5 :

Pass Journal entries in the books of Ram Rahim & Bros.

June 1 Commenced Business with cash Rs. 80,000 Goods Rs. 40,000 and Furniture Rs. 20,000

June 2 Sold goods to M of the list price of Rs. 20,000 at trade discount of 10%.

June 4 M returned goods of the list price Rs. 4,000.

June 8 Received from M Rs. 14,150 in full settlement of his account.

June 10 Purchased goods from Mohan of the list price of Rs. 10,000 at 15% trade discount.

June 13 Returned goods to Mohan of the list price of Rs. 1,000.

June 16 Settled the account of Mohan by paying cash, under a discount of 4%.

June 18 Purchased goods from Arif Rs. 5,000; Sunil Rs. 10,000.

June 19 Paid cash to Arif Rs. 1,900 and discount received Rs. 100.

June 20 Paid Rs. 9,800 to Sunil in full settlement of his account.

June 20 Bought two 'Table Fans' for Rs. 1,200 each for the domestic use of the proprietors.

June 25 Sold goods for cash of the list price of Rs. 8,000 at 10% trade discount and 3% cash discount.

June 30 Paid Rent Rs. 800; Trade Expenses Rs. 700 and Travelling Expenses Rs. 380.

Solution : Journal of Ram Rahim Bros.

Date	Particulars	L.F.	Amount (Dr.)	Amount (Cr.)
2015			Rs.	Rs.
June 1	Cash A/c	Dr.	80,000	
	Purchases A/c	Dr.	40,000	
	Furniture A/c	Dr.	20,000	
	To Capital A/c			1,40,000
	(For business started with cash, goods & furniture)			
June 2	M's A/c	Dr.	18,000	
	To Sales A/c			18,000
	(For goods sold less trade discount)			
June 4	Sales Return A/c	Dr.	3,600	
	To M's A/c			3,600
	(For goods returned by M Rs. 4,000 less 10%)			

June 8	Cash A/c	Dr.	14,150	
	Discount A/c	Dr.	250	14,400
	To M's A/c			
	(For cash received and discount allowed)			
June 10	Purchases A/c	Dr.	8,500	
	To Mohan's A/c			8,500
	(For goods purchased on credit from Mohan)			
June 13	Mohan's A/c	Dr.	850	
	To Purchases Return A/c			850
	(For goods returned to Mohan Rs. 1,000 less 15%)			
June 16	Mohan's A/c	Dr.	7,650	
	To Cash A/c			7,344
	To Discount A/c			306
	(For cash paid and discount received)			
June 18	Purchases A/c	Dr.	15,000	
	To Arif			5,000
	To Sunil			10,000
	(For goods purchased on credit)			
June 19	Arif's A/c	Dr.	2,000	
	To Cash A/c			1,900
	To Discount A/c			100
	(For cash paid and discount received)			
June 20	Sunil's A/c	Dr.	10,000	
	To Cash A/c			9,800
	To Discount A/c			200
	(For cash paid to Sunil and discount received)			
June 20	Drawings A/c	Dr.	2,400	
	To Cash A/c			2,400
	(For two table fans bought for domestic use)			
June 25	Cash A/c	Dr.	6,984	
	Discount A/c	Dr.	216	7,200
	To Sales A/c			
	(For goods worth Rs. 8,000 sold at 10% trade discount and 3% cash discount)			
June 30	Rent A/c	Dr.	800	
	Trade Expense A/c	Dr.	700	
	Travelling Expenses A/c	Dr.	380	
	To Cash A/c			1,880
	(For expenses paid)			
	Total		2,31,480	2,31,480

Recording of Banking Transactions

S.No.	Transaction	Entry	Dr.
1.	When Cash is deposited into the Bank	Bank A/c To Cash A/c	Dr.
2.	When Cash is withdrawn from the Bank	Cash A/c To Bank A/c	Dr.
3.	When cheque, drafts etc. received from the Customers are deposited into the Bank on the same day.	Bank A/c To Customer's Personal A/c	Dr.
4.	When cheques, drafts etc. received from the Customers are not sent to Bank on the same day.	Cash a/c To Customer's Personal A/c	Dr.
5.	On the date when above cheque, drafts etc. are sent to the Bank	Bank A/c To Cash A/c	Dr.
6.	When a customer directly deposits the amount in our Bank account.	Bank A/c To Customer's Personal A/c	Dr.
7.	When a cheque previously deposited into the Bank is dishonoured	Customer's Personal A/c To Bank A/c	Dr.
8.	When a cheque is received from a customer and discount is allowed to him, and if the cheque is deposited into the bank on the same day.	Bank A/c Discount A/c To Customer's Personal A/c	Dr. Dr.
9.	When the above cheque is dishonoured, the discount allowed to the customer will also be withdrawn.	Customer's Personal A/c To Bank A/c To Discount A/c	Dr.
10.	When payment is made by issue of a cheque to any person or firm	Personal A/c To Bank A/c	Dr.
11.	When Expenses are paid by the issue of a cheque	Expenses A/c To Bank A/c	Dr.
12.	When Cash is withdrawn from the Bank for the personal use of the proprietor.	Drawings A/c To Bank A/c	Dr.
13.	When Interest is charged by the Bank or any other charges made for services rendered.	Interest A/c or Bank charges A/c To Bank A/c	Dr.
14.	When interest is allowed by Bank	Bank A/c To Interest A/c	Dr.

Opening Entry

Every firm starts its new books in the beginning of each year. Since the closing balances of last year have to be carried forward to the next year, the first entry in each year's Journal will be to record the previous year's closing balances of all the assets and liabilities. As it is the first entry, it is called the opening entry. In this entry the accounts of all assets are debited because assets always show debit balances and the accounts of liabilities and capital are credited. If Capital account is not given in the question, it will be found out by deducting the total of liabilities from the total of assets. On the contrary, if the total of liabilities exceeds the total of assets, the difference will be treated as the amount of Goodwill and the same will be debited in the opening entry.

Bad Debts

When the goods are sold to a customer on credit, and if the amount becomes irrecoverable due to his insolvency or for some other reason, the amount not recovered is called bad-debts. For recording this loss **Bad debts account is debited and the Customer's account is credited.**

Illustration 4.6 :

The following balances appeared in the books of Shree Traders on January 1 : 2015 :
Assets : (Debit balances) : Cash Rs. 30,000; Bank balance Rs. 10,000; Stock Rs. 80,000; Furniture Rs. 7,200; Debtors Rs. 48,000; (A : Rs. 12,000, B : Rs. 16,000 and C : Rs. 20,000)
Liabilities : Bank Loan Rs. 20,000; Creditors Rs. 25,000 (Ajay Rs. 10,000, Vijay Rs. 15,000).
 Following transactions took place during the same month :
 Jan. 2 Bought goods from K for Rs. 40,000 at a trade discount of 10% and cash discount of 2% and paid 60% amount immediately.
 Jan. 4 Sold goods to A for Rs. 18,000
 Jan. 5 Received Rs. 29,600 from A in full settlement of his account.
 Jan. 6 Cash deposited into Bank Rs. 20,000.
 Jan. 8 Cheque received from B for Rs. 15,700 in full settlement of his account and deposited it immediately into Bank.
 Jan. 10 Received a cheque from C Rs. 4,000.
 Jan. 12 Cheque received from C deposited into Bank.
 Jan. 15 B's cheque returned dishonoured.
 Jan. 16 Cash sales Rs. 30,000; of which Rs. 24,000 deposited into Bank.
 Jan. 16 Amount due to Ajay paid by cheque.
 Jan. 18 Old newspapers and old furniture sold for Rs. 100 and Rs. 1,500 respectively.
 Jan. 20 C became insolvent and 40 paise in a rupee could be received from his estate.
 Jan. 22 Purchased goods from M and paid by cheque Rs. 16,000.
 Jan. 24 Sold half of the above goods to Chandresh at a profit of 30% on cost.
 Jan. 25 Proprietor withdrew for private use Rs. 4,000 from office and Rs. 6,000 from bank.
 Jan. 31 Paid salary to Motilal by cheques Rs. 4,000.
 Jan. 31 Paid rent by cheque Rs. 3,000 and trade expenses in cash Rs. 1,000.

Solution :

Journal of Shree Traders

Date	Particulars	L.F.	Amount (Dr.)	Amount (Cr.)
2015				
Jan. 1	Cash A/c	Dr.	Rs. 30,000	Rs.
	Bank A/c	Dr.	10,000	
	Stock A/c	Dr.	80,000	
	Furniture A/c	Dr.	7,200	
	Sundry Debtors A/c (A)	Dr.	12,000	
	(B)	Dr.	16,000	
	(C)	Dr.	20,000	
	To Loan from Bank A/c			20,000
	To Ajay's A/c			10,000
	To Vijay's A/c			15,000
	To Capital A/c (Balancing figure)			1,30,200
	(For assets and liabilities brought forward in books)			

Jan. 2	Purchases A/c	Dr.	36,000		
	To Cash A/c			21,168	
	To Discount A/c			432	
	To K			14,400	
	(For goods purchased and discount received)				
Jan. 4	A's A/c	Dr.	18,000		
	To Sales A/c			18,000	
	(For goods sold on credit)				
Jan. 5	Cash A/c	Dr.	29,600		
	Discount A/c	Dr.	400		
	To A's A/c			30,000	
	(For cash received and discount allowed)				
Jan. 6	Bank A/c	Dr.	20,000		
	To Cash A/c			20,000	
	(For cash deposited into Bank)				
Jan. 8	Bank A/c	Dr.	15,700		
	Discount A/c	Dr.	300		
	To B's A/c			16,000	
	(For cheque received from B deposited into Bank)				
Jan. 10	Cash A/c	Dr.	4,000		
	To C's A/c			4,000	
	(For cheque received)				
Jan. 12	Bank A/c	Dr.	4,000		
	To Cash A/c			4,000	
	(For cheque received from C deposited into Bank)				
Jan. 15	B's A/c	Dr.	16,000		
	To Bank A/c			15,700	
	To Discount A/c			300	
	(B's cheque dishonoured, and discount withdrawn)				
Jan. 16	Cash A/c	Dr.	6,000		
	Bank A/c	Dr.	24,000		
	To Sales A/c			30,000	
	(For Cash sales and amount deposited in Bank)				
Jan. 16	Ajay's A/c	Dr.	10,000		
	To Bank A/c			10,000	
	(For cheque given to Ajay)				
Jan. 18	Cash A/c	Dr.	1,600		
	To Miscellaneous Income A/c			100	
	To Furniture A/c			1,500	
	(For old newspapers and old furniture sold)				

Jan. 20	Cash A/c	Dr.	6,400		
	Bad Debts A/c	Dr.	9,600		
	To C's A/c			16,000	
	(For cash received and bad-debts written off)				
Jan. 22	Purchases A/c	Dr.	16,000		
	To Bank A/c			16,000	
	(For goods purchased by cheque)				
Jan. 24	Chandresh's A/c	Dr.	10,400		
	To Sales A/c			10,400	
	(For goods sold on credit)				
Jan. 25	Drawings A/c	Dr.	10,000		
	To Cash A/c			4,000	
	To Bank A/c			6,000	
	(For amount withdrawn for private use)				
Jan. 31	Salary A/c	Dr.	4,000		
	Rent A/c	Dr.	3,000		
	To Bank A/c			7,000	
	(For expenses paid by cheque)				
Jan. 31	Trade Expenses A/c	Dr.	1,000		
	To Cash A/c			1,000	
	(For expenses paid in cash)				
	Total		4,21,200	4,21,200	

Some Special Transactions and their Entries :

(1) **Bad Debts Recovered** : Sometimes, it so happens that the bad debts previously written off are subsequently recovered. In this case the following entry will be passed for amount recovered :

Cash A/c	Dr.	Actual amount received	
To Bad Debts Recovered A/c			

Care should be taken that the personal account of the debtor should not be credited. His account must have been closed while passing the entry for bad debts.

(2) **Accrued Expenses** : It is quite common for a business enterprise to be left with some expenses which are yet to be paid at the end of the accounting year due to one reason or the other. Such expenses are known as outstanding expense, the expenses which should have been paid during the current year but which have not been paid.

If Rent is still due for a month not paid @ Rs. 5,000, the entry would be :

Rent A/c	Dr.	5,000	
To Outstanding Rent A/c			5,000

Outstanding Rent Account is a liability. It has been credited because it is a representative personal account of the landlord to whom Rent is due.

(3) **Prepaid Expenses** : There are certain expenses which are related to the next year but have been paid during the current year in advance. These are called Prepaid or Unexpired expenses. The benefit of such expenses will be received during the next accounting year. For example, Insurance premium amounting to Rs. 12,000 is paid on 1st July 2014 for one year, entry on 1st July, 2014 will be :

Insurance Premium A/c	Dr.	12,000	12,000
To Cash A/c			

But when the books are closed on 31st March 2015 Insurance Premium for three months (from April to June) is prepaid for which following entry should be passed on 31st March, 2015 :

Prepaid Insurance Premium A/c	Dr.	3,000	3,000
To Insurance Premium A/c			

Prepaid Insurance Account is an asset. It is debited because it is a representative personal account of persons to whom payment has been made in advance.

(4) **Depreciation** : It means loss due to diminution in the value of fixed assets on account of wear and tear and passage of time. It being a nominal account, entry to be passed would be :

Depreciation A/c	Dr.	With the amount of depreciation calculated at specified percentage.
To Machinery & Plant A/c		
To Furniture & Fittings A/c		

(5) **Interest on Capital** : It is a loss to Business and gain to the proprietor :

Interest on Capital A/c	Dr.	With the amount of interest
To Capital A/c		

(6) **Interest on Drawings** : Just as Interest on Capital is allowed by the firm, it may charge interest on amount drawn by the proprietor. The entry to be passed would be :

Drawings A/c	Dr.	With the amount of interest
To Interest on Drawings		

Illustration 4.7 :

Enter the following in the Journal of Mahadeo :

- Received Rs. 11,000 from Dharti which were previously written off as Bad debts.
- Rent Rs. 4,000 due to landlord.
- Insurance premium paid Rs. 12,000 for one year, of which for 3 months relate to next year.
- Provide depreciation on Machinery amounting to Rs. 4,00,000 @ Rs. 10%, Furniture, Rs. 2,000, cost being Rs. 20,000.
- Interest on Capital @ 6% per annum be provided for 3 months on Rs. 4,00,000.
- Drawings during the year amounted to Rs. 40,000 and charge interest there on Rs. 2,000.

Solution : Journal of Mahadeo

	Particulars	L.F.	Amount (Dr.)	Amount (Cr.)
1.	Cash A/c To Bad Debts Recovered A/c (For cash received from Dharti previously written off)	Dr.	Rs. 11,000	Rs. 11,000

2.	Rent A/c To Outstanding Rent A/c (For Rent due to landlord or Rent outstanding)	Dr.	4,000	4,000
3.	Prepaid Insurance premium A/c To Insurance Premium A/c (For insurance premium being prepaid for 3 months)	Dr.	6,000	6,000
4.	Depreciation A/c To Machinery A/c To Furniture A/c (For depreciation on Machinery and Furniture provided)	Dr.	42,000	40,000 2,000
5.	Interest on Capital A/c To Capital A/c (For interest provided on Capital for 3 months)	Dr.	6,000	6,000
6.	Drawings A/c To Interest on Drawings A/c (For interest charged on Drawings)	Dr.	2,000	2,000

Special Transactions Pertaining to Goods

(1) **Drawings in Goods** : When the owner requires some items of goods for his personal or domestic use :

Drawings A/c	Dr.	At purchase price of goods
To Purchases A/c (for goods withdrawn for domestic use)		

(2) **Goods given away as charity or distributed as free samples** : Charity and Advertisement (for free samples) are business expenses or losses but not incurred in cash. So the following Journal entry be recorded :

Charity A/c	Dr.	Amount of charity	Total amount
Advertisement or Free samples A/c To Purchases A/c (For goods given as Charity and distributed as Free Samples)	Dr.	Cost of free samples	

(3) **Loss of Goods by Theft/Fire** : It is an abnormal loss of goods to be recorded as follows :

Loss by Theft A/c	Dr.	with cost or purchase price	Total amount
Loss by Fire A/c To Purchases A/c (For goods lost by theft and fire)	Dr.		

Note : Please note that in all the transactions recorded above, loss of cost or purchases be recorded by crediting Purchases A/c to reduce the total purchases. It will be wrong to credit Sales Account.

Recovery of Central Sales Tax : Central Sales tax is charged on Inter-state sales which is collected from the amount so collected is payable to the Government, as such it is a representative Personal Account and treated as liability. The CST paid on Purchases is treated as a part of cost. The Journal entries are as under :

When C.S.T. is collected (At the time of Sales)
 Cash or Bank or Personal A/c Dr.
 To Sales A/c
 To Central Sales Tax A/c

(For sales made and CST collected)

When CST collected is deposited in Government A/c
 Central Sales Tax A/c Dr.
 To Bank A/c
 (CST collected now deposited in Govt. A/c)

Note : Central Sales tax paid on purchases is not recoverable, as such it becomes part of cost of purchase.

Value Added Tax (VAT) : It is charged when sales are made within the state. Vat paid on purchases is adjusted against vat charged on Sales. Thus Vat paid is an Asset, whereas VAT collected is a Liability.

(i) When VAT is paid on Purchases

Purchases A/c Dr.
 VAT Paid A/c Dr.
 To Cash/Bank/Creditor's A/c

(ii) When VAT is collected on Sales

Cash/Bank/Debtors A/c Dr.
 To Sales A/c
 To VAT Collected A/c

Note : If VAT collected is more than VAT paid, it will be adjusted against VAT collected and balance will be paid to the government. In case VAT collected is less than VAT paid, the balance of VAT paid is carried forward to next period to be adjusted when VAT is collected. The Journal entries will be as under –

(iii) When VAT paid is adjusted against VAT collected

VAT Collected A/c Dr.
 To VAT Paid A/c

(iv) When Balance of VAT collected is deposited in Government A/c :

VAT Collected A/c Dr.
 To Bank A/c

Illustration 4.8 :

Make necessary Journal entries for the following transactions :

- (1) Purchased goods from Manohar Lal for Rs. 2,00,000 less trade discount 15% plus VAT @ 10%.
- (2) Sold goods costing Rs. 45,000 for Rs. 60,000 and charged VAT @ 10%, the payment received by cheque which is deposited in PNB Ltd. on the same day.
- (3) Remaining goods was sold to Rex Ltd. for Rs. 1,50,000 plus VAT @ 10%.
- (4) Balance of VAT collected deposited in Govt. A/c by a cheque.

Solution : Journal Entries

Date	Particulars	L.F.	Amount (Dr.)	Amount (Cr.)
1.	Purchases A/c Dr. VAT Paid A/c Dr. To Manohar Lal (For goods purchased and VAT paid)		Rs. 1,70,000 17,000	Rs. 1,87,000
2.	Bank A/c Dr. To Sales A/c To VAT Collected A/c (For good sold and VAT Collected)		66,000	60,000 6,000
3.	Rex Ltd. Dr. To Sales A/c To VAT Collected A/c (For balance of goods sold to Rex Ltd. and VAT collected)		1,65,000	1,50,000 15,000
4.	VAT Collect A/c Dr. To VAT Paid A/c (For VAT paid adjusted against VAT collected)		17,000	17,000
5.	VAT Collected A/c Dr. To Bank A/c (For balance of VAT Collected deposited in Govt. A/c)		4,000	4,000

Illustration 4.9 :

Pass Journal Entries for the following transactions :

- (1) Goods sold for cash to a customer for Rs. 15,000 and collected 8% central sales tax on it.
- (2) Purchased an Iron Safe for business Rs. 20,000 and issued cheque.
- (3) Purchased filing cabinet for office use Rs. 8,000 and paid Rs. 100 as cartage on it.
- (4) Purchased a Printer from Karim & Co. for Rs. 20,000.
- (5) Purchased an electric fan for Rs. 4,000.
- (6) Purchased a 'Horse' for business for Rs. 60,000 and paid by cheque.

- (7) Paid Rs. 1,500 for expenses on goods sold to Vijay. This amount is to be charged to Mr. Vijay.
- (8) Purchased Post cards for Rs. 15; Envelops for Rs. 100 and Stamps Rs. 200.
- (9) Purchased office stationary for Rs. 4,000.
- (10) Charity given : Cash Rs. 400; Goods Rs. 1,000 and Furniture Rs. 2,000.
- (11) Received an order for goods from Vishnu for Rs. 20,000 and received Rs. 5,000 as advance.
- (12) Paid cash to Yakub on behalf of Rajan Rs. 6,000.

Solution : **Journal**

	Particulars	L.F.	Amount (Dr.)	Amount (Cr.)
1.	Cash A/c To Sales A/c To Central Sales Tax A/c (For goods sold for Cash and Sales Tax collected)	Dr.	Rs. 16,200	Rs. 15,000 1,200
2.	Office Equipment A/c To Bank A/c (For Iron-safe purchased)	Dr.	20,000	20,000
3.	Office Equipment A/c To Cash A/c (For filing cabinet purchased for Rs. 8,000 and cartage paid there on Rs. 100)	Dr.	8,100	8,100
4.	Office Equipment A/c To Karim & Co. (For printer purchased on credit)	Dr.	20,000	20,000
5.	Fixtures A/c To Cash A/c (For electric fan purchased)	Dr.	4,000	4,000
6.	Live Stock A/c To Bank A/c (For a horse purchased for business and issued cheque)	Dr.	15,000	15,000
7.	Vijay's A/c To Cash A/c (For expenses paid on behalf of Vijay)	Dr.	500	500
8.&9.	Postage & Stationery A/c To Cash A/c (For post cards, Envelops and stamps purchased)	Dr.	4,315	4,315

10.	Charity A/c To Cash A/c To Purchases A/c To Furniture A/c (For Cash, Goods and Furniture given as charity)	Dr.	3,400	400 1,000 2,000
11.	Cash A/c To Advance from Vishnu (For amount received as an advance for sale of goods)	Dr.	5,000	5,000
12.	Rajan's A/c To Cash A/c (For cash paid to Yakub on behalf of Rajan)	Dr.	6,000	6,000

Notes : (1) In transaction no. 11, no entry will be passed for receiving an order of Rs. 20,000, as no transaction has taken place as yet.

(2) In transaction no. 12, the account of Rajan will be debited, as the payment has been made on his behalf.

Ledger Posting :

It is necessary to post all Journal entries into various accounts in the ledger because posting helps us to know the net effect of various transactions took place during a given period for a particular account. The term Posting is the process of transferring the transactions recorded in the book of original entry in the concerned accounts opened in the ledger. It may be noted that the exact names of account used in the Journal should be carried to the Ledger. The process of transferring the debit and credit items from the journal to their respective accounts in the Ledger may be done daily, weekly, fortnightly or monthly according to the requirements and convenience of the business. The following rules should be kept in mind while posting transactions in the Ledger from the Journal :

(1) Separate accounts should be opened in the ledger for posting transactions relating to different accounts recorded in the Journal.

(2) The concerned account which has been debited in the Journal should also be debited in the ledger i.e., the debit of the Journal entry is posted to the debit side. However, a reference should be made of the other account which has been credited in the Journal.

(3) The concerned account which has been credited in the Journal, should also be credited in the Ledger i.e., the credit of the Journal entry is posted to the credit side, but a reference should be given of the other account which has been debited in the Journal.

(4) It is customary to use the words 'To' and 'By' while making posting in the ledger. The words 'To' is used with the accounts shown on the debit side of the ledger account while the word 'by' is used with accounts which appear on the credit side of the ledger account :

(5) In the folio column, the page number of the journal from where the entry is transferred to ledger account is written.

(6) The date of the transaction is written on the date column.

Balancing of Ledger Accounts :

After posting into the ledger, the next stage is to ascertain the net effect of all the transactions posted to an account. Balancing of an account means the process of equalising the two sides of an account by putting the difference on the side where amount is short. It may be debit balance or a credit balance or a nil balance, depending upon whether the debit or the credit total is higher. Balancing of an account is necessary to ascertain the net effect of all transactions posted to that account during a given period. These balances are brought down on the opposite side while opening the account in the next accounting period. Normally personal accounts and real accounts are balanced. Nominal Accounts are not usually balanced but are closed by transferring to Trading and Profit & Loss Account.

The following steps should be followed for balancing the accounts.

- (1) Total the amounts of debit and credit entries in the accounts.
- (2) If the debit and credit sides are equal then there is no balance. The account stands automatically balanced or closed.
- (3) If the debit side total is more, put the difference on the credit side amount column, by writing the words in particulars column "By Balance c/d." If the credit side total is more, put the difference on the debit side amount column by writing the words in the particulars column "To Balance c/d."
- (4) After putting the difference in the appropriate side of the account, add both sides of the account and draw a thin line above and below the total.
- (5) Bring down the debit balance on the debit side by writing the words in particulars column "To Balance b/d". Similarly bring down the credit balance on the credit side by writing the words in the particulars column "By Balance b/d".

Illustration 4.10 :

From the Journal of Illustration 4.3 give posting in the Ledger and also balance the various accounts.

Solution :

Cash Account							
Dr.				Cr.			
Date	Particulars	J.F.	Rs.	Date	Particulars	J.F.	Rs.
2015				2015			
April 1	To Capital A/c		50,000	April 1	By Purchases A/c		20,000
April 14	To Sales A/c		7,000	April 26	By Purchases A/c		10,000
April 29	To Mohan		7,300	April 27	By Santosh		4,700
				April 30	By Salaries A/c		400
				April 30	By Rent		300
				April 30	By Drawings A/c		1,000
					By Balance c/d		27,900
			64,300				
May 1	To Balance b/d		27,900				64,300

Purchases Account							
Dr.				Cr.			
Date	Particulars	L.F.	Rs.	Date	Particulars	J.F.	Rs.
2015				2015			
April 1	To Cash A/c		20,000	April 30	By Balance c/d		35,000
April 11	To Santosh		5,000				
April 26	To Cash A/c		10,000				
			35,000				35,000
May 1	To Balance b/d		35,000				

Capital Account							
Date	Particulars	L.F.	Rs.	Date	Particulars	J.F.	Rs.
2015				2015			
April 30	To Balance c/d		50,000	April 1	By Cash A/c		50,000
			50,000				50,000
				May 1	By Balance b/d		50,000

Mohan's Account							
Date	Particulars	L.F.	Rs.	Date	Particulars	J.F.	Rs.
2015				2015			
April 14	To Sales A/c		8,000	April 1	By Sales		
				April 18	Return A/c		500
				April 29	By Cash A/c		7,300
				April 29	By Discount A/c		200
			8,000				8,000

Sales Account							
Date	Particulars	L.F.	Rs.	Date	Particulars	J.F.	Rs.
2015				2015			
April 30	To Balance c/d		15,000	April 4	By Mohan		8,000
				April 14	By Cash A/c		7,000
			15,000				15,000
				May 1	By Balance b/d		15,000

Santosh's Account

2015		Rs.	2015		Rs.
April 20	To Purchase Returns	200	April 11	By Purchases A/c	5,000
April 27	To Cash A/c	4,700			
April 27	To Discount A/c	100			
		5,000			5,000

Sales Return Account

2015		Rs.	2015		Rs.
April 18	To Mohan	500	April 20	By Balance c/d	500
		500			500
May 1	To Balance b/d	500			

Purchase Returns Account

2015		Rs.	2015		Rs.
April 30	To Balance c/d	200	April 20	By Santosh	200
		200			200
			May 1	By Balance b/d	200

Discount Allowed Account

2015		Rs.	2015		Rs.
April 30	To Mohan	200	April 30	By Balance c/d	200
		200			200
May 1	To Balance b/d	200			

Salaries Account

2015		Rs.	2015		Rs.
April 30	To Cash A/c	400	April 30	By Balance c/d	400
		400			400
May 1	To Balance b/d	400			

Drawings Account

2015		Rs.	2015		Rs.
April 30	To Cash A/c	1,000	April 30	By Balance c/d	1,000
		1,000			1,000
May 1	To Balance b/d	1,000			

Rent Account

2015		Rs.	2015		Rs.
April 30	To Cash A/c	300	April 30	By Balance c/d	300
		300			300
May 1	To Balance b/d	300			

Discount Received Account

2015		Rs.	2015		Rs.
April 30	To Balance b/d	100	April 30	By Santosh	100

Illustration 4.11.

Pass those Journal entries on the basis of which the following account has been prepared :

Dr. Nasir Hussain Cr.						
Date	Particulars	J.F.	Rs.	Date	Particulars	Rs.
April 5	To Sales A/c		10,000	April 10	By Cash A/c	9,700
				April 10	By Discount A/c	300
			10,000			10,000

Solution :

Journal			
Date	Particulars	Dr.	Rs.
April 5,	Nasir Hussain	Dr.	10,000
	To Sales A/c		
	(Goods sold on credit to Mr. Nasir Hussain)		10,000
April 10	Cash A/c	Dr.	9,700
	Discount allowed A/c	Dr.	300
	To Nasir Hussain's A/c		10,000
	(Payment received from Nasir Hussain and discount allowed)		

Note : It is essential to note that Discount Received Account and Discount Allowed Account be kept separately.

Opening Entry and Ledger Posting :

A Journal entry by means of which the balances of various assets, liabilities and capital appearing in the balance sheet for preceding accounting period are brought forward (b/f) in the books of the current accounting period, is known as 'Opening Entry'. While passing an opening entry, all assets accounts (individually) are debited and all liabilities accounts (individually) are credited and the excess of assets over liabilities is credited to Proprietor's Capital Account (in case of proprietary concern) or Partner's Capital Accounts (in case of a partnership firm). The procedure of posting an opening entry is the same as in case of a simple Journal entry except that in case of an account which has been debited, the word to balance b/f are recorded in the 'Particulars column' on the debit side and in case of an account which has been credited, the word 'By balance b/f' are recorded in the 'Particulars column' on the credit side.

Illustration 10.12 :

Pass an opening entry in the Journal of Mr. X (as on 1st April, 2015) and post the same into the ledger :

Cash in Hand Rs. 2,000 cash at Bank Rs 7,000, Stock of Rs. 40,000 Land and Buildings Rs. 2,00,000, Plant and Machinery Rs. 1,03,000, Furniture and Fixtures Rs. 50,000, Owing from Gopal Rs. 25,000, Prepaid Insurance Rs. 1,000, Interest Received in advance Rs. 500, Loan from Ramesh 20,000, Owing to Suresh Rs. 7,500.

Journal Folio 1

Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
2015				
April 1	Cash A/c	Dr.	2,000	
	Bank A/c	Dr.	7,000	
	Stock A/c	Dr.	40,000	
	Land and Building A/c	Dr.	2,00,000	
	Plant and Machinery A/c	Dr.	1,03,000	
	Furniture and Fixtures A/c	Dr.	50,000	
	Gopal's A/c	Dr.	25,000	
	Prepaid Insurance A/c	Dr.	1,000	
	To Interest received in advance A/c			500
	To Loan from Ramesh A/c			20,000
	To Suresh			7,500
	To X's Capital A/c (Balancing figure)			4,00,000
	(Being the balance brought forward from the preceding year.)			

Ledger of Mr. X

Dr. Cash Account Cr.							
Date	Particulars	Folio	Rs.	Date	Particulars	Folio	Rs.
2015							
April 1	To Balance b/f	1	2,000				

Dr. Bank Account Cr.							
Date	Particulars	Folio	Rs.	Date	Particulars	Folio	Rs.
2015							
April 1	To Balance b/f	1	7,000				

Dr. Stock Account Cr.							
Date	Particulars	Folio	Rs.	Date	Particulars	Folio	Rs.
2015							
April 1	To Balance b/f	1	40,000				

Dr. Land and Buildings Account Cr.							
Date	Particulars	Folio	Rs.	Date	Particulars	Folio	Rs.
2015							
April 1	To Balance b/f	1	2,00,000				

Dr. Plant & Machinery Account Cr.							
Date	Particulars	Folio	Rs.	Date	Particulars	Folio	Rs.
2015							
April 1	To Balance b/f	1	1,03,000				

Dr. Furniture and Fixtures Account Cr.							
Date	Particulars	Folio	Rs.	Date	Particulars	Folio	Rs.
2015							
April 1	To Balance b/f	1	50,000				

Dr. Gopal's Account Cr.							
Date	Particulars	Folio	Rs.	Date	Particulars	Folio	Rs.
2015							
April 1	To Balance b/f	1	25,000				

Dr. Prepaid Insurance Account Cr.							
Date	Particulars	Folio	Rs.	Date	Particulars	Folio	Rs.
2015							
April 1	To Balance b/f	1	1,000				

Dr. Interest Received in Advance Account				Cr.			
Date	Particulars	Folio	Rs.	Date	Particulars	Folio	Rs.
				2015 April 1	By Balance b/f	1	500

Dr. Ramesh's Account				Cr.			
Date	Particulars	Folio	Rs.	Date	Particulars	Folio	Rs.
				2015 April 1	By Balance b/f	1	20,000

Dr. Suresh's Account				Cr.			
Date	Particulars	Folio	Rs.	Date	Particulars	Folio	Rs.
				2015 April 1	By Balance b/f	1	7,500

Dr. X's Capital Account				Cr.			
Date	Particulars	Folio	Rs.	Date	Particulars	Folio	Rs.
				2015 April 1	By Balance b/f	1	4,00,000

Test Questions

Very Short Questions & Answers : (Not exceeding 40 words)

- Q.1. What is meant by double entry system of Accounting ?
 Ans. : Double entry system of Accounting refers to a system of accounting in which every transaction has two fold aspects, one debit and another credit. In other words every transaction affects at least two accounts, one of them is debited and the other is credited.
- Q.2. Enumerate the principal books of original entry.
 Ans. : The following are the main books of original entry :
 (1) Journal Proper (5) Sales Returns Book
 (2) Purchases Book (6) Cash Book
 (3) Sales Book (7) Bills Receivable Book
 (4) Purchase Returns Book (8) Bills Payable Book
- Q.3. What is meant by Journal ?
 Ans. : The word Journal has been derived from french word 'Jour'. It is originally used as a book of entry in which transactions are copied in order of date from memorandum and waste book.

Q.4. State two main uses of Journal.

Ans. : Uses of Journal

- It gives complete information at one place about each transaction.
- It provides a permanent record of all the business transactions and thus assist in auditing the account books.

Q.5. What is meant by Compound Journal Entry ?

Ans. : When two or more transactions relating to one particular account take place on the same date, then instead of passing separate entries for all transactions, only one entry is passed either by debiting one account and crediting two or more accounts or vice-versa or by debiting two or more accounts and crediting more than one account. Such entry is called Compound Entry.

Q.6. What are different types of Accounts?

Ans. : The following are different types of Accounts :

- Personal Accounts, (2) Real Accounts, and (3) Nominal Accounts.

Personal Accounts are of three types, (a) Natural Personal Account, (b) Artificial Personal Accounts, and (c) Representative Personal Accounts.

Q.7. What are personal accounts? Give four examples.

Ans. : The accounts which relate to an individual, firm, company or an institution etc. are called personal accounts, for example, Sunil's Account, Modi Sons' Account, Capital A/c and Drawings Account.

Q.8. What are Real Accounts? Give four examples.

Ans. : The accounts of those things, tangible and intangible, whose value can be measured in terms of money and which are properties of business enterprise are called Real Accounts, for example, Cash A/c, Furniture A/c, Investments Account and Patents & Trademark Accounts.

Q.9. What are nominal accounts ?

Ans. : These are the accounts relating to incomes, expenses, gains and losses etc. are called nominal accounts. These are accounts in name only, for example, Interest received, wages paid, dividends received, rent and salaries etc.

Q.10. State the rules regarding transactions of different accounts.

Ans. : Rule-1 : For Personal Accounts.

Debit the Receiver and Credit the giver

Rule-2 : For Real Accounts

Debit what comes in, Credit what goes out.

Rule-3 : For Nominal Accounts.

Expenses and Losses are debited, Gains and Profits are credited.

Q.11. What is meant by Debits and Credits?

Ans. : Two sides of an Account are arbitrarily distinguished. Basically debit means to enter an amount on the left hand side of an account and credit means to enter an amount on the right hand side of an account.

Q.12. Explain the treatment of Central Sales tax.

Ans. : (i) CST on purchases is included in the cost of Purchases.

(ii) CST on Sales is charged on Inter-state sales. It is recovered from the customers and at that time CST A/c is credited.

(iii) When collected CST is deposited in government account the entry to be passed is :

CST A/c Dr.
To Bank A/c

Short Questions and Answer : (Not exceeding 80 words)

Q.1. Analyse the following Accounts into Personal, Real and Nominal Accounts—

- | | |
|-------------------------------|--------------------------------|
| I. Machinery Account | II. Punjab National Bank A/c |
| III. Capital Account | IV. Drawings Account |
| V. Bad debts Account | VI. Patent Account |
| VII. Goodwill Account | VIII. Outstanding Salaries A/c |
| IX. Prepaid Expenses A/c | X. Insurance Premium A/c |
| XI. Purchases Account | XII. Stock Account |
| XIII. Commission Received A/c | XIV. Rent Received Account. |

Ans. : Personal A/c Real A/c Nominal A/c
PN Bank A/c Machinery A/c Bad debts A/c
Capital A/c Patent A/c Purchases A/c
Drawings A/c Goodwill A/c Commission A/c
Outstanding Salary A/c Stock A/c Rent A/c
Prepaid Expenses A/c

Q.2. What is Journal ? Explain its contents of various Columns.

Ans. : Journal is the book of primary entry in which transactions are recorded before being posted into the Ledger. It is a book of account in which transactions are recorded in a chronological order as and when they take place, date wise. The word Journal has been derived from the French word 'Jour' which means daily records. In the words of Prof. Carter, "The Journal as originally used, is a book of prime entry in which transactions are copied in order of date from memorandum and waste book :

- Column is a date column to record the date of transaction.
- Column is of particulars under which the account to be debited is entered in the first line, and few space away in second line the account to be credited is written.
- L.F. or Ledger Folio Column in which page no. of the Ledger where the Account appears is indicated.
- IV. and V columns represent debit and credit amount respectively.

Q.3. What is meant by compound Journal Entry? Give an example.

Ans. : When two or more transactions relating to one particular account take place on the same date, passing one Journal entry instead of several by debiting two or more accounts or crediting more than one account is called compound Journal entry. For example, on 2nd April, 2015 salaries Rs. 20,000, wages Rs. 12,000, rent Rs. 5,000 were paid the compound Journal entry will be—

Compound Journal Entry

Date 2015	Particulars	Amount (Dr.) Rs.	Amount (Cr.) Rs.
April	Salaries A/c Dr.	20,000	
	Wages A/c Dr.	12,000	
	Rent A/c Dr.	5,000	
	To Cash A/c (For expenses paid in Cash)		37,000

Q.4. What are different types of Accounts? State traditional approach of classification.

Ans. : Classification of Accounts according to traditional approach :

- (1) **Personal Accounts** are the accounts of persons with whom the business enterprise deals with. Such accounts may be of the following nature.
 - (i) Natural Person's Account such as Varun's A/c, Batika's A/c etc.
 - (ii) Artificial Person's Account such as Bank A/c, Modi & Sons, Hari & Co.
 - (iii) Representative Personal Account such as Capital A/c, Prepaid Expenses A/c, Accrued Rent A/c etc.
- (2) **Real Accounts** : Accounts of things or articles, may be tangible ones e.g. Machinery, Furniture and intangible ones e.g. Goodwill, Trademark, Patents, etc.
- (3) **Nominal Accounts** : All accounts relating to income, expense, gains and losses are called nominal accounts, for example, Rent A/c, Interest & Dividend A/c, Commission A/c, Salaries & Wages A/c etc.

Q.5. State Various rules of Journalising for different types of Account.

Ans. : Rules for Debit & Credit when classification of accounts it under traditional approach—

- (i) **Personal Accounts** Debit the Receiver, Credit the giver
- (ii) **Real Accounts** Debit what comes in, Credit what goes out
- (iii) **Nominal Accounts** Debit all Expenses & Losses, Credit all Gains and Profits.

Rules for Debit & Credit under modern approach.

- (i) Assets Accounts — Debit the increase, credit the decrease
- (ii) Liabilities Accounts — Debit the decrease, credit the increase
- (iii) Capital Account — Debit decrease in capital, credit increase in capital
- (iv) Revenue Account — Debit decrease in revenue, credit increase in revenue.
- (v) Expenses Account — Debit increase in expenses, credit decrease in expenses.

Q.6. What do you understand by Opening Entry ? Give an example.

Ans. : **Meaning of Opening Entry**—A Journal entry by means of which the balances of various assets, liabilities and capital appearing in the Balance Sheet of the preceding accounting period are brought forward in the books of the Current Accounting period is known as 'Opening Entry'. While passing an opening entry, all the assets accounts are debited (individually by name) and all the liabilities accounts are credited (individually by name), and excess of assets over liabilities is credited as the capital of the Proprietor, for example—

	Rs.	Rs.
Cash in hand A/c	Dr. 10,000	
Cash at Bank A/c	Dr. 20,000	
Debtors A/c	Dr. 30,000	
Bills Receivable A/c	Dr. 10,000	
Plant & Machinery A/c	Dr. 1,00,000	
Vehicles A/c	Dr. 50,000	
To Sundry Creditors A/c		20,000
To Bills Payable A/c		40,000
To Accrued Expenses A/c		10,000
To Capital A/c (<i>Balancing figure</i>)		1,50,000
(For balances brought forward)		

Q.7. Give Journal entries for treatment of Value Added Tax (VAT).

Ans : VAT is charged for sales within the state. The entries are as under :

(i) Purchases A/c	Dr.	
VAT Paid A/c	Dr.	
To Supplier or Bank A/c		
(For VAT paid on purchases)		
(ii) Cash or Bank A/c	Dr.	
Debtor's A/c		
To Sales A/c		
To VAT Collected A/c		
(For VAT collected from customers)		
(iii) VAT Collected A/c	Dr.	
To VAT Paid A/c		
For Adjusting VAT paid against VAT collected		
(iv) VAT Collected A/c	Dr.	
To Bank A/c		
Balance of VAT Collected deposited in Government A/c		

Essay Type or Long Answers Questions :

1. What is Journal ? What are its merits ? What types of transactions are recorded in Journal ? (See page nps. 4.2)
2. Enumerate the rules of debit and credit for traditional classification of accounts and accounting equation based classification of accounts. (See page nps. 4.8)
3. Enumerate the heads of (a) traditional classification of accounts, (b) accounting equation based on classification of accounts along with examples. (See page nps. 4.8 and 4.9)

Numerical Questions :

1. Record following transactions in the Journal :

2015		Rs.	2015		Rs.
July 1	Started business with cash	60,000	July 16	Sales on Credit to Gopal	3,700
July 4	Cash Purchases	25,000	July 20	Cash Received from Gopal	2,000
July 7	Cash Sales	2,500	July 27	Furniture Purchased	5,500
July 11	Purchases from Ram Lal (Credit)	3,000	July 31	Salary Paid	1,500
			July 31	Rent Paid	1,000

Solution : Hints for solution :

July 1	Debit	Cash	Credit	Capital A/c with Rs. 60,000
July 4	Debit	Purchases A/c and Credit	Cash A/c with Rs. 25,000	
July 7	Debit	Cash A/c and Credit	Sales A/c with Rs. 2,500	
July 11	Debit	Purchases A/c and Credit	Ram Lal's A/c with Rs. 3,000	
July 16	Debit	Gopal's A/c and Credit	Sales A/c with Rs. 3,700	
July 20	Debit	Cash A/c & Credit	Gopal's A/c with Rs. 2,000	
July 27	Debit	Furniture A/c and Credit	Cash A/c with Rs. 5,500	
July 31	Debit	Salary A/c & Rent A/c and Credit	Cash A/c with Rs. 2,500	

[Ans. : Total of Journal Rs. 1,04,200]

2. On April 1, Mohd. Saleem & Bros. started hardware business investing Rs. 60,000. Write his following transactions in the Journal :

2015		Rs.	2015		Rs.
Apr. 4	Spent on Electric fittings	7,500	Apr. 26	Yakub Brothers settled their Account	11,600
Apr. 5	Furniture purchased	3,000	Apr. 27	Purchases from Mali Ram	12,000
Apr. 7	Purchase from Ram Prasad	36,000	Apr. 28	Cash withdrawn for personal expenses	4,500
Apr. 8	Cash Purchases	15,000	Apr. 28	Goods taken for personal use	2,100
Apr. 10	Sold to Yakub Bros.	12,000	Apr. 29	Cash sales to Shree Udyog	2,100
Apr. 17	Purchased from Murari Lal, paid in Cash	16,000	Apr. 30	Interest paid Rs. 100 and Shop rent paid	6,000
Apr. 17	Cash Sales to Ravi Shanker	6,000			3,000
Apr. 24	Postage and stamps bought	300			
Apr. 26	Paid to be Ram Prasad	30,000			

Solution : Journal Entries in the Books of Saleem Bros.

		Rs.
1	Debit	Cash A/c and Credit Saleem Bros's Capital A/c
		60,000
4	Debit	Fittings A/c and Credit Cash A/c
		7,500
5	Debit	Furniture A/c and Credit Cash A/c
		3,000
7	Debit	Purchases A/c and Credit Ram Prasad
		36,000
8	Debit	Purchases A/c and Credit Cash A/c
		15,000
10	Debit	Yakub Bros. and Credit Sales A/c
		12,000
17	Debit	Purchases A/c and Credit Cash A/c
		18,000

24	Debit Postage stamps and Credit Cash A/c	6,000
26	Debit Cash A/c (Rs. 11,600) and Discount Allowed A/c (Rs. 400) and Credit yakub Bros. A/c	10,000
27	Debit Purchases A/c and Credit Mali Ram's A/c	12,000
28	Debit Drawings A/c and Credit Cash A/c with Rs. 4,500 and Credit Purchases A/c	2,000
29	Debit Cash A/c and Credit Sales A/c (cash sales)	6,000
30.	Debit Interest (Rs. 300) and Shop Rent A/c (Rs. 3,000) and Credit cash Account	3,300

Note : Journal entries on 26,28 and 30 April are Compound entries.

Q.3. Shree Ram started business with cash Rs. 5,00,000, Stock Rs. 2,00,000 and Building worth Rs. 8,00,000 on 1st October and transactions for this month were as follows :

Oct. 2	Purchased goods from X	50,000
Oct. 3	Returned goods to X being defective	10,000
Oct. 5	Sold goods to Arpit	20,000
Oct. 6	Purchased a Bull for business, paid by Cheque	80,000
Oct. 7	Purchased goods from Mani Ram which includes 50% cash Purchases	1,00,000
Oct. 8	Sold goods to Y 50% on credit and balance for Cash	2,00,000
Oct. 9	Cash Purchases by cheque	2,00,000
Oct. 10	Cash Sales payment received by cheque and banked same day	1,00,000
Oct. 11	Sold goods to Saleem on credit and allowed trade discount (5%)	40,000
Oct. 12	Purchased Furniture from Jaipur Furniture House	20,000
Oct. 14	Received Cash from Saleem	20,000
Oct. 15	Purchased goods from Narendra which includes half cash Purchases	1,00,000
Oct. 16	Sold goods to Mohit 50% on credit and balance for cash	80,000
Oct. 17	Cash received from Saleem in full settlement	15,000
Oct. 18	Paid to Narendra in full settlement	48,000
Oct. 19	Sold goods to Upendra on which Central Sales tax 10% was charged	10,000
Oct. 21	Sold goods to Raj Nath	80,000
Oct. 22	Proprietor took goods for his personal use	5,000
Oct. 22	Goods given away in charity	2,000
Oct. 23	Cash was stolen from the iron safe of the trader	10,000
Oct. 23	Uninsured goods was destroyed by fire	30,000
Oct. 26	Raj Nath became insolvent and a payment was received at the rate of 25 paise in the rupee	
Oct. 27	Goods stolen by some employee	8,000
Oct. 31	Paid shop rent Rs. 7,000, Salaries Rs. 8,000 and Sundry expenses	5,000

Enter the above transactions in the Journal of Shree Ram.

Solution :

Journal of Shree Ram

Date	Particulars	L.F.	Amount Rs.	Amount Rs.
Oct. 1	Cash A/c Purchases A/c (for Stock) Building A/c To Capital A/c (For business started with cash, stock & buildings)	Dr. Dr. Dr.	5,00,000 2,00,000 8,00,000	15,00,000
Oct. 2	Purchases A/c To X (For goods bought from X)	Dr.	50,000	50,000
Oct. 3	X's A/c To Purchases Return A/c (For defective goods returned)	Dr.	10,000	10,000
Oct. 5	Arpit's A/c To Sales A/c (For goods sold to Arpit)	Dr.	20,000	20,000
Oct. 6	Live Stock A/c To Bank A/c (For Bull bought for business paid by cheque)	Dr.	80,000	80,000
Oct. 7	Purchases A/c To Cash A/c To Mani Ram (For cash and credit purchases)	Dr.	1,00,000	50,000 50,000
Oct. 8	Y's A's Cash A/c To Sales A/c (For cash and credit sales)	Dr. Dr.	1,00,000 1,00,000	2,00,000
Oct. 9	Purchases A/c To Bank A/c (For cash purchases, payment by cheque)	Dr.	1,00,000	1,00,000
Oct. 10	Bank A/c To Sales A/c (For cash sales for which cheque received & banked)	Dr.	1,00,000	1,00,000
Oct. 11	Saleem's A/c To Sales A/c (For goods sold on credit to Saleem after deducting trade discount)	Dr.	38,000	38,000

Oct. 12	Furniture A/c To Jaipur Furniture House (For furniture bought on credit)	Dr.	20,000	20,000
Oct. 14	Cash A/c To Saleem's A/c (For cash received from Saleem)	Dr.	20,000	20,000
Oct. 15	Purchases A/c To Narendra's A/c To Cash A/c (For goods bought for cash and credit)	Dr.	1,00,000	50,000 50,000
Oct. 16	Mohit's A/c Cash A/c To Sales A/c (For goods sold for cash and on credit)	Dr.	40,000 40,000	80,000
Oct. 17	Cash A/c Discount Allowed A/c To Saleem's A/c (For Saleem settled his Account)	Dr. Dr.	15,000 3,000	18,000
Oct. 18	Narendra's A/c To Cash A/c To Discount Received A/c (For Narendra's account settled in cash)	Dr.	50,000	48,000 2,000
Oct. 19	Upendra To Sales A/c To Sales tax collected A/c (For goods sold to Upendra and sales tax collected)	Dr.	11,000	10,000 1,000
Oct. 21	Rajnath's A/c To Sales A/c (For goods sold to Rajnath on credit)	Dr.	80,000	80,000
Oct. 22	Drawings A/c Charity A/c To Purchases A/c (For goods drawn for personal use & charity given)	Dr. Dr.	5,000 2,000	7,000
Oct. 23	Loss by Theft A/c To Cash A/c (For cash lost by theft)	Dr.	10,000	10,000

23	Loss by Fire A/c To Purchases A/c (For goods destroyed by fire)	Dr.	30,000	30,000
Oct. 26	Cash A/c Bad debts A/c To Raj Nath (For Rajnath was declared insolvent, only 25 paise in a Rupee was received)	Dr. Dr.	20,000 60,000	80,000
Oct. 27	Loss by Theft A/c To Purchases A/c (For goods stolen by an employee)	Dr.	8,000	0,000
Oct. 31	Shop Rent A/c Salaries A/c Sundry Expenses A/c To Cash A/c (For expenses incurred and paid in cash)	Dr. Dr. Dr.	7,000 8,000 5,000	20,000
	Total		28,33,000	28,33,000

4. The following balances appeared in the Ledger of M/s Shree Traders on 1st April, 2015

Cash in hand 6,000; Cash at Bank 12,000; Bills Receivable 7,000;
Renu (Cr.) 3,000; Stock (Goods) 5,400; Bills Payable 2,000;
Rohit (Dr.) 9,700; Mohan (Dr.) 10,000

Transactions during the month were :

April	Rs.
1 Goods sold to Mohit	3,000
2 Purchased goods from. Renu	8,000
3 Received cash from Rohit in full settlement	9,200
5 Cash received from Mohan on account	4,000
6 Paid to Renu bu cheque	6,000
8 Rent paid by cheque	1,200
10 Cash received from Mohit	3,000
12 Cash-sales	6,000
14 Goods returned to Renu	1,000
15 Cash paid to Ranu in full settlement (Discount received Rs. 300)	3,700
18 Goods sold to Kushal	10,000
20 Paid trade expenses	200
21 Drew for personal use	1,000
22 Goods returned from Kushal	1,200
24 Cash received from Kushal	6,000
26 Paid for stationery	100
27 Postage charges	60
28 Salary Paid	2,500

29	Goods purchased from Shalu Traders	7,000
30	Sold goods to Azad	6,000
30	Goods purchased from Sharda Traders	5,000

Journalise the above transactions.

Solution : Journal Entries in Shree Traders

Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
2015				
April 1	Cash A/c	Dr.	6,000	
	Bank A/c	Dr.	12,000	
	Bills Receivable A/c	Dr.	7,000	
	Stock A/c	Dr.	5,400	
	Rohit's A/c	Dr.	9,700	
	Mohan A/c	Dr.	10,000	
	To Renu's A/c			3,000
	To Bills Payable A/c			2,000
	To Capital A/c (<i>Balancing figure</i>)			45,100
	(Opening entry recorded in Journal, capital is ascertained by deducting Cr. side from Dr. side)			
1	Mohit's A/c	Dr.	3,000	
	To Sales A/c			3,000
	(Goods sold to Mohit on credit)			
2	Purchases A/c	Dr.	8,000	
	To Renu's A/c			8,000
	(Goods purchased from Renu on credit)			
3	Cash A/c	Dr.	9,200	
	Discount Allowed A/c	Dr.	500	
	To Rohit's A/c			9,700
	(Cash received in full settlement from Rohit)			
5	Cash A/c	Dr.	4,000	
	To Mohan's A/c			4,000
	(Cash received from Mohan)			
6	Renu's A/c	Dr.	6,000	
	To Banti A/c			6,000
	(Paid to Ranu by Cheque)			
8	Rent A/c	Dr.	1,200	
	To Bank A/c			1,200
	(Rent paid by Cheque)			
10	Cash A/c	Dr.	3,000	
	To Mohit's A/c			3,000
	(Cash received from Mohit)			

12	Cash A/c	Dr.	6,000	6,000
	To Sales A/c			
	(Cash sales)			
14	Renu's A/c	Dr.	1,000	1,000
	To Purchase Return A/c			
	(Goods returned to Renu)			
15	Renu's A/c	Dr.	4,000	3,700
	To Cash A/c			300
	To Discount Received A/c			
	(Paid to Renu in full settlement)			
18	Kushal	Dr.	10,000	10,000
	To Sales A/c			
	(Goods sold to Kushal)			
20	Trade Expenses A/c	Dr.	200	200
	To Cash A/c			
	(Trade expenses paid)			
21	Drawings A/c	Dr.	1,000	1,000
	To Cash A/c			
	(Drew for personal use)			
	Total C/F		1,07,200	1,07,200
22	Sales Return A/c	Dr.	1,200	1,200
	To Kushal			
	(Goods returned from Kushal)			
24	Cash A/c	Dr.	6,000	6,000
	To Kushal A/c			
	(Cash received from Kushal)			
26	Stationery A/c	Dr.	100	100
	To Cash A/c			
	(Paid for stationery)			
27	Postage A/c	Dr.	60	60
	To Cash A/c			
	(Paid for postage)			
28	Salary A/c	Dr.	2,500	2,500
	To Cash A/c			
	(Paid for salary)			
29	Purchases A/c	Dr.	7,000	7,000
	To Shalu Traders			
	(Goods purchased on credit)			

30	Azad	Dr.	6,000	6,000
	To Sales A/c (Goods sold on credit)			
30	Purchases A/c	Dr.	5,000	5,000
	To Sharda Traders (Goods purchase on credit)			
	Total		1,35,060	1,35,060

LEDGER

Dr. Cash Account Cr.

Date 2015	Particulars	J.F.	Amount Rs.	Date 2015	Particulars	Amount Rs.
April 1	To Balance b/d		6,000	April 15	By Renu	3,700
3	To Rohit		9,200	April 20	By Trade Exps. A/c	200
5	To Mohan		4,000	21	By Drawings A/c	1,000
10	To Mohit		3,000	26	By Stationery A/c	100
12	To Sales A/c		6,000	27	By Postage A/c	60
24	To Kushal		6,000	28	By Salary A/c	2,500
				30	By Balance c/d	26,640
			34,200			34,200
May 1	To Balance b/d		26,640			

Bank Account

2015	April 1	To Balance b/d	Rs. 12,000	2015	April 6	By Renu	Rs. 6,000
					8	By Rent A/c	1,200
					30	By Balance c/d	4,800
			12,000				12,000
May 1	To Balance b/d		4,800				

Bills Receivable Account

2015	April 1	To Balance b/d	Rs. 7,000	2015	April 30	By Balance c/d	Rs. 7,000
May 1	To Balance b/d		7,000				

Stock Account ⁽¹⁾

2015	April 1	To Balance b/d	Rs. 5,400				Rs.
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Rohit's Account

2015	April 1	To Balance b/d	Rs. 9,700	2015	April 3	By Cash A/c	Rs. 9,200
					April 3	By Discount Allowed A/c	500
			9,700				9,700

Mohan's Account

2015	April 1	To Balance b/d	Rs. 10,000	2015	April 5	By Cash A/c	Rs. 4,000
					30	By Balance c/d	6,000
			10,000				10,000
May	To Balance b/d		6,000				

Renu's Account

2015	April 6	To Bank A/c	Rs. 6,000	2015	April 1	By Balance b/d	Rs. 3,000
14	To Purchase Return A/c	1,000		2	By Purchases A/c	8,000	
15	To Cash A/c	3,700					
15	To Discount Received A/c	300					
		11,000					11,000

Bills Payable Account

2015	April 30	To Balance c/d	Rs. 2,000	2015	April 1	By Balance b/d	Rs. 2,000
					May 1	By Balance b/d	2,000

Capital Account

2015	April 30	To Balance c/d	Rs. 45,100	2015	April 1	By Balance b/d	Rs. 45,100
					May 1	By Balance b/d	45,100

Mohit's Account

2015	April 1	To Sales A/c	Rs. 3,000	2015	April 10	By Cash A/c	Rs. 3,000
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Sales Account ⁽¹⁾

		Rs.	2015			Rs.
			April 1	By Manish		3,000
			April 12	By Cash A/c		6,000
			April 18	By Kushal		10,000
			April 30	By Azad		6,000
						25,000

Purchases Account ⁽¹⁾

		Rs.			Rs.
2015					
April 2	To Renu	8,000			
29	To Shalu Traders	7,000			
30	To Sharda Traders	5,000			
		20,000			

Discount Allowed Account ⁽²⁾

		Rs.			Rs.
2015					
April 3	To Rohit	500			

Rent Account ⁽²⁾

		Rs.			Rs.
2015					
April 8	To Bank A/c	1,200			

Purchase Returns Account ⁽¹⁾

		Rs.	2015			Rs.
			April 14	To Renu		1,000

Discount Received Account ⁽²⁾

		Rs.	2015			Rs.
			April 15	To Renu		300

Kushal's Account

		Rs.	2015			Rs.
2015			April 22	By Sales Return A/c		1,200
April 18	To Sales A/c	10,000	24	By Cash A/c		6,000
			30	By Balance c/d		2,800
		10,000				10,000
May 1	To Balance b/d	2,800				

Trade Expenses Account ⁽²⁾

		Rs.			Rs.
2015					
April 20	To Cash A/c	200			

Drawings Account

		Rs.	2015			Rs.
2015			April 30	By Balance c/d		1,000
April 21	To Cash A/c	1,000				
May 1	To Balance b/d	1,000				1,000

Sales Return Account ⁽¹⁾

		Rs.			Rs.
2015					
April 22	To Kushal	1,200			

Stationery Account ⁽²⁾

		Rs.			Rs.
2015					
April 26	To Cash A/c	100			

Postage Account ⁽²⁾

		Rs.			Rs.
2015					
April 27	To Cash A/c	60			

Salary Account ⁽²⁾

		Rs.			Rs.
2015					
	To Cash A/c	2,500			

Shalu Traders Account

		Rs.	2015			Rs.
2015			April 29	By Purchases A/c		7,000
April 30	To Balance c/d	7,000	May 1	By Balance b/d		7,000

Azad's Account

		Rs.	2015			Rs.
2015			April 30	By Balance c/d		6,000
April 30	To Sales A/c	6,000				
May 1	By Balance b/d	6,000				5,000s

Sharda Traders

		Rs.	2015			Rs.
2015			April 30	By Purchases A/c		5,000
April 30	To Balance c/d	5,000	May 1	By Balance b/d		5,000

Notes : (1) At the end of the financial period accounts marked⁽¹⁾ will be closed by transferring to Trading Account.

(2) At the end of the financial period accounts marked⁽²⁾ will be closed by transferring to Profit & Loss Account.

5. Journalise the following transactions in the books of Shyam :

- (1) Paid Rs. 12,000 in Cash as wages for installation of Machine.
- (2) Bought from Raj Bros. goods worth Rs. 2,00,000 at 10% trade discount and $2\frac{1}{2}\%$ cash discount terms and paid them half the amount in Cash.
- (3) Rs. 15,000 due from Suresh are bad debts.
- (4) Goods insured worth Rs. 60,000 were destroyed by fire.
- (5) Goods worth Rs. 12,500 were used by the proprietor for domestic purpose.
- (6) Supplied goods costing Rs. 50,000 to Ramesh, issued invoice at 20% above cost less $7\frac{1}{2}\%$ trade discount.
- (7) Interest charged on drawings @ 5% when total drawings were Rs. 1,00,000.
- (8) Goods worth Rs. 4,000 were given as charity out of business.
- (9) Rent outstanding for a month Rs. 15,000.
- (10) Provide interest on capital (Rs. 10,00,000) at 12% per annum for six months.
- (11) Charge depreciation on Machinery @ 10% for 6 months (Machinery Rs. 10,00,000).
- (12) Received a first and final dividend of 60 paise in a rupee from the official receiver of Dharmendra who owed us Rs. 1,00,000.

Solution : Journal Entries

Date	Particulars	L.F.	Dr. (Rs.)	Dr. (Rs.)
(1)	Machinery A/c To Cash A/c (For wages paid for erection of Machine)	Dr.	12,000	12,000
(2)	Purchases A/c To Raj Bros. To Cash A/c To Discount Received A/c (For goods bought at 10% trade discount and 50% i.e. Rs. 90,000 @ $2\frac{1}{2}\%$ cash discount)	Dr.	1,80,000	90,000 87,750 2,250
(3)	Bad debts A/c To Suresh' A/c (For amount due from suresh, W/o as bad debts)	Dr.	15,000	15,000

(4)	Goods Destroyed by Fire A/c Or Insurance Co. To Purchases A/c (For Insured goods destroyed by fire)	Dr.	60,000	60,000
(5)	Drawings A/c To Purchases A/c (For goods used for domestic purpose)	Dr.	12,500	12,500
(6)	Ramesh's A/c To Sales A/c (For goods sold cost Rs. 50,000 + 20% = 60,000 - 7.5% (4,500) = Rs. 55,500)	Dr.	55,500	55,500
(7)	Drawings A/c To Interest A/c (Int. charged on drawings @ 5% on Rs. 1,00,000/2 = Rs. 50,000)	Dr.	2,500	2,500
(8)	Charity A/c To Purchases A/c (Charity in goods given)	Dr.	4,000	4,000
(9)	Rent A/c To Accrued Rent A/c (For rent due for a month)	Dr.	15,000	50,000
(10)	Interest on Capital A/c To Capital A/c (For interest charged on capital for 6 months @ 12%)	Dr.	60,000	60,000
(11)	Depreciation A/c To Machinery A/c (For depreciation @ 10% on Rs. 10,00,000 for 6 months charged)	Dr.	50,000	50,000
(12)	Cash A/c Bad debts A/c To Dharmendra (For Dharmendra paid only 60 paise in a Rupee for amount due Rs. 1,00,000)	Dr. Dr.	60,000 40,000	1,00,000
	Total		5,66,500	5,66,500

6. Give Journal entries for the following transactions :

2015		Rs.
April 1	Purchased goods in cash from Nikhil	80,000
April 4	Sold goods to Pradeep for cash	40,000
April 7	Cash deposited into Bank	50,000

April 8	Received a cheque from Banwari which was deposited in the bank same day.	17,000
April 10	Purchased goods from Kamesh	25,000
April 12	Cash withdrawn from Bank	16,000
April 14	Returned goods to Kamesh	9,000
April 15	Issued cheque in favour of Kamesh in full settlement of his account	13,850
April 20	Abrar a customer paid into our bank direct and informed us.	40,000
April 22	Bank made payment for our Insurance Premium	12,000
April 24	On seeing pass book, it was found that bank has allowed interest Bank has charged for its services	11,600
	Bank has paid Shop Rent as per instructions	1,700
		12,500
April 30	Cheque of Rajendra deposited in bank was dishonoured	17,000
April 30	Bank dishonour charges	170

Solution :

April 01	Debit Purchases A/c and Credit Cash A/c	80,000
04	Debit Cash A/c and Credit Sales A/c	40,000
07	Debit Bank A/c and Credit Cash A/c.	50,000
08	Debit Bank A/c and Credit Banwari	17,000
10	Debit Purchases A/c and Credit Kamesh	25,000
12	Debit Cash A/c and Credit Bank A/c	16,000
14	Kamesh Debit, and Purchase Return Credit	9,000
15	Debit Kamesh with Rs. 16,000 and Credit Bank A/c with Rs. 13,850 and also credit discount received account with Rs. 2,150	16,000
20	Debit Bank A/c and Credit Abrar's A/c with	40,000
22	Debit Insurance Premium A/c and Credit Bank A/c (If it is treated as Life Insurance premium then Drawings A/c should be debited instead of Insurance premium A/c)	12,000
24	Debit Bank A/c and Credit Bank Interest A/c Debit Bank Charges with Rs. 1,700 shop Rent A/c with Rs. 12,500 and credit Bank A/c	11,600
30	Debit Rajendra and Credit Bank A/c inculding dishonour charges	14,200
		17,170
	Total of Journal	<u>3,47,970</u>

7. Pass necessary Journal entries on the basis of which the following account has been prepared :

Dr.		Gopal's Account				Cr.	
Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
2014 Mar. 25	To Purchases		Rs. 70,000	2014 Mar. 20	Purchases A/c		Rs. 70,000
	Return A/c		22,000				
Mar. 30	To Cash		47,800				
	To Discount A/c		200				
			70,000				70,000

Hint : To solve the question—(i) Entry for goods purchases from Gopal Rs. 70,000 (March 20), (ii) entry for Purchase Return Rs. 22,000 (March 25) (iii) Gopal's A/c be debited with Rs. 2,50,000 and Cash A/c and Discount received A/c should be credited with Rs. 47,800 and 200 respectively (Marh 30), Total entries to be passed. (Three).

8. Pass one Journal Entry for each of the following items :

- Acquired the running business of Sachin for Rs. 4,00,000 by taking over the following assets and liabilities at values stated against them :
Stock of Goods Rs. 1,50,000, Furniture Rs. 1,00,000, Debtors Rs. 70,000, Machinery Rs. 80,000, Creditors Rs. 1,20,000.
Out of Rs. 4,00,000 Payable to Mr. Sachin Rs. 1,00,000 were borrowed from Laxman.
- Approached Ram for Loan of Rs. 1,00,000 but he paid the amount after deducting interest in advance for one year @ 10% per annum by cheque, which was banked on the same day.
- Sold to Karim goods worth Rs. 60,000 less $2\frac{1}{2}$ cash discount and received from him Rs. 58,500 net on account by cheque, which was banked on the same day.
- Bought from Mr. Lal, goods worth Rs. 60,000 at 15% trade discount and 2% cash discount terms and paid them half the amount in cash.

Solution : Journal Entries

Date	Particulars	L.F.	Dr. Rs.	Cr. Rs.
(a)	Stock of Goods A/c	Dr.	1,50,000	
	Furniture A/c	Dr.	1,00,000	
	Debtors A/c	Dr.	70,000	
	Machinery A/c	Dr.	80,000	
	Goodwill A/c (Balancing figures)	Dr.	1,00,000	
	To Sundry Creditor's A/c			1,00,000
	To Loan from Laxman			1,00,000
	To Cash A/c			3,00,000
	(For business purchased for Rs. 4 lakhs, payment was made by taking Rs. 1,00,000 from Laxman, net assets being Rs. 3,00,000 whereas payment was made Rs. 4 lakh, 1,00,000 being amount of goodwill)			

(b)	Bank A/c	Dr.	90,000	1,00,000
	Interest Prepaid A/c To Ram's Loan A/c (Loan taken from Ram, received after deducting Interest for one year in advance)	Dr.	10,000	
(c)	Bank A/c	Dr.	58,500	60,000
	Discount Allowed A/c To Sales A/c (Goods sold to Karim, he availed cash discount of 2.5%)	Dr.	1,500	
(d)	Purchases A/c	Dr.	51,000	25,500 24,990 510
	To Mr. Lal's A/c			
	To Cash A/c			
	To Discount Received A/c (For goods bought of Rs. 60,000 at 15% trade discount and 2% cash discount 50% was availed for cash discount)			

□□□

5

Recording of Non-cash Transactions (Subsidiary Books)

Non-cash Transactions

Journalising of every transaction is a lengthy and difficult task especially when the size of Business is large. The system of Book-Keeping should be easy, simple to follow and should be such which may allow division and sub-division of work and duties possible for speedy working. Where the size of business is small and transactions are not very large in numbers, it may be possible to keep one Journal, commonly known as books of original record. But when the size of Business grows, it is no longer possible to record all the transactions in one Journal. In such cases, the main Journal is split into a number of separate Journals or Day Books. A separate Journal is kept for each type of transactions. For example separate day books are maintained by a big Business house to record numerous transactions as regards, receipts and payment of cash, credit purchases, credit sales, purchases returns, sale returns, bills receivable from customers, bills payable to suppliers etc. These Day books or Journals are prepared every day and are of specialised character, since only one type of transactions are recorded therein. It is because of this character, that they are known as *Special Purpose Subsidiary Books*. Thus the subsidiary or day books may be defined as Books in which transactions are entered first for the object of record. Normally, the following Subsidiary Books or 'Journals' are used in a business :

- (1) Purchases Book or Purchases Journal to record credit purchases of goods dealt in or of the materials and stores required in the factory.
- (2) Sales Book or Sales Journal to record the Sales of the goods dealt in by the firm.
- (3) Purchases Return or Returns Outward Book to record the returns of the goods and materials to suppliers previously purchased on credit.
- (4) Sales Return Journal or Returns Inward Book to record the returns made by customers previously sold on credit.
- (5) Cash Book or Cash Journal to record receipts and payments of cash, including deposit into and payment out of the Bank.
- (6) Bills Receivable Book or Journal to record the receipts of promissory notes or hundies from various parties.
- (7) Bills Payable Book or Journal to record the issue of the promissory notes or hundies to other parties.
- (8) Journal Proper to record the transactions which can not be recorded in any of the seven books mentioned above.

In this chapter, we shall discuss about Purchases Book, Sales Book, Return Inward Book, Return Outward Book and Journal Proper only. The techniques of maintaining Cash Book has been taken up in next chapter; whereas Bills Receivable and Bills Payable Books will be taken up later in the chapter on Bills of Exchange.

Need or Merits of Subsidiary Books :

The following are the merits of maintaining subsidiary books :

- (i) **Saving of time :** This will lead to the work being completed quickly as various accounting processes can be undertaken simultaneously because of the use of a number of books.
- (ii) **Division of Work Possible :** Since there will be about eight subsidiary books in place of single Journal, the work can be conveniently divided among a number of clerks, who can complete the accounting work simultaneously.
- (iii) **Prompt and Accurate Information :** Since a separate Journal or Book or Register is maintained for each class of transactions, the information, in respect of them will be available at one place and as such it can be easily and readily collected whenever required.
- (iv) **Convenience in Posting :** Since all the transactions of a particular type are recorded at one place, it facilitates posting to relevant accounts such as purchases account, sales account, purchases return account and sales return account and relevant personal accounts.
- (v) **Convenience in Checking and Auditing :** When the trial balance does not agree the location of error or errors is facilitated by the existence of separate books. Even the frauds and commission of errors can be checked by the use of various subsidiary books.
- (vi) **Specialisation and Efficiency :** Division of work will lead to specialisation, which in its turn will lead to increase in efficiency.
- (vii) **Innovations can be used in the form of subsidiary books :** The rulings and columns of these special journals can be modified according to the needs of the business. By constant use, the format can be changed to improve.

Purchases Book (or Purchase Journal) :

In business, goods are purchased for cash as well as on credit. If they are purchased for cash, the relevant entry is made in Cash Book. Usually and very often goods are purchased on credit, in almost every business as it constitutes the bulk of business transactions. To record credit purchases or goods bought on credit a separate book or special journal or a register is maintained popularly known as 'Purchases Book'. 'Goods' here means those goods in which the business deals. Thus Purchases Book does not keep record of credit purchases of things other than goods or materials i.e., assets such as office furniture or type-writers etc. purchased on credit by a cloth merchant. The purchases book may be prepared in the following format :

Specimen Format of Purchases Book/Purchases Journal

Date	Name of Suppliers (Account to be credited)	Invoice No.	L.F.	Amount	
				Details (Rs.)	Total (Rs)
(1)	(2)	(3)	(4)	(5)	(6)

The **date column**, records the different dates of the purchases of goods on credit. The **particulars column** is meant to record the name of the supplier and name of the articles purchased and their respective quantities. Any other specification and specialties of the goods is also written in

this column. In the **Invoice No.** column only invoice number in mentioned which is supplied by the seller of goods which contains details about the goods, its price and other expenses incurred. **L.F.** i.e., ledger folio means the page number of the ledger on which the suppliers account has been opened. It facilitates in the posting and also in checking the records. The **amount column (Details)** is used to write the individual total of the items purchased from a particular supplier. This will also be used to add packing or other charges and to deduct the amount of trade discount. Finally, the **amount column (total)** shows the net amount payable to the supplier of goods. The purchases books can also be prepared in columnar form, if necessary.

Posting from Purchases Books in Ledger :

The Individual entries and the total of the purchases book are posted as under :

- (i) **Posting of individual amount :** Individual amounts are daily posted to the credit of suppliers account by writing 'By Purchases A/c' in the particulars column.
- (ii) **Posting of periodical total :** The total of the amount column shows the total purchases made during a period. It is posted to the debit of purchases account by writing 'To sundries as per purchases book' in the particulars column.

Illustration 5.1 :

Write the following transactions in the Purchases Book of 'M' Bros :

		Rs.
April 1	Purchased goods from Ram Kishore	3,000
April 5	Bought goods from Chandra and Company	4,600
April 8	Bought goods from Shyam and Company (Shirting & Tweed equally)	4,000
April 15	Purchased goods for cash from Raj Brothers	8,000
April 22	Purchased scooter from Supreme Sales for the use of shop	29,700
April 27	Purchased goods from Ram Lal : 500 shirts pieces @ Rs. 50 per piece 200 pant pieces @ 200 per piece Trade discount received @ 10%	
April 20	Purchased goods for personal use of the trader from Suresh Brothers	5,000
April 30	Govind Vastra Bhandar supplied goods	7,500

Solution : Purchases Book of M/s 'M' Bros.

Date	Particulars	Invoice No.	L.F.	Details Amount Rs.	Net Amount Rs.
April 1	Ram Kishore				3,000
April 5	Chandra & Company				4,600
April 8	Shyam & Company			2,000	4,000
	Shirting			2,000	
	Tweed				

April 27	Ram Lal Shirt pieces 500 @ Rs. 50 Pant pieces 200 @ Rs. 200			25,000 40,000			
	Less : Trade discount 10%			65,000			58,500
April 30	Govind Vastra Bhandar						7,500
April 30	Purchases A/c	Dr.					77,600

Working Notes : (1) Cash purchases will be recorded in Cash Book. (2) Purchase of Scooter for the use of shop is an Asset and not goods. As such it is to be recorded in Journal Proper. (3) Purchase of goods for personal use (Drawings) is also to be recorded in Journal Proper.

Illustration 5.2 :

Post into ledger from the purchases book prepared in Illustration No. 5.1.

Solution :

Ledger of M Bros.

Purchases Account							
Dr.				Cr.			
Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
April 30	To sundries as per Purchases Book		77,600				

Ram Kishore's Account							
Dr.				Cr.			
Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
				April 1	By Purchases A/c		3,000

Chandra & Company's Account							
Dr.				Cr.			
Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
				April 5	By Purchases A/c		4,600

Shyam & Company's Accounts							
Dr.				Cr.			
Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
				April 8	By Purchases A/c		4,000

Ram Lal's Account							
Dr.				Cr.			
Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
				April 27	By Purchases A/c		58,500

Govind Vastra Bhandar's Account							
Dr.				Cr.			
Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
				April 30	By Purchases A/c		7,500

Invoice or Bill :

When the supplier, supplies the goods to the buyer, he sends along with the goods or separately a statement, called invoice or bill, giving details of the quality, quantity, rate, total amount payable, terms of payment, etc. to the purchaser of goods. The specimen form of an invoice or a Bill is illustrated as below :

50 copies of Management Accountancy by Mohan Das @ Rs. 200 each, 100 copies of Cost Accounting by Jadish Prasad @ Rs. 100 each have been sent by XYZ Publications of India to ABC Ltd, Rajasthan. XYZ Publications allows trade discount @ 20% and includes Rs. 400 for packing, insurance and consignment expenses. Prepare an invoice for these transactions.

Solution :

Invoice
XYZ Publications India

Invoice No..... Dated.....
Phone No.....
Office..... Residence.....
Telegram.....
M/s.....ABC Ltd. Rajasthan

S.No.	Particulars	Qty.	Rate Rs.	Amount Rs.
1.	Management Accountancy by Mohan Das	50	200	10,000
2.	Cost Accounting by Jagdish Prasad	100	100	10,000
	Less : Trade Discount @ 20%			20,000
				4,000
	Add : Packing, Insurance & Consignment Expenses			16,000
				400
	Total			16,400

E & O.E.

Manager/Proprietor

Sales Book (or Sales Journal) :

Sales book or sales journal is used for the purpose of recording the sale of goods on credit. It records neither the cash sales of the goods nor sale of any asset on credit other than goods. The entries in the sales book are on the basis of the invoice issued to the customers with the amount less trade discount or quantity discount. The format of the Sales Book is as under :

Sales Book/Sales Journal

Date	Name of Customers (Amount to be credited)	Sales Invoice No.	L.F.	Amount	
				Details Rs.	Total Rs.
(1)	(2)	(3)	(4)	(5)	(6)

In fact it is maintained similar to that on which Purchases Book is maintained. However, in particulars column the name of the customer along with details of the goods sold to them are recorded. Sales book is prepared on the basis of copies of invoices sent to customers.

Posting from sales book into ledger :

The individual entry and the total of the sales book are posted into the ledger as under :

(i) Posting of Individual Entries : Individual amounts are daily posted to the debit of the customers accounts by writing 'To Sales Account' in the particulars column.

(ii) Posting of Periodical Total : Periodical total is posted to the credit of the Sales Account by writing "By sundries as per Sales Book" in the particulars column.

Illustration 5.3.

Enter the following transactions in the Sales Book of Ram and Rahim Brothers :

August 5	Sold goods to Mohd. Saleem & Bros. on credit.	Rs. 5,000
	Paid cartage on his behalf (Invoice No. RB - 723)	200
August 10	Sold goods to Diana Enterprises on credit :	
	50 Watches @ Rs. 2250 each, 10 Watches @ Rs. 500 each, 50 Radios @ Rs. 500 each	
	Trade discount allowed @ 10% Paid on his behalf Commission to Broker Rs. 500.	
	Packing Charges Rs. 700, and Insurance Expenses Rs. 300 (Invoice No. RB-747)	
August 22	Sold old office Furniture to Ranu Bros. on credit for two months	7,000
August 27	Sold goods for cash to M/s Abdulla & Sons	2,800
August 30	Ram has taken away goods for personal use	8,200
August 31	Goods given away as charity,	1,500

Solution :

Sales Book of Shri Ram Rahim Brothers

Date	Particulars	Invoice No.	L.F.	Details Amount	Net Amount
Aug. 5	Mohd. Saleem & Bros. Goods	RB-723		Rs. 5,000	Rs. 5,000
	Add : Cartage			200	5,200

Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
Aug. 10	Diana Enterprises						
	50 Watches @ Rs. 2,250		1,12,500				
	10 Watches @ Rs. 500		5,000				
	50 Radio Sets @ Rs. 500		25,000				
	Less : Trade Discount @ 10%		1,42,500				
	Add : Expenses :		14,250				
	Brokerage Rs. 500		1,28,250				
	Packing Rs. 700						
	Insurance Rs. 300		1,500				1,29,750
Aug. 31	Sales Account	Cr.					1,34,950

Working Note : For sale of old office furniture to Ranu Bros. sale of goods for cash to M/s Abdulla Sons, goods taken away by Ram for personal use, goods given as charity, no entry is made in this book since these are not credit sale of goods.

Illustration 5.4 :

Post into ledger from the Sales Book prepared in illustration 5.3 above.

Solution :

Sales Account							
Dr.				Cr.			
Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
				Aug. 31	By Sundries as per Sales Book		1,34,950

Mohd. Saleem's Account							
Dr.				Cr.			
Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
Aug. 5	To Sales A/c		5,200				

Diana Enterprise's Account							
Dr.				Cr.			
Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
Aug. 10	To Sales A/c		1,29,750				

Purchases Returns Book (or Return Outward Book)

It is used for the purpose of recording the return of goods purchased on credit. It records neither the return of goods purchased on cash basis nor the return of any asset other than the goods. When goods are returned a Debit Note is made out and sent to the party to whom the goods are returned. The entries in the Purchases Returns book are usually made on the basis of debit notes issued to the suppliers.

Debit Note : A debit note is prepared by the purchaser and contains the date of return, name of the supplier to whom the goods have been returned, details of the goods returned, reasons for returning the goods. Each debit note is serially numbered.

Usually, the purchases returns book contains the information such as date of return, name of supplier, Debit Note number, page number of the ledger on which suppliers account appears and amount of goods returned with details. The format of this book is as follows :

Purchases Returns Book

Date	Particulars	Debit Note No.	L.F.	Amount	
				Details Rs.	Total Rs.
(1)	(2)	(3)	(4)	(5)	(6)

Posting from Purchases Returns Book into Ledger :

The individual entries and the periodic total of the Purchase Returns Book are posted into the ledger as below :

(i) **Posting of Individual Entries :** Individual entries are daily posted to the debit of suppliers Account by writing 'To purchases returns A/c' in the particulars column.

(ii) **Posting of Periodic Total :** Periodic total is posted to the debit of Purchases Returns Account by writing 'By sundries as per purchases returns book' in the particulars column of this book.

Illustration 5.5

From the following particulars, prepare Purchases Return Book and post the same in the ledger for the month of December :

- Dec. 7 Returned goods to Ram Lal worth Rs. 5,700.
 Dec. 14 Returned goods to XYZ & Sons. Rs. 7,000
 Dec. 20 Returned goods to Raju Brothers worth gross value of Rs. 7,000 On these goods, a trade discount has been allowed @ 20%.
 Dec. 30. Returned goods to Arvind Brothers worth Rs. 50.

Solution :

Purchases Return Book

Date	Particulars	Debit Note No.	L.F.	Details Amount Rs.	Net Amount Rs.
Dec. 7	Ram Lal				5,700
Dec. 14	XYZ & sons				7,000
Dec. 20	Raju Brothers			7,000	
	Less : Trade discount @ 20%			1,400	5,600
Dec. 30	Arvind Brothers				50
Dec. 31	Purchases Returns A/c	Cr.			18,350

Ledger

Purchases Return Account						
Dr.			Cr.			
Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F. Amount Rs.
				Dec. 31	By Sundries as per Purchases Return Book	18,350

XYZ & Son's Account						
Dr.			Cr.			
Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F. Amount Rs.
Dec. 14	To Purchases Returns A/c		7,000			

Ram Lal's Account						
Dr.			Cr.			
Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F. Amount Rs.
Dec. 7	To Purchases Returns A/c		5,700			

Raju's Account						
Dr.			Cr.			
Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F. Amount Rs.
Dec. 20	To Purchases Returns A/c		5,600			

Arvind's Account						
Dr.			Cr.			
Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F. Amount Rs.
Dec. 30	To Purchases Returns A/c		50			

Sales Returns Book (or Returns Inward Book) :

It is used for recording the return of goods sold on credit. It records neither the return of goods sold on cash basis nor the return of any Asset other than goods. The firm prepares a credit note in the name of the customer and sends its original copy to him. The entries in the sales returns book are usually made on the basis of credit notes issued to the customers.

Credit Note : A credit note is prepared for the customers and contains the date of return of goods, the name of the customer who has returned the goods, details of goods received back and the amount of such goods. Each credit note is serially numbered.

Usually the Sales Return Book contains information such as date of return, name of customer, credit note number, page number of ledger on which customer's A/c appears, and amount of goods returned by customer with details. The format of the Sales Return Book is as follows :

Sales Returns Book

Date	Name of Customer (Amount to be credited)	Credit Note No.	L.F.	Amount	
				Details Rs.	Total Rs.
(1)	(2)	(3)	(4)	(5)	(6)

Posting from Sales Returns Book into Ledger :

The individual entries and the periodic total of the Sales Returns Book are posted into the ledger as below :

(i) **Posting of Individual entries :** Individual entries are daily posted to the credit of customers account by writing 'By Sales Returns A/c' in particulars column.

(ii) **Posting of Periodic Total :** Periodic total is posted to the credit of Sales Returns Account by writing 'To Sundries as per Sales Return Book' in particulars column.

Illustration 5.6

Form the following particulars prepare the Sales Return Book and post them into the Ledger of Mr. Prateek for the month of April :

Date	Particulars	Rs.
April 3	Indra and company returned goods, not ordered for (Credit Note no. 01-007)	2,150
April 7	Goods returned by Raj and Sons due to breakage in transit (Credit Note no. 01-008)	1,500
April 10	Credit given to Sharma and Company for excess total in the invoice. (Credit Note no. 01-009)	1,560
April 24	Goods returned from Jain Bros. due to non-approval of the goods by them. (Credit Note no. 01-010)	1,880
April 27	Goods returned by Praveen Kumar (Credit Note No. 01-011)	6,000
April 29	Allowance granted to Surendra and Company for short delivery (Credit Note no 01-012)	1,500

Solution :

Sales Returns Book of Mr. Prateek

Date	Particulars	Credit Note No.	L. F.	Details Amount Rs.	Net Amount Rs.
April 3	Indra and Company	01-007			2,150
April 7	Raj and Sons	01-008			1,500
April 10	Sharma and Company	01-009			1,560
April 24	Jain Bros	01-010			1,880
April 27	Praveen Kumar	01-011			6,000
April 29	Surendra and Company	01-012			1,500
April 30	Sales Return A/c	Dr.			14,590

Ledger of Mr. Prateek

Dr.		Sales Return Account				Cr.	
Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
April 30	To Sundries as per Sales Return Book		14,590				

Dr.		Indra & Company's Account				Cr.	
Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
				April 3	By Sales Return A/c		2,150

Dr.		Raj and Son's Account				Cr.	
Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
				April 7	By Sales Return A/c		1,500

Dr.		Sharma & Company's Account				Cr.	
Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
				April 10	By Sales Return A/c		1,560

Dr.		Jain Bros's Account				Cr.	
Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
				April 24	By Sales Return A/c		1,880

Praveen Kumar's Account							
Dr.				Cr.			
Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
				April 27	By Sales Return A/c		6,000

Surendra & Company's Account							
Dr.				Cr.			
Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
				April 29	By Sales Return A/c		1,500

Journal Proper and Transactions :

If there is no special book meant to record a transaction such as Cash book, Purchases book, Sales book; Purchases Return book, Sales Returns book, Bill Receivable book and Bills Payable book, it is recorded in the Journal (proper). Thus, the role of the Journal is restricted to the following types of transactions :

(1) **Opening Entry :** When books are reopened for the new accounting year, the opening balances of various assets, liabilities and capital, appearing in the balance sheet of the previous accounting year are Journalised.

(2) **Closing Entries :** At the end of the accounting year when the final accounts are prepared, closing entries are passed in the Journal for the nominal accounts by transferring them to the trading and profit and loss account.

(3) **Transfer Entries :** For transferring an amount from one account to another account e.g., transfer of total drawings from drawing account to capital account, such entries are passed in Journal.

(4) **Rectification Entries :** If an error has been committed, it is rectified through a journal entry.

(5) **Adjustment Entries :** At the end of the accounting year the amount of expenses or income may have to be adjusted for amounts not yet settled in cash or received in advance, e.g., Outstanding expenses, Prepaid expenses, Interest on Capital, Depreciation, entries on dishonour of Bills etc.

(6) **Miscellaneous Entries :** The following transactions will also be passed in Journal Proper : Credit purchase of Assets, Return of Assets which were sold on Credit, Return of Assets which were bought on credit, cancellation of Bills Payable, writing off bad debts, endorsement of Bills Receivable to a Creditor, Abnormal Loss of Stock in trade etc.

Distinction Between Subsidiary and Principal Books :

The books in which transactions are first recorded to enable further processing are called subsidiary books. The Ledger and the Cash Book are the Principal Books since they furnish information for preparation of the trial balance and financial statements.

Illustration 5.7.

Prepare Purchases Book, Sales Book and Journal Proper of Mr. Akash Deep from the following transactions and also post them into ledger for June, 2015 :

June 2	Purchased furniture from Ravi on credit	Rs. 2,000
June 5	Balance of Loan A/c transferred to Capital A/c	3,000

June 10	Purchased Iron safe from Ajay	7,000
June 15	Amount due to Mohan has become bad debts.	2,000
June 17	Sold goods to Jaipal Singh	4,000
June 20	Purchased goods on credit from Gopal & Sons. Trade discount allowed 10%	10,000
June 25	Sold goods on credit to Amolak. Trade discount allowed 10%	7,000
June 30	Purchased goods from Rajesh for cash.	5,000
June 30	Purchased goods from Hari on credit	2,000

Solution : Purchases Book of Akash Deep

Date	Particulars	Invoice No.	L. F.	Details Amount Rs.	Net Amount Rs.
2015					
June 20	Gopal and Sons Less : Trade discount 10%			10,000 1,000	9,000
June 30	Hari				2,000
June 30	Purchases A/c		Dr.		11,000

Sales Books of Akash Deep

Date	Particulars	Invoice No.	L. F.	Details Amount Rs.	Net Amount Rs.
2015					
June 17	Jai Pal Singh				4,000
June 25	Amolak Less : Trade discount @ 15%			7,000 1,050	5,950
June 30	Sales A/c		Cr.		9,950

Journal Proper of Akash Deep

Date	Particulars	L.F.	Amount (Dr.)	Amount (Cr.)
2015				
June 2	Furniture A/c To Ravi (Purchased furniture on credit)		2,000	2,000
June 5	Loan A/c To Capital A/c (Balance of Loan transferred to Capital A/c)		3,000	3,000

June 10	Office equipment A/c To Ajay's A/c (Purchased iron safe on credit)	Dr.	7,000	7,000
June 15	Bad debts A/c To Mohan's A/c (Amount due to Mohan, written off as debts)	Dr.	2,000	2,000
	Total		14,000	14,000

Ledger of Akash Deep

Dr. Purchases Account Cr.

Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
2015 June 30	To Sundries as per Purchases Book		11,000				

Dr. Gopal and Sons Cr.

Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
				2015 June 20	By Purchases A/c		9,000

Dr. Hari's Account Cr.

Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
				2015 June 20	By Purchase A/c		2,000

Dr. Sales Account Cr.

Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
				2015 June 20	By Sundries as per Sales Book		9,950

Dr. Jaipal Singh Cr.

Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
2015 June 17	To Sales A/c		4,000				

Dr. Amolak Cr.

Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
2015 June 25	To Sales A/c		5,950				

Dr. Furniture Account Cr.

Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
2015 June 25	To Ravi's A/c		2,000				

Dr. Ravi Cr.

Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
				2015 June 25	By Furniture A/c		2,000

Dr. Loan Account Cr.

Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
2015 June 5	To Capital A/c		3,000				

Dr. Capital Account Cr.

Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
				2015 June 5	By Loan A/c (Transfer)		3,000

Dr. Office Equipment Account Cr.

Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
2015 June 10	To Ajay		7,000				

Ajay's Account							
Dr.				Cr.			
Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
				2015 June 10	By Office Equipments A/c		7,000

Mohan's Account							
Dr.				Cr.			
Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
			2,000	2015 June 15	By Bad debts A/c		2,000

Bad Debts Account							
Dr.				Cr.			
Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
2015 June 15	To Mohan's A/c		2,000				

Illustration 5.8 :

Post the following transactions directly in the Ledger and find out balances as on 30th April, 2015 other than Nominal Accounts

	Rs.		Rs.
April 1 Sunil started business with cash	50,000	April 7 Cash Received from Sanjay	500
April 2 Goods purchased for cash	5,000	April 8 Paid to Yogesh	1,000
April 3 Goods Sold to Sanjay	1,000	April 9 Good Sold to Sanjay	4,500
April 4 Goods Purchased from Anil	8,500	April 10 Sold goods for cash	2,500
April 5 Purchased furniture for cash	500	April 11 Paid Rent to Landlord	300
April 6 Purchased goods from Yogesh	3,700		

Solution :

Ledger

Capital Account							
Dr.				Cr.			
Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
2015 April 30	To Balance c/d		50,000	2015 April 1	By Cash A/c		50,000
			50,000				50,000

Cash Account							
Dr.				Cr.			
Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
2015 April 1 April 7 April 10	To Capital A/c To Sanjay To Sales A/c		50,000 500 2,500	2015 April 2 April 5 April 9 April 11 April 30	By Purchases A/c By Furniture A/c By Yogesh By Rent A/c By Balance c/d		50,000 500 1,000 300 46,200
			50,000				53,000

Purchases Account							
Dr.				Cr.			
Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
2015 April 2 April 4 April 6	To Cash A/c To Anil To Yoges		5,000 8,500 3,700	2015 April 30	By Balance c/d		17,200
			17,200				17,200

Sales Account							
Dr.				Cr.			
Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
2015 April 30	To Balance c/d		8,000	2015 April 3 " 9 " 10	By Sanjay By Sanjay By Cash A/c		1,000 4,500 2,500
			8,000				8,000

Sanjay's Account							
Dr.				Cr.			
Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
2015 April 3 April 9	To Sales A/c To Sales A/c		1,000 4,500	2015 April 7 April 30	By Cash A/c By Balance c/d		500 5,000
			5,500				5,500

Sanjay's Account							
Dr.				Cr.			
Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
2015 April 10	By Balance c/d		8,500	2015 April 4	By Purchases A/c		8,500
			8,500				8,500

Furniture Account							
Dr.				Cr.			
Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
2015 April 2	To Cash A/c		500	2015 April 30	By Balance c/d		500
			500				500

Yogesh's Account							
Dr.				Cr.			
Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
2015 April 5	To Cash A/c		1,000	2015 April 6	By Purchases c/d		3,700
2015 April 30	To Balance c/d		2,700				
			3,700				3,700

Test Questions

Very Short Questions and Answers: (Not exceeding 40 words)

Q.1. Why is Journal sub-divided ?

Ans. : Journalising of every transaction is a lengthy and difficult task especially when the size of business is large. The system of Book-keeping should be easy and simple and should be such which may allow division of work possible for speedy working. So, Journal is sub-divided.

Q.2. What is meant by Purchases Book ?

Ans. : Purchases book is a subsidiary book in which goods purchased on credit is recorded. It is also known as Purchase Journal or Purchase Register.

Q.3. What do you understand by sales book ?

Ans. : Sales book is a subsidiary book in which goods sold on credit is recorded. This book is also known as Sales Journal or Sales Register. Goods means those items in which the business deals in.

Q.4. What is meant by debit note ?

Ans. : A debit note is a document prepared by the purchaser, when goods are returned by him. It is called a debit note because the account of the party to whom purchased goods are returned is debited.

Q.5. What is meant by credit note ?

Ans. : A credit note is a document prepared by the seller of goods, when goods sold on credit are returned by the purchaser for some reason or the other. It is called a credit note because the party's account is credited with the amount of goods returned.

Q.6. What is the difference between Sales Journal and Sales Account ?

Ans. : (i) Sales Journal is a part of subsidiary books whereas Sales Account is a part of ledger.
(ii) Sales book is prepared to record only credit-sales whereas Sales Account is prepared to record both credit and cash sales.

Q.7. State the meaning of Journal.

Ans. : Journal is a book of primary entry or a book of prime entry in which only those transactions are recorded which cannot be recorded in special books meant for recording-transactions, for example, Cash Book, Purchases and Sales Journals, Return outward and inward books, Bills books etc.

Q.8. What is the difference between Subsidiary Books and Principal Book ?

Ans. : The books in which transactions are first recorded to enable further Processing are called subsidiary books, whereas the Ledger and Cash Books are called principal books since they furnish information for preparation of Trial Balance and the Balance Sheet.

Q.9. Write the names of four such transactions which are recorded in Journal proper only.

Ans. : The following are the transactions which are recorded in Journal Proper only—

- (i) Opening entry to record balances of assets, liabilities and capital which are brought forward from previous year.
- (ii) Transfer Entries for example Drawings A/c to Capital A/c
- (iii) Adjustment Entries
- (iv) Rectification Entries

Short Questions and Answer: (Not exceeding 80 words)

Q.1. Why has the Journal been sub-divided ?

Ans. : Journalising of every transaction is a lengthy and difficult task especially when the size of Business is large. The system of Book-Keeping should be easy, simple to follow, and be such which may allow division and sub-division of work and duties possible for speedy working. Where the size of Business is small and transactions are not very large in numbers, it may be possible to keep one Journal, commonly known as book of original record. But when the size of Business grows, it is no longer possible to record all the transactions in one Journal. In such cases, the main Journal is split into a number of separate Journals or Day Books. A separate Journal is kept for each type of transactions.

Q.2. State the names of all special Journals.

Ans. : Normally, the following subsidiary books or 'Journals' are used in a Business :

- (1) Purchases Book or Purchases Journal to record credit purchases of goods dealt in or of the materials and stores required in the factory.

- (2) Sales Book or Sales Journal to record the Sales of the goods dealt in by the firm.
- (3) Purchases Return or Returns Outward Book to record the returns of the goods and materials previously purchased on credit.
- (4) Sales Return Journal or Returns Inward Book to record the returns made by customers previously sold on credit.
- (5) Cash Book or Cash Journal to record receipts and payment of cash, including deposit into and payment out of the bank.
- (6) Bills Receivable Book to record the receipts of promissory notes or hundies from various parties.
- (7) Bills Payable Book to record the issue of the promissory notes or hundies to other parties.

Q.3. Explain the meaning of debit note and credit note.

Ans. : Debit Note : A debit note is prepared by the purchaser and contain the date of return, name of the supplier to whom the goods have been returned. Details of the goods returned, reasons for returning the goods. Each debit note is serially numbered.

Credit Notes : A credit note is prepared for the customers and contains the date of return of goods, the name of the customer who has returned the goods, details of goods received back and the amount of such goods. Each credit note is serially numbered.

Q.4. State the merits of keeping subsidiary books.

Ans. : Merits or Advantages of Subsidiary Books.

- (i) Subsidiary books will lead to the work being completed quickly because of the use of a number of books.
- (ii) Division of work is possible.
- (iii) Prompt and Accurate Information in respect of each class of transactions is possible.
- (iv) It facilitates posting to relevant Accounts conveniently.
- (v) Specialisation and efficiency increases on account of division of work.
- (vi) Location of Errors is facilitated by the existence of separate books.

Q.5. What is Journal Proper and state five such transactions to be recorded therein.

Ans. : Journal Proper : If there is no special book meant to record a transaction such as Cash book, Purchases book, Sales book; Purchases Returns book. Sales Returns book. Bill Receivable book and Bills Payable book, it is recorded in the Journal Proper. Thus, the role of the Journal is restricted to the following types of transactions :

- (1) **Opening Entry :** When books are reopened for the new accounting year, the opening balances of various assets, liabilities and capital appearing in the balance sheet of the previous accounting year are journalised.
- (2) **Closing Entries :** At the end of the accounting year when the final accounts are prepared, closing entries are passed in the Journal for the nominal accounts by transferring them to the trading and profit and loss account.
- (3) **Transfer Entries :** For transferring an amount from one account to another account e.g. transfer of total drawings from drawing account to capital account, such are passed in the Journal.

(4) **Rectification Entries :** If an error has been committed, it is rectified through a journal entry.

(5) **Adjustment Entries :** At the end of the accounting year the amount of expenses or income may have to be adjusted for amounts not yet settled in cash or received in advance, e.g. Outstanding expenses. Prepaid expenses. Interest on Capital. Depreciation, entries on dishonour of Bills etc.

Essay Type or Long Answers Questions :

1. What do you mean by 'subsidiary books' ? Describe the purpose of maintaining such books. (See page nps. 5.1)
2. What do you mean by sub-division of Journal ? What are its advantages ? (See page nps. 5.1 and 5.2)
3. Name the various entries which have to be passed through a Journal even though we might have kept all the subsidiary books. (See page nps. 5.12)
4. Differentiate between the following :
 - (a) Subsidiary books and Principal books. (See page nps. 5.12)
 - (b) Credit Note and Debit Note. (See page nps. 5.8, 5.9)

Numericals Questions :

1. From the following information, prepare Sales Book, Purchase Return Book & Journal Proper of Mohan Pustak Bhandar, who maintain all the subsidiary books for the months of September, 2015 :

- Sept. 1. Sold following goods to Raj Pustak Mandir, Jaipur on credit (Invoice No. 180) 200 copies Secondary Book Keeping @ Rs. 100 each. Trade discount allowed 5%.
- Sept. 5 Purchased following books from Ramesh Book Dept, Jaipur on credit (Invoice No. 250). 100 Copies Economic & Commercial Geography @ Rs. 400 each. Trade discount allowed 5%.
- Sept., 7 Returned 10 books to Ramesh Book Dept. being damaged.
- Sept., 10 Sold 200 Copies of Commercial Practice to College Book Dept., Ajmer @ Rs. 125 each (Invoice No. 200) and trade discount allowed 5%.
- Sept. 15 Purchased 250 Copies of Elementary Mathematics @ Rs. 300 each on cash payment from Pustak Mandir, Delhi and discount received 5%.
- Sept. 20 Returned 50 Books being defective to Pustak Mandir, Delhi.
- Sept. 25 Sold to Ramesh Chandra Furniture on credit worth Rs. 10,000.
- Sept. 28 Allowed Rs. 250 as cash discount to Ramesh chandra while making payment.

Solution :

Sales Book of Pustak Bhandar

Date	Particulars	Invoice No.	L. F.	Details Amount Rs.	Total Amount Rs.
2015 Sept. 10	Raj Pustak Mandir, JAIPUR 200 Copies Secondary Bookeeping @ Rs. 100 each Less : Trade discount 5%	180		20,000 1,000	19,000
Sept. 10	College Book Dept. Ajmer 200 Copies of Commercial Practice @ Rs. 125 each Less Trade discount 5%	260		25,000 1,250	23,750
Sept. 30	Sales Account (Cr.)				42,750

Note : Sale of furniture on credit will be recorded in Journal Proper.

Purchases Return Book of Mohan Pustak Bhandar

Date	Particulars	Debit Note No.	L. F.	Details Amount Rs.	Net Amount Rs.
2015 Sept. 7	Ramesh Book Depot : 10 Copies of Eco. & Com. Geog @ Rs. 400 each Less : Trade discount 5%			4,000 200	3,800
	Pustak Mandir, Delhi 50 book of Elementary Maths @ Rs. 300 Less : Yrode			15,000 750	14,250
Sept. 30	Purchases Return Account (Cr.)				18,050

Journal Proper

Date	Particulars	L.F.	Dr. Rs.	Cr. Rs.
2015 Dec., 31	Ramesh Chandra To Furniture A/c (For furniture sold on credit)	Dr.	10,000	10,000
	Total		10,000	10,000

2. Enter the following transactions, of M/S Ajanta Watch Co., Jaipur, which took place in the month of April, 2015 in the proper subsidiary books :
- April, 1 Purchased from Kohinoor Watch Co. Ajmer 10 Wall Clocks @ Rs. 150 each on 10% trade discount vide invoice No. 97.

- April, 5 Sold to Agarwal College, Jaipur 5 wall clocks @ Rs. 200 each on 5% trade discount vide invoice No. 42.
- April, 10 Purchased from Sunita Watch Company, Jaipur 30 Wrist Watches @ Rs. 250 each (10% trade discount) vide invoice no. 30.
- April 15. Agarwal College Jaipur returned 2 wall clocks being not approved.
- April, 20 A wall clock worth Rs. 200 was used by the proprietor himself for his domestic use.
- April, 25 Sold to Consumer's Co-operative Stores Delhi. 15 wrist watches @ 300 each on 5% trade discount vide Invoice N. 2007.
- April 30 The Consumer's Co-operative Store, Delhi returned 4 wrist watches being not approved.

[Ans. Total of : Purchases Books Rs. 8,100; Sales Book Rs. 5,225; Sales Returns Book Rs. 1,520]

Ans. : Entries for : Purchases Book			Sales Book		
	Rs.	Rs.		Rs.	Rs.
April 01	10 × 150	1,500	April 5	Rs. 200 × 5 = 1000	
	Less : T.D. 10%	150		Less : T.D. 5% = 50	950
	250 × 30	7,500	April 25	Rs. 300 × 15 = 4,500	
April 10	Less : T. Dis. 10%	750		Less : T. Dis. 5% = 225	4,275
		8,100			5,225

Sales Return Book : April 15 : 2 × 200 = Rs. 400 - 5% = 380

April 30 : 4 × 300 Rs. 1,200 - 5% = 1,140

Total 1,520

3. From the Purchases, Sales and Sales Returns Books of Q.No. 2 above post all the entries with totals into the respective ledger accounts.

Ans. : Dr.			Purchases Account			Cr.		
Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.	
2015 April 30	To Sundries as per Purchases Book		8,100	2015 April 20	By Drawing A/c		200	
				April 30	By Trading A/c		7,900	

Dr.			Sales Account			Cr.		
Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.	
2015 April 30	To Trading A/c		5,225	2015 April 30	By Sundries as per Sales Book		5,225	

Sales Return Account							
Dr.				Cr.			
Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
2015 April 30	To Sundries as per Sales Return Book		1,520	2015 April 30	By Trading A/c		1,520

Kohinoor Watch Co's Account							
Dr.				Cr.			
Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
2015 April 30	To Balance c/d		1,350	2015 April 1	By Purchases A/c		1,350

Agarwal College Jaipur							
Dr.				Cr.			
Date	Particulars	J.F.	Amount Rs.	Date	Particulars	L.F.	Amount Rs.
2015 April 5	To Sales		950	2015 April 15	By Sales Returns A/c		380
				2015 April 30	By Balance c/d		570
			950				950

Sunita Watch Company							
Dr.				Cr.			
Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
2015 April 30	To Balance c/d		6,250	2015 April 10	By Purchases A/c		6,750

Consumer Cooperative Stores (Delhi)							
Dr.				Cr.			
Date	Particulars	J.F.	Amount Rs.	Date	Particulars	L.F.	Amount Rs.
2015 April 5	To Sales		4,275	2015 April 30	By Sales Returns A/c		1,140
				2015 April 30	By Balance c/d		3,135
			4,275				4,275

4. From the following particulars relating to M/s Naveen Bros. prepare the Sales Return Book and post them into the ledger for the month of April : 20015

- April, 6 Goods returned by Pankaj & Co, due to breakage in transit Rs. 2,150
 April, 11 Rajendra & Co. returned goods, not ordered for Rs. 1,500
 April, 12 Goods returned by Agrawal Bros. due to non-approval of the goods by them Rs. 1,800.
 April, 26 Credit given to, Verma & Co. for over addition of the total invoice. Rs. 1,560
 April, 28 Allowance granted to Mahendra & Co. for short delivery Rs. 1,500
 April, 29 Goods returned by Pradeep Kumar Rs. 6,000.
 [Ans. : Total of Sales Return Rs. 11,450.]

Ans. : Sales Return Book of M/s Naveen Bros.

Date	Particulars	L.F.	Details Rs.	Total Rs.
2015				
April, 06	Pankaj & Company (breakage)			2,150
April, 11	Rajendra & Company (Goods not ordered)			1,500
April, 12	Agrawal Bros. (Non-approval)			1,800
April 29	Pradeep Kumar			6,000
	Sales Return Account	Dr.	Total	11,450

Note : Ledger Posting—Write on credit-sides of all four party's personal Accounts 'By sales return' with Rs. 2,150, 1,500, 1,800 and 6,000 respectively and in Sales Return A/c write 'To Sundries as per Sales Return Book Rs. 11,450.

Q.5. Enter the following transactions in books of original entry :

- (A) Cash in hand Rs. 10,000. Debtor (Vikas) Rs. 50,000, Stock Rs. 1,00,000 Machine Rs. 20,000, Furniture Rs. 5,000., Creditor (Ravi Kumar) Rs. 20,000 (Naresh) Rs. 10,000, Bills Payable Rs. 10,000, Bank Loan Rs. 50,000.
 (B) Purchased a Motor from Kamal & Co. Rs. 20,560.
 (C) Rs. 2,500 due from Ashok was written off as Bad debts.
 (D) Rs. 5,000 received from Brijesh was wrongly credited in the Account of Mahipal.
 (E) Interest allowed on Capital Rs. 1,500.
 (F) Provide depreciation on Furniture Rs. 500.
 (G) Salary due to Ravi Rs. 1,000.

[Ans. Total of Journal Proper Rs. 2,16,000.]

Journal Proper

Date	Particulars	L.F.	Amount Rs.	Amount Rs.
(A)	Cash in hand A/c Debtor (Vikas) A/c Stock A/c Machine A/c Furniture A/c	Dr. Dr. Dr. Dr. Dr.	10,000 50,000 1,00,000 20,000 5,000	
	To Creditors A/c : Ravi Kumar Naresh To Bills Payable A/c To Bank Loan A/c To Capital A/c (Balancing figure)			20,000 10,000 10,000 50,000 95,000
	(For balances brought forward)			
(B)	Motor A/c To Kamal & Company's A/c (For purchase of motor on credit)	Dr.	20,500	20,500
(C)	Bed debts A/c To Ashok's A/c (For amount due from Ashoka W/O)	Dr.	2,500	2,500
(D)	Mahipal's A/c To Brijesh's A/c (For amount received from Brijesh, wrongly credited to Mahipal, now corrected)	Dr.	5,000	5,000
(E)	Interest on Capital A/c To Capital A/c (For interest on capital provided)	Dr.	1,500	1,500
(F)	Depreciation A/c To Furniture A/c (For depreciation on furniture W/o)	Dr.	500	500
(G)	Salary A/c To Outstanding Salary A/c (For salary due to Ravi)	Dr.	1,000	1,000
	Total		2,16,000	2,16,000

6. Record the following transactions in Returns Book of Salish & Company for the month of November, 2015 :

- Nov., 3 Jyoti Prashad returned as damaged one Table sold, Rs. 500.
 Nov., 5 Returned goods to Sohan Bros. Rs. 450.
 Nov., 12 Oriental Furnishing Co., Delhi returned three chairs @ Rs. 750 each, material being defective..
 Nov., 15 Returned goods to Prem & Co. Rs. 700.
 Nov., 18 Sharda College Sports Club returned one Mirror Rs. 2,150 broken in transit.

[Ans. Total of Sales Returns Book Rs. 4,900; Total of Purchases Returns Book Rs. 1,150.]

Hint for Answers :

Sales Returns – (Nov. 3) Rs. 500 + (Nov. 12) Rs. 2,250 + (Nov. 18) Rs. 2,150 = Rs. 4,900
 Purchase Returns – (Nov. 5) Rs. 450 + (Nov. 15) Rs. 700 = Rs. 1,150

7. From the following transactions of M/s Shanti Lal & Sons prepare the Purchases Book and post them into Ledger for the month of July, 2015.

- July, 5 Bought goods from Ramesh & Company
(Shirting for Rs. 20,000 and Tweed Rs. 20,000) 40,000
 July, 14 Bought goods from Sanjay & Company 20,000
 July, 16 Bought of Kamesh Bros. for
(Received trade discount Rs. 600) 6,000
 July, 18 Purchased from Arpit Bros. 10,000
 July, 22 Bought of Sanjeev & Co. goods amounting to
(Subject to 10% trade discount) 15,000
 July, 24 Purchased a cycle from Akar Cycle Mart for the use of shop worth 4,000
 July, 21 Bought of goods from Ravi Kumar Bros. for Cash 16,600
 July, 30 Bought of goods from Surendra 22,000

Ans. :

Purchases Book of M/s Shanti Lal & Sons.

Date	Particulars	L.F.	Details Rs.	Total Rs.
2015				
July 5	Ramesh & Company : Shirting Tweed		20,000 20,000	40,000 20,000
14	Sanjay & Company			20,000
16	Kamesh Bros.		6,000	
	Less : Trade Discount		600	5,400
18	M/s Arpit Bros.			10,000
22	M/s Sanjeev & Company		15,000	
	Less : Trade Discount (10%)		1,500	13,500
30	Mr. Surendra			22,000
	Purchases A/c	Dr.	Total	1,10,900

Note : (i) Purchase of Cycle on July 24, is an asset to be recorded in Journal Proper; (ii) Cash purchases on July 27, will be recorded in Cash Book.

8. Enter the following transactions in the proper subsidiary books of Ram Pratap Govind Narayan and open relevant accounts in the ledger for April, 2015 :

- April 9, Purchased from Rajasthan Furniture House : (Invoice No. 152)
250 Tables, @ Rs. 1,250 each table;
600 Chairs, @ Rs. 700 each chair;
Trade discount @ 10% terms :
- April, 18 Sold to Som Nath Invoice No. 155
5 Sofa sets @ Rs. 30,000 each set
140 Tables, @ Rs. 1,150 each Table
Terms : Trade discount 10%
- April, 11 Sold to Romesh : (Invoice No. 172)
25 Almirah @ Rs. 10,000 each;
10 Dressing Table sets @ Rs. 20,000 each
- April, 24 Goods worth Rs. 4,02,000 was destroyed by fire.
- April, 28 Purchased from Sadhu Das : (Invoice No. 185)
8 Sofa Sets @ Rs. 27,000 per set,
25 Easy Chairs @ Rs. 2,750 each chair
- April, 30 Furnished Drawing Room for Personal use
One Sofa Set @ Rs. 27,000,
5 Easy Chairs @ Rs. 2,750 each,
2 Almirahs @ Rs. 10,000 each.

[Ans. Total of Purchases Book Rs. 9,44,000, Sales Book Rs. 7,29,900; Journal Proper Rs. 4,62,750]

Solution : Purchase Book of Ram Pratap Govind Narayan

Date	Particulars	Invoice No.	L. F.	Details Amount Rs.	Total Amount Rs.
2015 April	Rajasthan Furniture House 250 Tables @ Rs. 1,250 each 600 Chairs @ Rs. 700 each	152		3,12,500 4,20,000	
	Less : Trade Discount 10%			7,32,500 73,250	6,59,250
28	Mr. Sadhu Das 8 Sofa Set's @ Rs. 27,000 each 25 Easy chairs @ Rs. 2,750 each	185		2,16,000 68,750	2,84,750
30	Purchases A/c	Dr.			9,44,000

Sales Books of Ram Pratap Govind Narayan

Date	Particulars	Invoice No.	L. F.	Details Amount Rs.	Total Amount Rs.
2015 April 18	Som Nath 5 Sofa sets @ Rs. 30,000 140 Tables @ Rs. 1,150	155		1,50,000 1,61,000	
	Less : Trade Discount 10%			3,11,000 31,100	2,79,900
April 11	Romesh 25 Almirah @ Rs. 10,000 10 Dressing Table sets @ Rs. 20,000 each	185		2,50,000 2,00,000	4,50,000
	Sales A/c			Total	7,29,900

Journal Proper

Date	Particulars	L.F.	Dr. Rs.	Cr. Rs.
2015 April 24	Goods Destroyed by Fire A/c To Purchases A/c (For goods destroyed by fire)	Dr.	4,02,000	4,02,000
April 30	Drawings A/c To Purchases A/c (for furnishing drawing room of personal use : Rs. 27,000 + 13,750 + 20,000 = Rs. 60,750)	Dr.	60,750	60,750
	Total		4,62,750	4,62,750

Note : Necessary Accounts may be opened by the students themselves.



NOTES

6

Recording of Cash Transactions (Cash Book)

Cash Transactions :

We have seen in the preceding chapters, how business transactions are recorded in Journal and Subsidiary books and then posted into Ledger etc. As stated there, it is quite impracticable and inconvenient to record all the business transactions in one Journal. It is therefore, necessary that all cash transactions may separately be recorded in a special Journal, called Cash Book. This book is used to record all transactions relating to cash receipts and cash payments. It is a very popular book and is maintained in all organisations, big or small, profit organisations or non-profit organisations. Thus it is one of the most important books of accounts as it helps a trader to record completely all sums received and all sums paid. According to Andrew Munro, "Cash Book is used for recording the Receipts and Payments of money whether in coins, notes, cheques, postal orders, bank drafts etc."

Cash Book : A Subsidiary Book and a Principal Book

A special feature which distinguishes Cash Book from other subsidiary books is that whereas all other subsidiary books serve as only subsidiary books; Cash Book serves both the purposes of a subsidiary book as well as of a principal book. Since all cash transactions are directly recorded in the cash book and on the basis of such a record, ledger accounts are prepared, it is subsidiary book. On the other hand, when cash book is prepared Cash Account and Bank Account are not prepared in the ledger separately and the balances of cash and bank columns of cash book are entered in the trial balance directly. The cash book, therefore is a part of the ledger also. Hence, it has also to be treated as the principal book. Thus, the Cash book is both a subsidiary book and a principal book.

Types of Cash Book

The main cash book may be of any of the three types according to the need of the business :

- (1) Simple or One Column Cash Book,
- (2) Double Column Cash Book – It may have the following columns –
(i) Cash and Discount Columns; (ii) Bank and Discount Columns; (iii) Cash and Bank Columns.
- (3) Three Column Cash Book or Cash Book with Bank and Discount Columns.

Apart from the above, main Cash Books, firms also maintain a Petty Cash Book which is also called a subsidiary Book.

(1) **Simple or One Column Cash Book** : This type of Cash Book is used by small scale traders. Generally, those traders who do not keep any account in the bank and do not allow any discount, use this type of cash book. Such a cash book appears like an ordinary Cash Account, with one amount column on each side. The left hand side records receipts of cash and the right hand side records payments of cash. A specimen format of simple or one column cash book is given as under :

Dr.				Cr.			
Cash Book of -----							
Date	Particulars (Receipts)	L.F.	Amount Rs.	Date	Particulars (Payments)	L.F.	Amount Rs.
	To				By		

The format of the simple or one column cash book shows that it has been divided in two parts. The left hand side (debit side) represents all cash receipts and the right hand side (credit side) represents all cash payments. Every side has got four columns for date particulars, ledger folio and amount. The word "To" is conventionally used before different accounts at the debit side of cash book in particulars column; while word "By" is used at the credit side of the cash book in particulars column.

Balancing of the Simple Cash Book : The cash book is balanced like other accounts. The receipts column is always higher than payments column. The difference is written on the credit side as "By balance c/d". The totals are then entered in the two columns opposite one another and then on the debit side the balance is written as "To Balance b/d", to show cash balance in hand in the beginning of next period.

Illustration 6.1 :

On the basis of following transactions prepare a simple cash book of Komal Chand and find out the balance at December end, 2015 :

	Rs.		Rs.
1 Cash in hand	10,000	17 Sold goods to Manoj	18,000
3 Sold Goods for cash to Nanak	20,000	19 Purchased goods	5,000
5 Received from Pramod on account	6,000	20 Paid freight	400
6 Purchases goods for cash from Ravi	12,000	21 Withdrew for personal use	2,000
8 Loan advanced to Mohd. Saleem	4,000	23 Received Interest	4,000
9 Sold goods to Naresh for Cash	16,000	25 Paid to Ramesh	5,000
11 Purchased furniture	8,000	26 Received from Arpit	13,000
13 Purchased postal stamps	1,000	28 Paid to Sandeep on account	2,000
15 Sold goods to Gokul on credit	9,000	31 Rent paid to landlord	1,600
16 Paid salaries to Shri Brijesh	1,000		

Solution :

Cash Book of Komal Chand							
Dr.				Cr.			
Date	Particulars (Receipts)	L.F.	Amount Rs.	Date	Particulars (Payments)	L.F.	Amount Rs.
2015				2015			
Dec. 1	To Balance b/d		10,000	Dec. 6	By Purchases A/c		12,000
Dec. 3	To Sales A/c		20,000	Dec. 8	By Mohd. Saleem		4,000
Dec. 5	To Pramod		6,000	Dec. 11	By Furniture A/c		8,000
Dec. 9	To Sales A/c		16,000	Dec. 13	By Postal Stamps A/c		1,000
Dec. 23	To Interest A/c		4,000	Dec. 16	By Salaries A/c		1,000
Dec. 26	To Arpit		13,000	Dec. 19	By Purchases A/c		5,000
				Dec. 20	By Freight A/c		400
				Dec. 21	By Drawings A/c		2,000
				Dec. 25	By Ramesh		5,000
				Dec. 28	By Sandeep		2,000
				Dec. 31	By Rent A/c		1,600
				Dec. 31	By Balance c/d		27,000
			69,000				69,000
2016							
Jan. 1	To Balance b/d		27,000				

(2) Double Column Cash Book

(i) **Cash Book with Discount Column :** In this type of Cash Book, there are two columns of amount on each side of the Cash Book, one for cash and another for discount. The additional discount column of the cash book records cash discount i.e., discount allowed and discount received which is allowed at the time of payment.

As we know that discount is an allowance allowed by a trader to its customers either for making prompt payment or for increasing the sales. Trade discount is allowed by the manufacturer or wholesalers to their retailers or customers on the printed list price to increase sales and which is not recorded in the cash book. However Cash discount is allowed to encourage prompt payment and which is recorded in the cash book. Infact, cash discount requires for a check by the trader for which he would like to know constantly as to how much cash discount he has allowed and as to how much he has received during a certain period. It is with this reason that a double column cash book is prepared.

A specimen format of Cash Book with Discount Column or Double Column Cash Book is given as under :

Cash Book with Discount Column

or Double Column Cash Book

Date	Particulars (Receipts)	L.F.	Discount Allowed	Amount Rs.	Date	Particulars (Payments)	L.F.	Discount Received	Amount Rs.
	To					By			

The double column cash book is prepared on the lines of simple cash book. It has only one additional column i.e., discount column. Discount column refers to discount allowed at the debit side and discount received at the credit side. 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 cash column on the payment side and discount received in the discount column.

Balancing of the Double Column Cash Book : In double column cash book, it should be noted that the discount columns are not balanced. They are merely totalled. The total of the discount column on the receipts side shows total discount allowed to customers and is debited to the Discount Allowed Account. The total of the column on the payment side shows total discount received and is credited to the Discount Received Account. The Cash Columns are balanced as already shown above.

Illustration 6.2

Enter the following transactions in the two column book of M/s Arif Bros. :

March, 1	Cash balance Rs. 42,000.	March, 23	Rs. 6,000 was to be received from Prakash but his account was settled by accepting Rs. 5,700 in full settlement.
March, 3	Received from X Rs. 10,380 and discount allowed Rs. 120.	March, 25	Rs. 7,500 were to be paid to Kamal and he was paid Rs. 7,200 in full settlement.
March, 4	Paid to Y Rs. 5,550 and discount received Rs. 150.	March, 27	Withdrew from Bank Rs. 3,000.
March, 5	Purchased goods for Rs. 16,500.	March, 30	Paid rent for the month Rs. 3,000 and salary Rs. 2,400.
March, 8	Deposited into Bank Rs. 6,000.	March, 30	Drew cash for personal use Rs. 1,500.
March, 10	Purchased Printer for Rs. 12,600.		
March, 11	Sold Goods for Rs. 15,000.		
March, 15	Received from Z Rs. 6,000.		
March, 17	Purchased goods for Rs. 9,000.		
March, 19	Cash Sales Rs. 12,000.		

(iii) Double Column Cash Book with Cash and Bank Columns—

There may be large number of Bank transactions in a Business yet it is difficult to carry on any Business without having cash dealings. As such it is appropriate to prepare Cash Book with Cash and Bank Columns. While preparing Cash Book with Cash and Bank Columns, the following points should be noted :

(a) **Opening Balance**—Cash column would always show debit balance but Bank Column may have debit or credit balance. Accordingly, the balances should be written.

(b) **Contra Balances** : When Cash is deposited into Bank and it is withdrawn for office use, in both these cases, entries will be made on both sides of Cash Book and so the words 'c' on both sides be mentioned against these entries in Ledger Folio Columns.

(c) When cheque and bank drafts are received from customers and deposited into Bank same day, these should be entered in Bank Column on debit-side. If these are not, sent to Bank on the same day, then these are treated as Cash. The entry shall be made in cash column. But when these will be sent to Bank Contra entries will be passed on follows—

Bank A/c

Dr.

To Cash A/c

(d) **Payment by cheque**—When any payment is made by means of a cheque, it will be recorded on the credit side in Bank Column.

(e) **Dishonour of a Cheque**—If a cheque received from a customer is sent to the Bank for collection, is dishonoured, an entry will be passed on the credit side of Cash Book by entering the amount of dishonoured cheque in Bank Column.

(f) **Cash Discount Allowed to Customer**—No entry will be made for the amount of discount in this Cash Book. The entry for discount will be passed in Journal Proper by debiting Discount and crediting the customers Personal Account.

(g) **Endorsement of a cheque**—When a cheque is received and not deposited into Bank, "debit Cash A/c and credit the Customer's Personal A/c. When it is endorsed to the Creditor, Debit Personal Account of creditor and Credit Cash Account on its endorsement.

(h) **Interest on overdraft and Bank charges** will be credited and entered in Bank Column of Cash Book, as "By Bank charges or By Interest Charged".

Illustration 6.4.

Enter the following transaction of Shyam Sunder Modi in the Cash Book with cash and Bank Columns for the month of April, 2015 :

Date	Particulars	Amount
April 1	Cash-in-hand Rs. 6,200 and Bank overdraft	18,500
2	Received a cheque from Hari Mohan and paid it into bank on the same day	1,300
3	Received a cheque from Vipin	3,300
5	Cheque received from Vipin deposited into bank	
5	Purchased goods and paid by cheque (including freight Rs. 250)	20,250
6	Sold goods for cash Rs. 12,220 and again on 8th April	
9	Sale proceeds of April is deposited into Bank	16,000
11	Withdrew cash for private use	
12	Withdrew by cheque for private use	1,000
14	Goods purchased from Suman on Credit	5,000
16	Paid to Suman	2,500
		2,500

Recording of Cash Transactions (Cash Book)

17	Received a cheque from Ajeet	
20	Cheque received from Ajeet endorsed to Vijay	3,700
22	Received a cheque from Mahesh and deposited it into Bank	
24	Received Cash Rs. 1,000 and Cheque Rs. 1,200 for cash sales	2,700
25	Paid into Bank	—
26	Received a Cheque from Puneet and sent it to be bank immediately	10,000
27	Received a Cheque from Alok	4,150
28	Endorsed Alok's Cheque in favour of Ramesh	3,140
28	Bank notifies that Puneet's has been dishonoured, Bank Charged Rs. 100 on this Cheque.	
28	Kishore deposited directly in our Bank Account	3,000
30	Bank has charged Rs. 160 for Bank Charges and interest on overdraft.	720
Solution : Cash Book of Mr. Shyam Sunder Modi for the Month of April, 2015 with Cash and Bank Columns.		

Date 2015	Particulars (Receipts)	L.F.	Cash Rs.	Bank Rs.	Date 2015	Particulars (Payments)	L.F.	Cash Rs.	Bank Rs.
March					April				
1	To Balance b/d		6,200		1	By Balance b/d			18,500
2	To Hari Mohan			1,300	5	By Bank A/c	C	3,300	
3	To Vipin (Note 1)		3,300		5	By Purchase A/c			20,000
5	To Cash A/c	C		3,300	5	By Freight A/c		250	
6	To Sales A/c		12,220		9	By Bank A/c	C	16,000	
8	To Sales A/c		16,000		11	By Drawings A/c		1,000	
9	To Cash A/c	C		16,000	12	By Drawings A/c			5,000
17	To Ajeet (Note 2)		3,700		16	By Suman			2,500
22	To Mahesh			2,700	20	By Vijay		3,700	
24	To Sales A/c (Note 3)		1,000	1,200	25	By Bank A/c	C	10,000	
25	To Cash A/c	C		10,000	28	By Ramesh		3,140	
26	To Puneet			4,150	28	By Puneet			4,250
27	To Alok		3,140		30	By Bank Charges A/c			160
28	To Kishore			3,000	30	By Interest A/c			720
	Total Receipts		45,560	41,650		Total Payments		37,390	51,130
30	To Balanced c/d		45,560	51,130	31	By Balance c/d		8,170	
								45,560	51,130
May 1	To Balance b/d		8,170		May 1	By Balance b/d			9,480

Working Notes :

- It is mentioned in the question that the cheque received from Vipin on 3rd April has been deposited into bank on 5th April. Hence, it is recorded on the Debit side of the cash column on 3rd. At the time of its deposit on 5th April, a contra entry will be made.
- When a cheque is received but endorsed to some other person, it is first recorded on the Debit side in cash column and on endorsement on the Credit side of cash column.
- It is not mentioned in the question as to when the cheque received for 1,200 was deposited into bank. Hence, it is assumed that the cheque was deposited on the same day.

(3) **Cash Book with discount and Bank Columns or Three Column Cash Book** : In this type of Cash Book, there are three columns of amount i.e., Cash, Discount and Bank. It is also prepared in the same way as we prepare simple and double column cash books. The additional point in this regard is 'Bank Column'. Bank column of the three column cash book at debit side records deposits of Cash and Cheques into the bank and interest credited by the bank. On the other hand, bank column at the credit side of the three column cash book records cash withdrawn from the bank, payments by cheques, bank charges or collection charges, interest charged by the bank or interest on overdraft etc. A specimen format of three column cash book is given as under :

Ruling of Three column Cash Book

Cash Book of											
Dr.						Cr.					
Date	Particulars (Receipts)	L.F.	Dis. Ald. Rs.	Cash Rs.	Bank Rs.	Date	Particulars (Payments)	L.F.	Dis. Reced. Rs.	Cash Rs.	Bank Rs.
	To						By				

For writing up the three column cash book, the following points should be kept in mind :

- (1) While commencing a new business. "To Capital Account" is written in particulars column on debit side and if cash is introduced, the amount is written in cash column and if amount is directly deposited into the bank, it is written in the bank column. If a new cash book is being started for an existing business, the opening balances are written as "To Balance b/d". If there is Bank overdraft, it will be written as "By Balance b/d and amount in bank column."
- (2) All receipts are written on the receipts side, cash in the cash column and cheques in the bank column. If cheques received are not deposited on the same day into Bank, they are to be shown in the cash column on the receipt of the cheque. If any discount is allowed to the party paying the amount, the discount is entered in the discount column (debit side). In particulars column, the name of that account is written in respect of which the payment has been received.
- (3) All payments are written on the payment side, cash payments in the cash column and payments by cheques in the bank column. If any discount has been received from the party receiving the payment, it is entered in the discount column (credit side). In the particulars column, the name of that account is written, in respect of which the payment has been made.
- (4) If cash is withdrawn from bank the amount is entered in the bank column on the payment side and also in the cash column on the receipts side. Similarly, if cash is deposited into bank, the amount is recorded in the bank column on the receipts side and in cash column on the payments side. These entries are known as "Contra Entries". Against such entries, on both sides of the cash book, the letter "C" must be written in the L.F. column, to indicate that these are contra entries and for which no further ledger posting is required. In this regard, it is also to be noted that if initially cheques received are entered in the cash column and later on deposited into bank, the entries are shown as if cash is received or deposited into bank.
- (5) If a cheque/cheques deposited into the bank is/are dishonoured, i.e., the bank is unable to collect the amount against them, it is entered in the bank column on the credit side with the name of the concerned party in the particulars column.
- (6) If any cheque issued by the firm is not paid by the bank, it should be entered in the bank column on the debit side with the name of the concerned party in particulars column.

(7) Sometimes, a cheque received by the firm may be endorsed to some other party. On receipt side, it must be entered in the bank column and for endorsement, it will be entered in the bank column on the payment side (i.e., credit side).

(8) Cash account and Bank account are not opened in the ledger since the cash column serves the purpose of a cash account and the bank column serves the purpose of a bank account.

(9) Discount Allowed Account and Discount Received Account are opened in the ledger in which postings are made only for the totals and not for the individual transactions since the cash book does not serve the purpose of discount account.

(10) All contra entries i.e., entries marked "C" should be ignored at the time of posting from cash book to the ledger because both the aspects (i.e., debit and credit) are already recorded in the cash book (i.e., in the cash column and in the bank column).

Balancing of the Three Column Cash Book : The discount columns of the Three Column Cash Book are totalled only, but not balanced. The cash columns are balanced exactly in the same manner as we do in the simple cash book. The process is similar for balancing the bank column also. It is possible, however, that the bank may allow the firm to withdraw more than the amount deposited i.e., to have an overdraft, in such a case, the total of the bank column on the credit side is larger than the one on the debit side. The difference is written on the debit side as "To balance c/d". Then the totals are written on the two sides opposite of one another; the balance is then entered on the credit side as "By Balance b/d". However, the usual case is that deposit into the bank will exceed the withdrawals or payments out of the bank. Then the bank columns are also balanced just like the cash columns.

Illustration 6.5 :

Enter the following transactions in a Three Column Cash Book of Mr. Prithvi Singh for the month of January 2015 :

January, 1	Cash in hand Rs. 26,900, Balance at Bank Rs. 77,500.
January, 2	Cash Sales Rs. 32,000.
January, 4	Paid Rs. 35,000 into Bank.
January, 5	Received a cheque for Rs. 3,500 from Praveen.
January, 7	Paid into bank Praveen's cheques.
January, 9	Paid to Lokesh by cheque Rs. 4,900 and discount allowed by him Rs. 100.
January, 11	Cash Purchases Rs. 12,500 from Raniwala
January, 13	Withdrew from Bank for office use Rs. 25,000.
January, 14	Received cheque for Rs. 4,750 from Choudhary & Co. allowed him discount Rs. 250.
January, 17	Cash Sales Rs. 37,500.
January, 18	Paid into Bank Choudhary & Co.'s cheque for Rs. 4,750 and cash Rs. 20,000.
January, 20	Cash paid for stationery Rs. 600.
January, 22	Paid commission to Lalu by cheque Rs. 2,500.
January, 24	Received cheque for Rs. 5,000 from Kapil and paid the same into Bank.
January, 26	Choudhary & Co.'s cheque dishonoured.
January, 28	Drew a cheque for Rs. 4,000 for personal use.
January, 30	Paid salaries by cheque Rs. 7,500 and in cash Rs. 2,500.
January, 30	Bank charges Rs. 100 and insurance premium Rs. 2,600 were shown in Bank Pass Book.

Solution :

Three Column Cash Book of Shree Prithvi Singh

Date	Particulars	L.F.	Dis. Amt. Rs.	Cash Rs.	Bank Rs.	Date	Particulars	L.F.	Dis. Amt. Rs.	Cash Rs.	Bank Rs.
2015						2015					
Jan. 1	To Balance b/d					Jan. 4	By Bank A/c	C		35,000	
Jan. 2	To Sales A/c			26,000	77,500	Jan. 7	By Bank A/c	C		3,500	
Jan. 4	To Cash A/c	C		32,000	35,000	Jan. 9	By Lokenah		100		4,900
Jan. 5	To Provision			3,500	3,500	Jan. 11	By Purchases A/c	C		12,500	
Jan. 7	To Cash A/c			3,500	3,500	Jan. 13	By Cash A/c	C			25,000
Jan. 13	To Bank A/c	C		25,000		Jan. 18	By Bank A/c	C		24,750	
Jan. 14	To Choudhary & Co.		250	4,750		Jan. 20	By Stationary A/c			600	2,500
Jan. 17	To Sales A/c			37,500	34,750	Jan. 22	By Commission A/c				4,750
Jan. 18	To Cash A/c	C		5,000	5,000	Jan. 26	By Chaudhary & Co.				4,000
Jan. 24	To Kapil			37,500		Jan. 28	By Drawings A/c				7,500
						Jan. 30	By Salaries A/c			2,500	
						Jan. 30	By Bank Charges				100
						Jan. 30	By Insurance Premium				2,000
						Jan. 31	By Balance c/d			50,800	94,600
2016											
Feb. 1	To Balance b/d			50,800	1,29,650					1,29,650	1,45,750

Note : January 26, Chaudhary & Company's Cheque was dishonoured. The amount of discount previously allowed to him will be cancelled for which entry in Journal Proper will be made as under :

Choudhary & Company's A/c Dr. 250
To Discount disallowed A/c 250

Illustration 6.6 :

Write out the following transactions in Cash Book with Discount, Cash and Bank columns for the month of January :

- January, 1 X commences business with Rs. 40,000 in Cash.
- January, 2 He pays Rs. 38,000 into bank current account.
- January, 3 He received cheque for Rs. 1,200 from Raj & Co. on account.
- January, 7 He deposited into Bank Raj. & Co.'s Cheque for Rs. 1,200.
- January, 10 He pays Varun & Co. by cheque Rs. 660 and allowed discount Rs. 40.
- January, 12 Kamal & Co. pays into his Bank account Rs. 950.
- January, 15 He received cheque for Rs. 900 form Z and allowed him discount Rs. 70.
- January, 20 He received cash Rs. 150 and cheque for Rs. 200 for cash sales.
- January, 25 He pays into bank Rs. 2,000.
- January, 26 He pays by cheque for purchases Rs. 550.
- January, 28 He pays sundry expenses in cash Rs. 100.
- January, 28 He pays M & Co. Rs. 750 in cash and he was allowed discount Rs. 70.
- January, 30 He pays office rent by cheque Rs. 400, staff salaries Rs. 600, He drew a cheque for private use Rs. 750 and for office use for Rs. 800.
- January, 31 He pays cash for stationary Rs. 50, Cash purchases Rs. 250.

He pays Ajay by cheque for commission Rs. 600. and to Mr. M for cash purchases of furniture for office Rs. 3,150. He receives cheque from Sonia & Co. for Rs. 900.

Cash Book Mr. X for the month of January, 2015

Date	Particulars	L.F.	Dis. Allowed Rs.	Cash Rs.	Bank Rs.
Jan. 1	To Capital Account			40,000	38,000
Jan. 2	To Cash Account	C		1,200	1,200
Jan. 3	To Raj. & Co.			1,200	950
Jan. 7	To Cash Account	C		900	100
Jan. 12	To Kamal & Co.		70	350	750
Jan. 15	To Z			800	400
Jan. 20	To Sales Account	C		900	600
Jan. 25	To Cash Account	C		800	750
Jan. 30	To Bank Account			900	800
Jan. 31	To Commission Account				600
Jan. 31	To Sonia & Co.				3,150
2008			110	44,150	43,150
Feb. 1	To Balance b/d			1,800	35,640

Solution : 6.6 :

Posting form Main Cash Book :

As stated above, the cash columns in the cash book are really the cash account and the bank columns are bank account. In addition to these two columns there may be discount columns which are meant only to provide information about the total discount allowed and total discount received. The various items appearing on the debit side and credit side in different types of main cash books are posted as under :

(A) Posting of items appearing on debit side of Cash Books :

(i) All the receipts appearing on the debit side of any cash book are posted to the credit of the respective ledger accounts by writing 'By Cash/Bank A/c' in the particulars column because cash/cheque has been received from them.

(ii) An individual entry in the discount allowed column is posted to the credit of the respective personal account in the ledger by writing 'By discount allowed A/c' in the particulars column.

(iii) The total of discount allowed column from the debit side of cash book is posted to the debit of the 'Discount Allowed A/c' in the ledger by writing 'To sundries as per cash book' in the particulars column.

(B) Posting of items appearing on Credit side of Cash Book :

(i) All the payments appearing on the credit side are posted to the debit of the concerned ledger accounts by writing 'To Cash/Bank A/c' in the particulars column because Cash/Cheque has been paid to them.

(ii) An individual entry in the discount received column is posted to the debit of the concerned personal accounts by writing 'To discount received account' in the particulars column.

(iii) The total of discount received column on the credit side is posted to the credit of the 'Discount Received Account' by writing 'By Sundries as per Cash Book' in the particulars column.

Important Notes :

(1) Cash account and Bank account are not opened in the ledger because the cash and bank columns of the Cash Book serves the purpose of Cash account and Bank account respectively.

(2) All contra entries (i.e. entries marked 'C') are ignored while posting from Cash Book to the ledger since, both the aspects (Debit and Credit) are recorded in the Cash Book itself.

Posting of the entries from the Cash Book into ledger may be illustrated as under :

Illustration 6.7 :

Post the transactions of the three column cash book into ledger prepared in Illustration 6.5 :

Solution :

Leger of Shrit Prithvi Singh

Dr.				Cr.			
Sales Account							
Date	Particulars	L.F.	Amount Rs.	Date	Particulars	L.F.	Amount Rs.
				Jan. 2	By Cash A/c		32,000
				Jan. 17	By Cash A/c		37,500

Praveen							
Dr.				Cr.			
Date	Particulars	L.F.	Amount Rs.	Date	Particulars	L.F.	Amount Rs.
				Jan. 5	By Cash A/c		3,500

Choudhary & Co.							
Dr.				Cr.			
Date	Particulars	L.F.	Amount Rs.	Date	Particulars	L.F.	Amount Rs.
Jan. 26	To Cash A/c		4,750	Jan. 14	By Cash A/c		4,750
Jan. 26	To Discount A/c		250	Jan. 14	By Discount A/c		250

Kapil							
Dr.				Cr.			
Date	Particulars	L.F.	Amount Rs.	Date	Particulars	L.F.	Amount Rs.
				Jan. 24	By Bank A/c		5,000

Lokesh							
Dr.				Cr.			
Date	Particulars	L.F.	Amount Rs.	Date	Particulars	L.F.	Amount Rs.
Jan. 9	To Bank A/c		4,900				
Jan. 9	To Discount A/c		100				

Purchase Account							
Dr.				Cr.			
Date	Particulars	L.F.	Amount Rs.	Date	Particulars	L.F.	Amount Rs.
Jan. 11	To Cash A/c		12,500				

Stationary Account							
Dr.				Cr.			
Date	Particulars	L.F.	Amount Rs.	Date	Particulars	L.F.	Amount Rs.
Jan. 20	To Cash A/c		600				

Commission Account							
Dr.				Cr.			
Date	Particulars	L.F.	Amount Rs.	Date	Particulars	L.F.	Amount Rs.
Jan. 20	To Bank A/c		2,500				

Drawings Account							
Dr.				Cr.			
Date	Particulars	L.F.	Amount Rs.	Date	Particulars	L.F.	Amount Rs.
Jan. 28	To Bank A/c		4,000				

Salaries Account							
Dr.				Cr.			
Date	Particulars	L.F.	Amount Rs.	Date	Particulars	L.F.	Amount Rs.
Jan. 30	To Cash A/c		2,500				
Jan. 30	To Bank A/c		7,500				

Bank Charges Account							
Dr.				Cr.			
Date	Particulars	L.F.	Amount Rs.	Date	Particulars	L.F.	Amount Rs.
Jan. 30	To Bank A/c		100				

Insurance Premium Account							
Dr.				Cr.			
Date	Particulars	L.F.	Amount Rs.	Date	Particulars	L.F.	Amount Rs.
Jan. 31	To Bank A/c		2,600				

Discount Allowed Account							
Dr.				Cr.			
Date	Particulars	L.F.	Amount Rs.	Date	Particulars	L.F.	Amount Rs.
Jan. 31	To Sundries as per cash book		250				

Discount Received Account							
Dr.				Cr.			
Date	Particulars	L.F.	Amount Rs.	Date	Particulars	L.F.	Amount Rs.
				Jan. 31	By Sundries as per cash book		350

Petty Cash Book :

In every organisation, a large number of small payments such as for conveyance, bus, taxi, fares, postage and telegram, cartage, printing and stationary, staff welfare and entertainment and other miscellaneous expenses are incurred. These are generally repetitive in nature. If all these payments are entered in the main cash book, it will become very bulky. To avoid this, large scale organisations

normally, appoint one person who makes all small payments and records them in his cash book, which is called petty cash book. The person dealing with petty cash book is called the petty cashier. The person dealing with these petty expenses i.e., petty cashier should have been provided certain amount in cash so that he can make such payments immediately. At intervals, (say, week, fortnight or month), the petty cashier produces the vouchers before the main cashier. The main cashier checks the vouchers and hands over the necessary cash to the petty cashier again.

Imprest System of Petty Cash : The petty cashier works on the best system of petty cash which is known as the *Imprest System*. The amount given to the petty cashier in advance is known as 'Imprest' money. The word 'Imprest' means payment in advance. In this system, in the beginning, a fixed sum of money is given to the petty cashier who makes payment out of it. At the end of the week or fortnight or months, the vouchers are checked and an amount equal to the amount spent is again given to the petty cashier. Thus, the next period is again begins with the fixed sum of money.

The petty cash book may or may not be maintained on 'imprest system'. Under both the system (i.e., Imprest and Non-imprest), the petty cashier submits the petty cash book to the Head cashier, who makes the reimbursement of the amount spent by the petty cashier but under Non-imprest system, the head cashier may handover the cash to the petty cashier equal to/more than/less than the amount spent.

Merits—The advantages of the imprest system are as follows :

- (i) It saves the time of the chief cashier.
- (ii) Petty cashier is not allowed to keep idle cash with him if the imprest is found to be more than adequate, its amount will be immediately reduced. This reduces the chances of misuse of cash by the petty cashier.
- (iii) As the sum of imprest is small, it does not provoke the person in charge of it or others in the office to misappropriate it.
- (iv) The record of petty cash is checked by the cashier, periodically, so that a mistake if committed is soon rectified.
- (v) It enables a great saving to be effected in the posting of small items to the ledger accounts.
- (vi) The system trains young staff to handle money responsibilities.

Analytical Petty Cash Book : Normally, the petty cashier is asked to analyse the petty cash payments; amount column of petty cash book is analysed in such a manner so that it may be known clearly, how the money has been spent. Such type of petty cash books are analytical petty cash books. Its form may be designed accordingly to the requirements of the business. However, the simplest format of the petty cash book is illustrated as under :

Format of Petty Cash Book

Amt. Received	Date	Voucher No.	Particulars No.	Total Amt.	Conveyance	Cartage	Stationery	Post & Tele.	Misc. Exps.	Remarks
Rs.				Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)

Thus, the petty cash book generally has a number of columns for the amount on the payment side besides the first total amount column. Each of the other amount columns is allotted for items of specific payments which are most common one. Last amount column is designated as 'Miscellaneous' followed by a 'Remarks' Column. In the miscellaneous columns, such payments are recorded for which a separate column does not exist and in the remarks column, the nature of payment is recorded. At the end of the period, all amount columns are totalled which shows the total amount spent and to be reimbursed. On the receipt side, there is only one amount column. Columns for the date voucher number and particulars are common for both receipts and payments.

Balancing Petty Cash Book : At the end of the period i.e. week or month the total of the total column, individual expenses columns and sundries columns and obtained. It should be ascertained that the total of the petty expenses column and sundries columns must be equal to the total of total column. The column is compared with the total of receipts column and balance is obtained. The closing balance is shown as 'By Balance c/d'. The Closing Balance is carried forward to the next week or month. It shown as 'To Balance b/d'.

Posting from Petty Cash Book : In the ledger, a petty cash account maintained; when an amount is given to the petty cashier, the petty cash account is debited. Each week or fortnight, the total of the payment made is credited to this account. The petty cash account will then show the balance in the hand of the cashier; on demand he should be able to produce it for counting. At the end of the year, the balance is shown in the balance sheet as part of cash balance.

Ofcourse, the payments must be debited to their respective accounts as shown by the petty cash book. For this two methods may be used :

- (i) From the petty cash book the totals of the various columns may be directly debited to the concerned accounts; or
- (ii) A journal entry may first be prepared on the basis of the petty cash book debiting the accounts shown by the various analysis columns and crediting the total of the payments of the petty cash accounts.

Illustration 6.8

The Petty Cashier of M/s Sadachar Prakashan maintains a petty cash balance of Rs. 400 and receives Rs. 1,600 from chief cashier on 1st December, 2015. From the following transactions write Petty Cash Book according to Imprest System :

2015	Rs.	2015	Rs.		
Dec., 2	Paid for postage	160	Dec., 15	Paid for printing expenses	240
Dec., 4	Paid for cartage	100	Dec., 19	Paid for Rail-fare	40
Dec., 7	Stationery purchased	240	Dec., 23	Paid for cartage	100
Dec., 8	Paid for telegram charges	100	Dec., 24	Paid for postage	120
Dec., 9	Paid for cartage	240	Dec., 26	Paid for refreshment	100
Dec., 11	Paid for wages	60	Dec., 29	Paid for wages	100
Dec., 13	Paid for refreshment	160	Dec., 30	Paid for miscellaneous expenses	120

Solution :

Petty Cash Book of M/s Sadachar Prakashan

Amt. Received	Date	Particulars	V. N.	Amount	Post. & Tel.	Cartage	Stat. & Print.	Wages & Rail fare	Refreshment.	Misc. Exps.
Rs.				Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
400	Dec. 1	To Balance b/d								
1,600	Dec. 1	To Cash A/c								
	Dec. 2	By Postage		160	160					
	Dec. 4	By Cartage		100						
	Dec. 7	By Stationary		240		100				
	Dec. 8	By Telegram		100	800		240			
	Dec. 9	By Cartage		240				60		
	Dec. 11	By Wages		60		240				
	Dec. 13	By Refreshment		160					160	
	Dec. 15	By Printing		240				40		
	Dec. 19	By Rail Fare		40			240			
	Dec. 23	By Cartage		100						
	Dec. 24	By Postage		120	120	100				
	Dec. 26	By Refreshment		100				100	100	
	Dec. 29	By Wages		100						
	Dec. 30	By Miscellaneous Expenses		120						120
	Dec. 31	By Balance b/d		1,880	380	440	480	200	260	120
				120						
2000				2,000						
120	2016									
1,880	Jan. 1	To Balance b/d								
	Jan. 1	To Cash A/c								

The Journal entry required for various petty cash expenses is passed as under :

Date	Particulars	L.F.	Amount Dr.	Amount Cr.
2015				
Dec. 31	Postage & Telegram A/c	Dr.	380	
	Cartage A/c	Dr.	440	
	Stationery & Printing A/c	Dr.	480	
	Wages and Rail fare A/c	Dr.	200	
	Refreshment A/c	Dr.	260	
	Miscellaneous Expenses A/c	Dr.	120	
	To Petty Cash A/c			1,880
	(Petty cash expenses incurred as per petty Cash Book)			

Ledger							
Ajay's Account							
Dr.	Particulars	J.F.	Amount Rs.	Cr.	Particulars	J.F.	Amount Rs.
2015				2015			
Dec. 1	To Balance b/d		400	Dec. 31	By Sundries as per Petty Cash Book		1,880
	To Cash A/c		1,600	Dec. 31	Balance c/d		120
			2,000				2,000
2016							
Jan. 1	To Balance b/d		120				
Jan. 1	To Cash A/c		1,880				
Postage & Telegrams Account							
Date 2015	Particulars	J.F.	Amount Rs.	Date 2015	Particulars	J.F.	Amount Rs.
Dec. 31	To Petty Cash A/c		380				
Cartage Account							
Date 2015	Particulars	J.F.	Amount Rs.	Date 2015	Particulars	J.F.	Amount Rs.
Dec. 31	To Petty Cash A/c		440				
Stationery & Printing Account							
Date 2015	Particulars	J.F.	Amount Rs.	Date 2015	Particulars	J.F.	Amount Rs.
Dec. 31	To Petty Cash A/c		480				
Wages & Rail Fare Account							
Date 2015	Particulars	J.F.	Amount Rs.	Date 2015	Particulars	J.F.	Amount Rs.
Dec. 31	To Petty Cash A/c		200				
Refreshment Account							
Date 2015	Particulars	J.F.	Amount Rs.	Date 2015	Particulars	J.F.	Amount Rs.
Dec. 31	To Petty Cash A/c		260				
Miscellaneous Expenses Account							
Date 2015	Particulars	J.F.	Amount Rs.	Date 2015	Particulars	J.F.	Amount Rs.
Dec. 31	To Petty Cash A/c		120				

Test Questions

Very Short Questions and Answers : (Not exceeding 40 words)

Q.1. What is a cash book ?

Ans. : A cash book is a record of transactions pertaining to cash receipts and cash payments along with the transactions through the bank.

Q.2. Why Cash Book is called a book of original entry ?

Ans. : Since all cash transactions are directly recorded in Cash Book and on the basis of which a record ledger Accounts are prepared, it is called a subsidiary book. It is also known as book of original entry.

Q.3. What are different types of Cash Book ?

Ans. : There are three types of cash books as under-

- Simple or one column cash book.
- Cash Book with discount column or two columns cash book.
- Cash Book with bank and discount columns or three columns cash book.

Q.4. What is meant by Petty Cash Book ?

Ans. : In addition to the main cash book, many firms usually maintain a Petty Cash Book which is purely a subsidiary book. This petty cash book is maintained for large number of small payments such as conveyance, bus fare, taxi fare, postage and telegrams, cartage, printing and stationery etc.

Q.5. What are the merits of maintaining Petty Cash Book ?

Ans. : Merits of petty cash book :

- It saves time of the chief cashier.
- It enables a great saving to be effected in the posting of small items to the ledger accounts.
- The records of petty cashier is checked by chief cashier periodically, so mistake if any is immediately checked.
- The system trains young staff to handle money responsibilities.

Q.6. Is cash book a Journal or a Ledger ?

Ans. : It is a Journal since cash and bank transactions are first recorded in it. It is also treated as a ledger because it serves the purpose of Cash Account and Bank Account. Thus, it is both, a journal, as well as a ledger.

Q.7. What is meant by contra entries ?

Ans. : Contra entries are those which are recorded on receipt as well as payment sides of cash book. When cash is deposited in the Bank Current Account and it is withdrawn for office use, both Cash and Bank Accounts are affected. As entries are recorded on both the sides of cash book, it is called contra entries.

Q.8. Differentiate between cash book and cash Account.

Ans. : A cash book is a part of subsidiary books which is maintained as a book of original entry, whereas Cash Account is maintained in principal book of entry i.e., ledger in T-shape form.

Q.9. What is meant by Bank overdraft ?

Ans. : Sometimes, the bank provides a facility to its customers to withdraw excess amount over the amount stands credited in their bank current Accounts. This excess amount withdrawn from the bank account is called bank overdraft.

Q.10. Why does a cash column of the cash book always shows a debit balance ?

Ans. : Since cash deposits are recorded on debit side and cash payments on credit side of cash column in cash book, the business cannot pay more cash than what it possesses. As such, it will always reveal a debit balance.

Short Questions and Answers : (Not exceeding 80 words)

Q.1. Explain the meaning of Three Column Cash Book.

Ans. : Three column cash book : In this type of Cash Book, there are three columns of amount i.e., Cash, Discount and Bank. It is also prepared in the same way as we prepare simple and double column cash books. The additional point in this regard is 'Bank Column'. Bank column of the three column cash book at debit side records deposits of Cash and Cheques into the bank and interest credited by the bank. On other hand, bank column at the credit side of the three column cash book records cash withdrawn from the bank, payments by cheques, bank charges or collection charges, interest charged by the bank or interest on overdraft etc.

Q.2. Write a note on Imprest system of petty cash.

Ans. : Imprest System of Petty Cash : The petty cashier works on the best system of petty cash which is known as the Imprest System. The amount given to the Petty Cashier in advance is known as 'Imprest Money'. The word 'Imprest' means payment in advance. In this system, in the beginning, a fixed sum of money is given to the petty cashier who makes payment out it. At the end of the week or fortnight or month, the vouchers are checked and an amount equal to the amount spent is again given to the Petty Cashier. Thus, the next period is again begins with the fixed sum of money.

Q.3. Explain, the meaning Petty Cash Book.

Ans. : Meaning of Petty Cash Book : In every organization, a large number of small payments such as for conveyance, bus, taxi, postage and telegram, cartage, printing and stationery, staff welfare and entertainment and other miscellaneous expenses are incurred. These are generally repetitive in nature. If all these payments are entered in the main cash book, it will become very bulky. To avoid this, large scale organizations normally, appoint one person who makes all small payments and records them in his cash book, which is called petty cash book and the person is called the petty cashier. The person dealing with these petty expenses i.e., petty cashier should have been provided certain amount in cash so that he can make such payments immediately. At intervals, (say, week, fortnight or month), the petty cashier produces the vouchers before the main cashier. The main cashier checks the vouchers and hands over the necessary cash to the petty cashier again.

Q.4. State the merits of Imprest system of Petty Cash Book ?

Ans. : The following are the merits of Imprest system-

- It saves the time of the chief cashier.
- Petty cashier is not allowed to keep idle cash with him if the imprest is found to be more than adequate, its amount will be immediately reduced. This reduces the chances of misuse of cash by the petty cashier.
- As the sum of imprest is small, it does not provoke the person in charge of it or others in the office to misappropriate it.
- The record of petty cash is checked by the cashier, periodically, so that a mistake if committed is soon rectified.

- (v) It enables a great saving to be effected in the posting of small items to the ledger accounts.
 (vi) The system trains young staff to handle money responsibilities.

Q.5. Cash Book is a Journal as well as 'Ledger' comment.

Ans. : Cash book serves both the purpose of a subsidiary book or a Journal as well as of a principal book i.e., a ledger. Since all cash transactions are directly recorded in the cash book and on the basis of such a record, ledger accounts are prepared, it is subsidiary book. On the other hand, when cash book is prepared cash account and bank account are not prepared in the ledger separately and the balances of cash and bank columns of cash book are entered in the trial balance directly. The cash book, therefore is a part of the ledger also. Hence, it has also to be treated as the principal book. Thus, the cash book is both a subsidiary book and a principal book.

Q.6. What is meant by cash discount and trade discount ? How are they treated while writing cash book.

Ans. : **Cash Discount :** This discount is allowed to the customers at the time of making payment and it is also allowed by the supplier's while making payment to them. As such the amount of discount allowed is debited and written in discount column on debit side and discount received on credit side.

Trade Discount : The discount allowed by the seller to its customers at a fixed percentage on the list price of goods is termed as trade discount. No separate entry is required to be passed for the trade discount since it is deducted from the cash memo or the invoice of the goods sold or bought.

Q.7. Explain how would the following transactions treated in a cash book with cash and bank columns.

- Deposit of cheques received from customers into bank.
- Dishonour of Customers cheques deposited into bank.
- Cash deposits into bank.
- Cash withdrawal from the bank for office use.

Ans. : (i) When cheques are received from customers and sent to the bank for deposit, Bank A/c is debited and Customers Account credited. It means, it will be recorded on debit side of cash book under bank column.

(ii) When customers cheques deposited are dishonoured, it will be entered on credit side of cash book under bank column.

(iii) Cash deposit, in bank is contra entries to be recorded on both the sides of cash book.

(iv) Cash withdrawn from bank for office use also affects cash and bank balances and recorded on both sides of cash book being a contra entry.

Essay Type or Long Answers Questions :

- What is Imprest System of Petty Cash Book ? Explain it with the help of an example. (See page nps. 6.15 & 6.16)
- What do you mean by a three column cash book ? What are its main features ? (See page nps. 6.8)
- Discuss Various types of Cash Books. (See page nps. 6.1)
- What do you meant by Imprest system of cash Book ? What are its merits ? (See page nps. 6.16)

Numerical Questions :

Q1 : Record the following transaction in two Column Cash Book of M/s Ravi Shanker & Sons. for the months of January, 2015

- Jan. 1 Opening Balance of Cash Rs. 10,000
 Jan. 3 Cash Sales Rs. 20,000 and Cash Purchases Rs. 15,000
 Jan. 8 Cash received for X in full settlement of Rs. 10,000, Rs. 9,800
 Jan. 16 Paid Rs. 6,950 to Mr. Y in full settlement of Rs. 7,000
 Jan. 19 Received from A Rs. 7,000 and salaries paid Rs. 2,000
 Jan. 22 Wages paid Rs. 1,000 and Cash sales Rs. 1,000
 Jan. 27 Received from Shanker Rs. 4,400 in full settlement of Rs. 4,500
 Jan. 30 Withdrew for private use Cash Rs. 7,000 and goods Rs. 10,000.
Ans. : Balance of Cash Rs. 20,250 Discount (Dr.) Rs. 300, (Cr.) Rs. 50

Ans. : **Cash Book of Shri Ravi Shanker for January, 2015**

Date	Particulars	L. F.	Discount	Cash	Date	Particulars	L. F.	Discount	Cash
			Rs.	Rs.				Rs.	Rs.
2015					2015				
Jan. 1	To Balance b/d			10,000	Jan. 3	By Purchases		—	15,000
3	To Sales			20,000	16	By Y	50	6,950	
8	To X		200	9,800	19	By Salaries		2,000	
19	To A			7,000	22	By Wages		1,000	
22	To Sales			1,000	30	By Drawings		7,000	
27	To Shanker		100	4,400	31	By Balance c/d			20,250
			300	52,200				50	52,200

Q2. Enter the following transactions in cash book with Bank and discount columns assuming that all receipts are banked and all payments are made through cheques only for the month of March, 2015.

Date	Particulars	Amount	Date	Particulars	Amount
2015		Rs.	2015		Rs.
Mar. 1	Cash at Bank	1,50,000	Mar. 17	Issued a cheque for Rs. 19,000 to Chandra in full settlement Rs.	20,000
4	Purchases of goods	15,000	21	Purchased goods	46,000
5	Cash Sales	85,000	25	A cheque for gift was issued in relative's marriage	2,500
7	Pritam paid in cash	19,750	28	Purchased a Printer	23,000
	Discount allowed	250	29	Petty Expenses	2,000
11	Paid Soban & Company	22,000	31	Paid for Office Expenses	21,250
	They allowed discount	500			
13	Received Commission	1,000			
15	Issued a cheque to Darpan towards an Account of Rs. 50,000 less 5%				

Ans. Cash Book with Bank & Discount Columns

Date	Particulars	L. F.	Discount	Bank	Date	Particulars	L. F.	Discount	Bank
2015			Rs.	Rs.	2015			Rs.	Rs.
Apr. 1	To Balance b/d		—	1,50,000	Mar. 4	By Purchases A/c		—	15,000
5	To Sales A/c			85,000	11	By Soban & Co.		500	22,000
7	To Pritam		2%	19,750	15	By Darpan		2,500	47,500
13	To Commission A/c			1,000	17	By Chandra		1,000	19,000
					21	By Purchases A/c			46,000
					25	By Drawings			2,500
					28	By Office Equipment			23,000
					29	By Petty Expenses			2,000
					31	By Office Expenses			21,250
	Total Receipts		250	2,55,750		Total Payment			1,98,250
						By Balance c/d		4,000	57,500
									2,55,750
Apr. 1	To Balance b/d			58,000					

Q3. Enter the following transactions in Cash Book with Cash and Bank columns for the months of March, 2015 :

- March, 1 Opening balance : Cash Rs. 12,000 and Bank Rs. 36,000.
- March, 2 Cashied a cheque for Rs. 15,000 and paid salaries for the month of February in Cash Rs. 12,500.
- March, 4 Direct deposit by Mr. Sunil in our bank account Rs. 3,000.
Discount allowed Rs. 100.
- March, 10 Received from an outstation customer a cheque of Rs. 9,500.
Cheque was deposited into the bank on 12th March.
The bank debited Rs. 20 as collection charges
- March, 11 Gyan settled his account of Rs. 6,000 by cheque of Rs. 5,900.
Cheque was deposited into the bank on 15th March.
- March, 16 Settled Ravi's Account of Rs. 8,200 after deducting Rs. 200 as discount, by giving a cheque for Rs. 6,000 and the balance in cash.
- March, 17 Withdrawn from Bank Rs. 15,000 and an Office Equipment (Printer) was purchased for Rs. 12,000 and the balance taken by the owner.
- March, 18 Sold goods to Suman on Credit Rs. 8,000
- March, 19 Suman returned goods worth Rs. 5,00 and settled his account by a cheque
- March, 22 Bank notifies that Suman's cheque has been dishonoured and bank Debited Rs. 20 towards its charges for this cheque.
- March, 24 Issued a cheque of Rs. 3,000 to Ashok as advance against our order of furniture worth Rs. 5,000.
- March, 25 Received the amount of returned cheque and bank charges in cash from Suman

- March, 26 Goods worth Rs. 12,000 were purchased from Shyam Mohan on 15th instant.
Its payment was made today by cheque after deducting 5% cash discount.
- March, 28 Paid to Shrikant Rs. 8,000 by cheque
- March, 29 Cash sale to date Rs. 80,000 of which Rs. 60,000 banked.
- March, 30 Bank collects interest on securities Rs. 3,000.
- March, 31 Deposited into bank cash retaining Rs. 10,000.

Dr. Cash Book With Cash and Bank Columns Cr.

Date	Particulars (Receipts)	L. F.	Cash	Bank	Date	Particulars (Payment)	L. F.	Cash	Bank
2015			Rs.	Rs.	2015			Rs.	Rs.
Mar.					Mar.				
1	To Balance b/d		12,000	36,000	2	By Cash A/c	C		15,000
2	To Bank A/c	C	15,000		2	By Salaries A/c	C	12,500	
4	To Sunil			3,000	12	By Bank A/c	C	9,500	
10	To Customer's A/c		9,500		12	By Bank Charges A/c			20
11	To Gyan		5,900		15	By Bank A/c	C	5,900	
12	To Cash A/c	C		9,500	16	By Ravi's A/c	C	2,000	6,000
15	To Cash A/c	C		5,900	17	By Office Equipment A/c			12,000
19	To Suman (Note 1)			7,500	17	By Drawings			
25	To Suman		7,520			By Suman A/c			3,000
29	To Sales A/c		20,000	60,000	22	By Abid			7,520
30	To Interest A/c			300	24	By Shyam Mohan			3,000
31	To Cash A/c	C		30,020	26	By Shrikant			11,400
					28				8,000
			69,920	1,52,220				29,900	
					31	By Bank A/c		30,020	
			69,920	1,52,220				59,920	65,940
						By Balance c/d		10,000	86,280
Apr. 1	To Balance b/d		10,000	86,280				69,920	1,52,220

Note (1) : It is assumed that cheque was immediately deposited into Bank.

Q.4 Enter the following transactions in cash book with cash and bank columns for the month of May, 2015 :

Ans. :

Date 2015	Particulars	Amount Rs.	Date 2015	Particulars	Amount Rs.
May 1	Bank Overdraft	60,000	Mar 15	Drew from Bank for office use	17,000
	Cash in hand	11,500	18	Fee paid of children by cheque	375
7	Cheque Received from A	20,000	21	Cheque received from H	
	Discount allowed	1,000		endorsed to M on 27th May	22,500
9	A's Cheque deposited in Bank	-	25	Bank Charges	100
12	Cheque issued to X	12,500	31	Paid into Bank Total amount over Rs. 3,500	-
	Discount allowed by him.	250			

Ans. :

Cash Book with Cash and Bank Columns

Date	Particulars	L. F.	Cash	Bank	Date	Particulars	L. F.	Cash	Bank
2015			Rs.	Rs.	2015			Rs.	Rs.
May 1	To Balance b/d		11,500		May 1	By Balance b/d			60,000
7	To A's A/c		20,000		9	By Bank A/c	C	20,000	
9	To Cash A/c	C		20,000	12	By X			12,500
15	To Bank A/c	C	17,000		15	By Cash A/c	C		17,000
21	To H's A/c		22,500		18	By Drawings			375
31	To Bank A/c	C		25,000	21	By M's A/c			-
31	To Balance c/d			44,975	25	By Bank Charges			100
			71,000	89,975	31	By Cash	C	25,000	
					31	By Balance c/d		3,500	
								71,000	89,975
June 1	To Balance b/d		3,500	-		By Balance b/d		-	44,975

Q.5. Mr. Modi operates two Bank Accounts. Both the accounts are maintained in one Cash Book. Prepare a proforma of the Cash Book and record the following transactions in Cash Book having Cash and Bank columns :

Date 2015	Particulars	Amount Rs.	Date 2015	Particulars	Amount Rs.
May 1	Opening balances :		Mar 18	Purchased goods and a Cheque issued of Baroda Bank	1,82,100
	(i) Cash	11,800	25	Paid Salaries	4,100
	(ii) Baroda Bank	1,90,400	25	Paid for stationery etc.	800
	(iii) Axis Bank (Overdrawn)	64,600	28	Deposited proceeds of goods sold, cheque in Baroda Bank	2,10,900
5	Received a cheque form A and deposited in Axis Bank and Bank Charges	18,000	28	Bank Charges on above	210
		40	30	Cash deposited in Axis Bank	15,000
10	A cheque drawn by Mr. Modi on Baroda Bank was deposited in Axis Bank for		31	Postal stamps were boughts in Cash	2,000
	Withdraw cash from Baroda Bank for Office use	80,000			
12		6,000			
15	A Cheque received from Mohan deposited in Axis Bank earlier was returned dishonoured	11,000			
	Bank Charges on the above	100			
	Mr. Mohan paid the Bank Charges in Cash	-			

Cash Book of Mr. Modi for the months of May, 2015 with Cash and Two Bank Columns.

Date	Particulars	L. F.	Cash	Baroda Bank	Axis Bank	Date	Particulars	L. F.	Cash	Baroda Bank	Axis Bank
2015			Rs.	Rs.	Rs.	2015			Rs.	Rs.	Rs.
May 1	To Balance b/d		11,800	1,90,000	18,000	May 1	By Balance b/d				64,600
5	To A's A/c				80,000	5	By Bank Charge				40
10	To Baroda Bank	C				10	By Axis Bank	C	80,000		
12	To Bank of Baroda	C	6,000			12	By Cash A/c	C		6,000	
15	To Mohan		11,100			15	By Mohan				11,100
28	To Sales (Proceeds)			2,10,000		18	By Purchases A/c			1,82,100	
30	To Cash A/c				15,000	25	By Salaries		4,100		
						25	By Stationery		800		
						29	By Bank charges			210	
						30	By Axis Bank	C	15,000		
						31	By Postal Charges		2,000		
						31	By Balance c/d		7,000	1,32,990	37,260
									28,900	4,04,300	1,13,000
Jun 01	To Balance b/d		28,900	4,01,300	1,13,000						
			7,000	1,32,990	1,33,000						

Q.6. Record the following transactions in three cash book for the month of February, 2015

- 2015 Feb. 1 Cash in Hand Rs. 2,900, and at Bank Rs. 1,10,000.
- 2015 Feb. 4 Received from Gold Rs. 9,050, allowed discounts Rs. 150.
- 2015 Feb. 5 Received a cheque from Saleen and sent to Bank Rs. 5,000.

- 2015 Feb. 10 Purchased stationary Rs. 1,000 and wages paid Rs. 100
 2015 Feb. 14 Payment to Sohan by cheque Rs. 4,950, he allowed discount Rs. 50.
 2015 Feb. 15 Cash Sales Rs. 5,000 and deposited into Bank Rs. 3,000
 2015 Feb. 18 Machinery purchased Rs. 40,000 and paid by cheque.
 2015 Feb. 20 Withdrew from Bank for office use Rs. 6,000
 2015 Feb. 21 Rent paid by cheque Rs. 350.
 2015 Feb. 28 Withdrew goods for private use Rs. 1,500.

Ans. : Cash Balance Rs. 18,850, Bank Rs. 66,700, Discount (Dr.) Rs. 150 and (Cr.) Rs. 50.

Three Column Cash Book of Mr. for the months of February, 2015

Date	Receipts	L. F.	Discount	Cash	Bank	Date	Particulars	L. F.	Discount	Cash	Bank
			Rs.	Rs.	Rs.				Rs.	Rs.	Rs.
2015 Feb. 1	To Balance b/d			2,900	1,10,000	Feb. 10	By Stationery			1,000	
4	To Gold		150			10	By Wages A/c			100	
5	To Saleem			9,050		14	By Sohan			4,950	
15	To Sales A/c			5,000	5,000	14	By Bank A/c		50	3,000	
	To Cash A/c				3,000	15	By Machinery A/c	C			40,000
20	To Bank	C		6,000		18	By Cash			6,000	
						20	By Rent A/c			350	
						21	By Balance c/d			18,850	66,700
			150	22,950	1,18,000				50	22,950	1,18,000
Mar. 1	To Balance b/d			18,850	66,700						

Note : Feb, 18 the entry will be passed in Journal proper.

Q.7 : Enter the following transactions in three column cash book of Mr. Yogendra for the month of March, 2015 :

- March 1 Balance of Cash Rs. 4,000, overdraft in Baroda Bank Rs. 50,000
 March 2 Invested further capital Rs. 1,00,000 of which Rs. 60,000 was deposited in Bank
 March 5 Cash Sales Rs. 30,000 and cash Purchases Rs. 55,000
 March 6 Collected from last month's debtors Rs. 80,000, discount allowed Rs. 2,000
 March 11 Paid to Ram, a creditor Rs. 25,000 and discount allowed by him Rs. 650
 March 13 Commission paid to an Agent Rs. 5,300
 March 14 Office furniture bought from Girdhar Rs. 2,000
 March 15 Rent paid Rs. 500 and Electricity charges Rs. 100
 March 16 Drew a cheque for personal use Rs. 7,000
 March 17 Goods sold for cash Rs. 25,000
 March 18 Received a cheque from Atul Rs. 40,000 which was deposited in bank after 2 days.
 March 19 Drew a cheque for Petty Cash Rs. 1,500
 March 24 Received a cheque for dividend Rs. 500, deposited into bank same day
 March 25 Received a cheque for commission Rs. 2,300, deposited into bank on 28th instant.
 March 29 Paid salaries by cheque Rs. 15,000
 March 30 Paid to the Manger, salary Rs. 5,000 by a cheque
 March 31 Cheque received for commission on 25th was dishonoured
 March 31 Cash deposited into bank after retaining Rs. 5,000.

Three Column Cash Book of Mr. Yogendra for the months of March, 2015

Date	Particulars	L. F.	Discount	Cash	Bank	Date	Particulars	L. F.	Discount	Cash	Bank
			Rs.	Rs.	Rs.				Rs.	Rs.	Rs.
2015 Mar. 1	To Balance b/d			4,000		2015 Mar. 1	By Balance b/d				50,000
2	To Capital			40,000	60,000	5	By Purchases			55,000	
5	To Sales			30,000		11	By Ram		650	25,000	
6	To Debtors		2,000	80,000		13	By Commission (Agent)			5,300	
	(names to be written)					15	By Rent			500	
17	To Sales			6,000		16	By Electric charges			100	
18	To Atul			40,000		17	By Drawings				7,000
19	To Bank A/c	C		1,500		17	By Cash A/c	C			1,500
20	To Cash A/c	C			40,000	20	By Bank A/c	C		40,000	
24	To Dividend				500	28	By Bank A/c			2,300	
25	To Commission			2,300		29	By Salaries			15,000	
28	To Cash A/c	C			2,300	30	By Salary to Mangal			5,000	
31	To Cash A/c				70,600		By Commission (Cheque dish)			2,300	
							By Bank A/c			70,600	
							By Balance c/d			5,000	92,600
			2,000	2,03,800	1,73,400				650	2,03,800	1,73,400
Apr. 1	To Balance b/d			5,000	92,600						

Q.8. Prepare three column Cash Book of Mr. Modi for the month of April, 2015 :

Date	Particulars	Amount	Date	Particulars	Amount
2015		Rs.	2015		Rs.
Apr. 1	Cash in hand	2,00,000	Apr. 14	Received cheque from 'M' of 9,000 and deposited into Bank same day	
3	Bank Overdraft	50,000		discount Allowed to him	200
5	Cash Sales	64,000		Withdrew from Bank	7,000
7	Deposited into Bank	70,000	17	Purchased Stationery	2,000
8	Paid Salary by Cheque	7,000	21	A's Cheque returned dishonoured	
10	Bank Charges	2,000	23	Drew a cheque for personal use	
12	Received Cheque from A	15,000	26	Paid Cash to B	6,000
	A's Cheque deposited in Bank		30	Allowed him discount	7,000
					100

Ans. : Cash in hand Rs. 1,92,000, at Bank Rs. 7,000, discount (Dr.) Rs. 200, (Cr.) 100

Three Column Cash Book of Mr. Modi
for the months of April, 2015

Date	Particulars	L. F.	Discount Rs.	Cash Rs.	Bank Rs.	Date	Particulars	L. F.	Discount Rs.	Cash Rs.	Bank Rs.
2015						2015					
Apr. 1	To Balance b/d			2,00,000		Apr. 1	By Balance b/d			70,000	50,000
3	To Sales A/c			64,000		5	By Bank A/c	C			
5	To Cash A/c	C			70,000	7	By Salaries			7,000	
10	To A			15,000		8	By Bank Charges			2,000	
12	To Cash A/c	C			15,000	12	By Bank A/c			15,000	
14	To M		200			17	By Cash A/c	C			7,000
17	To Bank A/c	C		7,000		21	By Stationery			2,000	
						23	By A				15,000
						26	By Drawings				6,000
						30	By B			7,000	
						30	By Balance c/d		100	1,92,000	7,000
			200	2,86,600	94,000				100	2,86,000	94,000
May 1	To Balance b/d			1,92,000	7,000						

Q.9. Enter the following transactions of Mr. Shyam who keeps his Petty Cash Book under the Imprest system with analytical columns, (Imprest amount being Rs. 10,000)
2015 : Feb. 1 Cash in hand Rs. 3,000 and received cash to make up the Imprest Rs. 7,000.

Feb. 3	Purchased postage stamp	1,050
Feb. 4	Paid coolie hire charges	740
Feb. 6	Purchased stationery	600
Feb. 9	Paid wages for clearing office	1,000
Feb. 12	Paid Taxi fare	2,050
Feb. 14	Received from a debtor	2,000
Feb. 16	Purchased postal stamps	450
Feb. 18	Paid to a creditor, Mohan	1,000
Feb. 20	Paid for several telegrams	840
Feb. 21	Office expenses paid off	750
Feb. 22	Paid for repairs of a printer	1,600
Feb. 25	Paid for Bus fare	250
Feb. 27	Paid for Tiffis Expenses	600
Feb. 28	Paid for traveling expenses	550

Petty Cash Book

Ans. 7

Receipts		Payment										Total Amount		
Date	Particulars	Total Amount	Date	Particulars	Postage & Telegram	Coolie Hire	Stationery	Office Exps.	Total & Bus Fare	Creditors	Repairs	Tiffin Exps.	Traveling Exp.	Total Amount
2015			2015											
Feb. 1	To Balance b/d	Rs. 3,000	Feb. 3	By Postage	1,050	740	600	1,000	2,050					1,050
	To Cash Received	7,000	Feb. 4	By Coolie hire										440
	To Cash received from debtor	2,000	Feb. 6	By Stationery										600
			Feb. 9	By Office Expenses										1,000
			Feb. 12	By Taxi Fare	450									2,050
			Feb. 16	By Postage	450									1,500
			Feb. 18	By Creditors	540									1,000
			Feb. 20	By Telegram										840
			Feb. 21	By Office Expenses				700						150
			Feb. 22	By Repairs of Typewriter							1,600			1,600
			Feb. 25	By Bus Fare				250				1,600		250
			Feb. 26	By Tiffin Expenses										600
			Feb. 28	By Traveling Expenses									550	550
			Feb. 28	By Balance	2,340	740	600	1,750	2,300	1,000	1,600	600	552	11,480
Mar. 1	To Balance b/d	12,000												520
	To Cash	9,180												12,000

Bills of Exchange

In modern times a very large number of business transactions are made on credit basis. In case of credit sale of goods, the purchaser usually promises to make payment after a certain period. In such a case, the seller would like to get a written undertaking from the buyer to get the payment after a specified period. As such, the seller prepares a document in which he puts in writing all the terms and conditions relating to sale of goods such as amount required to be paid; date of payment; place of payment; and the like. The Buyer puts his signatures on that document which is known as 'Bill of Exchange'.

Meaning and Definition :

The bills of exchange are instruments of credit which facilitate the credit sale of goods. In India, these are known as 'Hundis' which are written in Indian languages and have been in use from the time immemorial. In western countries, the names used for such instruments are 'Bills of Exchange' and 'Promissory Notes'. The same names are now being increasingly used in India as well. All such instruments are governed by Indian Negotiable Instruments Act 1881.

According to Indian Negotiable Instrument Act 1881 :

"A Bill of Exchange is an instrument in writing, an unconditional order signed by the maker directing to pay a certain sum of money only to or to the order of a certain person or to the bearer of the instrument."

Characteristics or Features of Bills of Exchange :

Analysing the above definition the distinguishing features of a Bill of Exchange are :

- (1) It must be in writing. (Black and white)
- (2) It must contain an order (and not a request) for payment.
- (3) The order must be unconditional.
- (4) It must be signed by the maker (drawer) of the bill.
- (5) It must be signed by the acceptor (drawee).
- (6) The amount of bill of exchange must be definite.
- (7) The date of payment must be a fixed one.
- (8) The amount mentioned in the bill is payable either on demand or on the expiry of a fixed period.
- (9) The amount is payable either to the bearer of the bill or to a specified person or to his order.
- (10) It must bear stamps according to its amount.

Parties to a Bill of Exchange : Initially there are three parties to a bill of exchange :

- (1) **The Creditor or the Drawer :** He is the seller entitled to receive money. He draws the bill and is known as drawer. The bill of exchange is signed by him.

(2) **Debtor or Drawee :** He is the purchaser on whom the bill is drawn and who is liable to pay the amount mentioned in the bill. He accepts to pay the amount by writing the word "Accepted" on the bill and then signs it.

(3) **Payee :** The person to whom the payment is to be made is called Payee. The drawer himself or a third party may be the payee of the bill. The Drawer will be the payee of the bill, if he retains the bill till the date of maturity and receives the payment. The Bank may also be the payee of the bill if the bill is discounted from the Bank. In case the bill is endorsed by the drawer to a third party, the third party known as endorsee will be the payee of the bill. As such, the drawer himself or the bank or the endorsee may be the payee of the bill.

Specimen of a Bill of Exchange

Rs. 10,800	210 HimmatNagar JAIPUR 302018 Dated 2nd Jan., 2015
Stamp	Two months after date, pay to me or order, the sum of Rupees Ten thousand eight hundred only, for value received.
To Shri Ravikant Modi Kabir Marg New Delhi	Prateek Oswal

It is clear from the above specimen of a bill, that Prateek Oswal, is the drawer as well as the payee of the bill, whereas Ravikant of New Delhi, the drawee. It the bill is discounted from drawer's bank, the later will become the payee of the bill. Similarly if Prateek Oswal endorses this bill to Mohd. Saleem (his Creditor), Mohd. Saleem will become the payee of the bill.

Advantages of Bill of Exchange :

The following are the advantages for using bill of exchange :

- (1) **Evidence of Debt :** A bill of exchange serves an evidence in writing of a debt. It is a proof that the acceptor or the drawee of the bill owes the amount mentioned in it. Thus goods may be sold on credit without difficulty.
- (2) **Legal Document :** A bill of exchange is a legal document in the eyes of law. If the acceptor of the bill fails to make its payment, it is easier to recover the amount through the court.
- (3) **Reminders not Needed :** On the basis of due date of the bill, creditor knows the date and amount receivable. Similarly the debtor knows, when and how much amount is payable by him. Thus creditor need not approach the debtor to demand the payment every now and then.
- (4) **Liquidity of the Creditor :** The holder of the bill need not wait till the due date of the bill. In case he needs money, he may receive its payment by discounting it from his bankers before the date of maturity. Thus he can maintain his liquidity.
- (5) **Endorsement Possible :** A bill of exchange can easily be transferred from one party to another party in settlement of former's debt as it is a negotiable instrument.
- (6) **Convenient mode of Foreign Payment :** The bill of exchange is a convenient method of payment in case of foreign trade as well. It avoids the risk or remitting foreign currency from one place to another.

(7) **Helps in Cash Management** : As the creditor or the drawer of the bill knows the time when the money will be received by him, he can manage and plan his cash operations accordingly.

(8) **Easy to make Purchases in Bulk** : By accepting a bill, the purchaser of goods gets time for making the payment. As such, he can buy goods in bulk quantity and expand his business. He is also free from harassment, as he cannot be asked to make the payment at a date earlier than the one fixed in the bill.

(9) **Money Circulation Avoided** : The payment by means of bill of exchange avoids unnecessary circulation of money since it performs the function of money.

(10) **Helpful in Short Term Financial need** : A businessman can meet his short term need for money through accommodation bills.

Types of Bill of Exchange :

The bills of exchange may be of the following types :

(1) **Trade Bills** : When a bill of exchange is written and accepted on account of sale and purchase of goods, these are called trade bills of exchange. If the payment of such bills is not received on due date, the creditor can go to the court of law to realise his dues. Such bills may be payable (a) at sight (on presentation), or (b) after a specified time in future.

(2) **Accommodation Bills** : When the bills of exchange are written and accepted for meeting the short term financial necessity of both the parties, such bills are called accommodation bills. In case of non payment of such bills, one cannot go to the court of law.

Promisory Note : A promisory note is a written unconditional promise made by one person to another to pay a specified sum of money on demand or on a specified future date. It closely resembles a bill of exchange explained above and is also a mode of payment. It has been defined by section 4 of negotiable instrument act of 1881 as under :

"It is an instrument in writing (not being a bank note or a currency note) containing an unconditional undertaking signed by the maker, to pay a certain sum of money only to or to the order of a certain person."

Characteristics of Promisory Note :

- (1) It must be in writing.
- (2) There must be a promise to pay a certain sum of money.
- (3) The promise must be unconditional.
- (4) The amount payable must be specified and definite.
- (5) It must be signed by the promisor or the maker.
- (6) The name of the payee be written in it.
- (7) It cannot be made payable to the bearer.
- (8) It must be properly stamped.
- (9) The payment be made in country's legal currency.

Parties to a Promisory Note :

There are two parties to a promisory note :

(1) **The Maker** : He is the debtor and agrees or promises to pay the amount on due date. The maker signs the promisory note.

(2) **The Payee** : He is the creditor to whom the amount is payable.

Specimen of a Promisory Note

Rs. 10,800

Stamp

25, Sudama Nagar
Tonk Road
Jaipur 30208

Dated 1st March, 2015

Two months after date, I promise to pay Shri Prateek Oswal or order a sum of Rupees ten thousand eight hundred only, for value received.

Mr. Prateek Oswal
210, Himmat Nagar.
Jaipur 302018

For Modi Bros.
Ravi Modi
Manager

In the above promisory note Ravi Modi is the maker of promisory note and Prateek Oswal is the payee who is entitled to receive the payment of the promisory note.

Difference between a Bill of Exchange and a Promisory Note :

Basis of Difference	Bill of Exchange	Promisory Note
1. Parties	There may be three parties to a bill of exchange viz. the drawer, the drawee or the acceptor, and the payee.	There are only two parties to a promisory note viz. the maker or the promisor and the payee.
2. Order/Promise	It is an order to make payment.	It is a promise to make payment.
3. Drawer	It is drawn by the creditor.	It is written by the debtor.
4. Acceptance	A bill needs acceptance by the drawee for its validity.	It does not need any such acceptance.
5. Liability	When a bill is discounted or endorsed, the liability of the drawer is secondary. He is liable to pay only when the drawee fails to make payment.	The liability of the maker (drawer) is the primary, and not secondary.
6. Payee	Drawer of the bill may be the payee also.	The maker of the note cannot be the payee.
7. Number of Copies	In case of foreign bills of exchange three copies are to be prepared.	Only one copy is prepared whether it is a local or a foreign promisory note.
8. Stamping	There is no need of fixing stamps on Bills of exchange at sight, otherwise stamps are necessary.	Stamps are to be affixed in any case.
9. Noting & Protesting	In case of dishonour, noting and protesting is necessary.	Noting and protesting is not required in case of a promisory note.
10. Days of Grace	Three days of grace are considered for finding the due date of the bill.	Days of grace are not taken into account for finding the due date.
11. Due date	Due date is calculated on the basis of the date of acceptance by the drawee.	Due date is calculated on the date of making the promise.

Date of Maturity or the Due date :

The date on which the payment of the bill becomes due is called due date or it is the date of maturity. While calculating the due date of the bill, it is necessary to add three days to the period of the bill. These 3 days are called days of grace. For example, if the bill is drawn on 1st August, 2015 payable after 3 months, its due date will be 4th November, 2015.

The following points are important to be remembered for calculating the date of maturity of the bill :

- (i) If a bill of exchange falls due in those months in which there are no 29th or 30th or 31st dates, the maturity will be the last date of the month. For example a bill was drawn and accepted on 30th January payable one month after date. The date of maturity will be one month and three days after January 30 i.e, 28th Feb. + 3 days or 3rd March.
- (ii) If the due date falls on a gazetted holiday or Sunday, the due date shall be one day earlier than its actual due date.
- (iii) If the due date falls on a day which is neither Sunday nor a gazetted holiday but is a casual declaration as holiday, (emergency holiday) the due date will be the next working day.

Illustration 7.1 :

Find out the due dates of the following Bills of Exchange :

Date of Drawing	Tenure	Date of Drawing	Tenure
(1) January 28, 2015	One month	(4) December 1, 2014	60 days
(2) January 30, 2015	One month	(5) December 28, 2015	2m/d
(3) April 30, 2015	Two months	(6) April 30, 2015	3m/d

Solution :

- (1) One months after January 28 means February 28 + 3 days of grace or March 3, 2015
- (2) One month after January 30 means February 30 but there is no 30th February. As such 28 February + 3 days or March 3, 2015.
- (3) 2 months and 3days after 30th April, 30th June +3 days or 3, July 2015.
- (4) 60 + 3 = 63 days after December 1 i.e. February 2, 2015.
- (5) 2 months and 3 days after December 28, 2015 means February 28 + 3 days means March 2, 2016 since there are 29 days in February in 2016 (being leap year).
- (6) 3 months and 3 days after April, 30, 2015 i.e. July 30 + 3 days means August 2, 2015.

Accounting Treatment :

It has already been mentioned earlier that the creditor draws a bill on the debtor (drawee) who accepts it and returns it to the Drawer. From the point of view of a drawer it is called Bills Receivable or B/R because the money is receivable by him. Since it is payable by the drawee, (the debtor who accepts it) he calls it as Bills Payable. Bill Receivable (B/R) is an asset whereas Bills Payable (B/P) is a liability.

The accounting treatment regarding Bills of Exchange in different cases has been explained in the following pages :

(1) **When a Bill is written and accepted :** As a result of credit sale and purchase of goods, seller of goods becomes the creditor and the buyer becomes the debtor. Creditor writes a bill on the debtor who accepts it and returns the same to the creditor. The following entries are made in the books of both the parties :

Drawer's Books		Acceptor's Books
Bills Receivable A/c To Drawee's A/c (for acceptance received)	Dr.	Drawer's A/c To Bills Payable A/c (for acceptance given)
		Dr.

(2) On the due date when the bill is met (amount is paid by the Drawee):

Drawer's Books		Acceptor's Books
Cash A/c To Bills Receivable A/c (for payment received)	Dr.	Bills Payable A/c To Cash A/c (for payment made)
		Dr.

(3) In the above case (2) the drawer retains the acceptance with him till the date of maturity. But he may get it discounted from his bankers or may endorse it to his creditor or sends it to the Bank for its collection. In each of these three cases, the entries will be as under :

(a) When a bill is discounted :		Drawee's Books
Bank A/c Discount A/c To Bills Receivable A/c	Dr. Dr.	No entry
(b) When a bill is endorsed :		
Endorsee (Creditor) To Bills Receivable A/c	Dr.	No entry
(c) When it is sent to the Bank for collection :		
Bill for Collection A/c To Bills Receivable A/c	Dr.	No entry

(4) **Payment of acceptance at maturity :** When the acceptor makes the payment of the bill at maturity i.e. it is met at maturity, no entry will be required to be passed in the books of the drawer in case (a) and case (b) above. But in case of (c) above the following entry will be passed by the Drawer :

Bank A/c To Bill for Collection A/c	Dr.
In all the above cases, the acceptor will make the entry for its payment :	
Bills Payable A/c To Cash A/c	Dr.

Illustration 7.2 :

A draws on B three bills of exchange for Rs. 10,000, 8,000 and 6,000 respectively for goods sold to him on February 1, 2015. These bills were accepted and returned to A. These bills were of one month, 2 months and 3 months duration respectively. The first bill was endorsed to his creditor P. The second bill was discounted with his Bank on 4th February, 2015 @ 12% per annum discount. The third bill was sent to Bank for collection on 30th April. On due dates all the bills were met by B. The bank sent the advice for collection of third bill after deducting Rs. 50 as collection charges. Pass Journal entries in the books of A and B.

Solution :**Books of A
Journal Entries**

Date	Particulars	L.F.	Dr. Amount	Cr. Amount
2015 Feb. 1	B's A/c To Sales A/c (For goods sold to B)	Dr.	Rs. 24,000	Rs. 24,000
Feb. 1	B/R (No. 1) A/c B/R (No. 2) A/c B/R (No. 3) A/c To B's A/c (For three acceptances received)	Dr. Dr. Dr.	10,000 8,000 6,000	24,000
Feb. 1	P's A/c To B/R (No. 1) A/c (For first bill endorsed to P)	Dr.	10,000	10,000
Feb. 4	Bank A/c Discount A/c To B/R (No. 2) A/c (For second bill discounted)	Dr. Dr.	7,840 160	8,000
Apr. 30	Bill for Collection A/c To B/R (No. 3) A/c (For third bill sent for collection)	Dr.	6,000	6,000
May 4	Bank A/c Bank charges A/c To Bill for collection A/c (Advice received and collection charges deducted by Bank)	Dr. Dr.	5,950 50	6,000

Note : No entry is required to be passed for meeting acceptance under no. 1 and 2, since the payment shall be received by P and Bank respectively on due dates being March 4 (first bill) and April 4 (second bill).

**Books of B
Journal Entries**

Date	Particulars	L.F.	Dr. Amount	Cr. Amount
2015 Feb. 1	Purchases A/c To A's A/c (For goods bought on credit)	Dr.	Rs. 24,000	Rs. 24,000
Feb. 1	A's A/c To B/P (No. 1) A/c To B/P (No. 2) A/c To B/P (No. 3) A/c (For three acceptances given to A)	Dr.	24,000	10,000 8,000 6,000
Mar. 4	B/P (No. 1) A/c To Cash A/c (For payment of bill No. 1 to P)	Dr.	10,000	10,000
Apr. 4	B/P (No. 2) A/c To Cash A/c (For payment of bill No. 2 to Bank)	Dr.	8,000	8,000
May 4	B/P (No. 3) A/c To Cash A/c (For 3rd acceptance met at maturity)	Dr.	6,000	6,000

(5) **Dishonour of a Bill :** When the acceptor of the bill refuses to make the payment of his acceptance on due date, it is called dishonour of the bill. In case of dishonour, holder of the bill can recover the amount from any of the transferors (endorsers) or the drawer. For this purpose, a notice is issued by the holder of the bill to the drawer and to each of the endorser whom he seeks to make liable for payment. Such notice be served immediately after dishonour or within a reasonable time. If this is not done, the holder of the bill loses his right to recover the amount from the party to whom such notice is not served.

(6) **Noting Charges :** To establish the fact that the bill was presented but dishonoured, it is usually presented to the drawee through a person called Notary Public appointed by the court. Notary public notes down the fact of dishonour on the bill itself. It is called 'Noting'. The person who charges public notes down the fact of dishonour on the bill itself. It is called 'Noting'. The person who charges a fee for such service rendered by him is called noting charges. Such noting charges are first paid by the holder of the bill. But ultimately this amount is recovered from the acceptor of the bill who is responsible for dishonouring of the bill. The following Journal entries shall be made in case of dishonour of the bill under different cases and noting charges incurred in the Books of the Drawer :

- (i) When the bill is presented by the drawer himself and noting charges paid by him :
- | | | |
|-------------------------|-----|--------------------|
| Drawee's A/c | Dr. | With total amount |
| To Bills Receivable A/c | | Amount of the bill |
| To Cash A/c | | Noting charges |
- (For acceptance dishonoured and noting charges paid)

- (ii) When the bill was endorsed and presented by the endorsee and noting charges paid by him :
 Drawee's A/c Dr. Amount of the, bill plus noting charges paid
 To Endorsee's A/c
 (For acceptance dishonoured and noting charges paid by endorsee)
- (iii) When the bill was discounted and presented by Bank and noting charges paid by Bank :
 Drawee's A/c Dr. Amount of the bill and noting charges paid
 To Bank A/c
 (For acceptance dishonoured and noting charges paid by Bank)
- (iv) When the bill was sent to Bank for collection and noting charges paid by Bank :
 Drawee's A/c Dr. Total Amount
 To Bill for Collection A/c Amount of Bill
 To Bank A/c Noting Charges
 (For acceptance dishonoured and noting charges paid by Bank)

Books of Acceptor or Drawee : Under all or any of the above cases, the Journal entry for dishonour of acceptance and noting charges incurred will be passed as under :

Bills Payable A/c	Dr.	
Noting Charges or Trade Expenses A/c	Dr.	
To Drawer's A/c		

(For acceptance dishonoured and noting charges paid by the drawer.)

Illustration 7.3 :

Pinky was indebted to Rani for Rs. 20,000. She writes a bill for this amount for 4 month which Pinky accepts. On the due date the bill was dishonoured by Pinky and Rs. 100 were spent as noting charges. Make Journal entries in the books of both the parties.

Rani's Journal

		Rs.	Rs.
Bills Receivable A/c	Dr.	20,000	
To Pinky			20,000
(Acceptance received.)			
Pinky's A/c	Dr.	20,100	
To Bills Receivable A/c			20,000
To Cash A/c			100
(Bill dishonoured and noting charges paid.)			

Pinky's Journal

		Rs.	Rs.
Rani's A/c	Dr.	20,000	
To Bills Payable A/c			20,000
(Acceptance given)			
Bills Payable A/c	Dr.	20,000	
Noting Charges A/c	Dr.	100	
To Rani's A/c			20,100
(Bill dishonoured and noting charges paid by drawer)			

(7) **Renewal of Bill :** Sometimes, the acceptor of the bill is not in a position to make the payment of his acceptance on the date of maturity because of lack of finances Under such circumstances, he may request the drawer of the bill to cancel the original bill and draw a new bill in place of old one. In such a case, drawer generally charges interest for the period of the new bill. The entries to be made on the renewal of the bill will be as under :

Drawer's Books		Drawee's Books	
1. Drawee's A/c	Dr.	B/P A/c	Dr.
To Bills Receivable A/c		To Drawer's A/c	
(For cancellation of original bill)		(For original bill cancelled)	
2. Drawee's A/c	Dr.	Interest A/c	Dr.
To Interest A/c		To Drawer's A/c	
(For interest charged to Drawee)		(For interest charged by Drawer)	
3. Bills Receivable A/c	Dr.	Drawer's A/c	Dr.
To Drawee's A/c		To Bills Payable A/c	
(For new acceptance received)		(For new acceptance given)	
4. Cash A/c	Dr.	Drawer's A/c	Dr.
To Drawee's A/c		To Cash A/c	
(For interest received in cash)		(For interest on renewal paid in cash)	

Illustration 7.4 :

A having accepted a bill for Rs. 15,000 is unable to meet the same. Before the due date, he requests B to receive Rs. 3,200 in cash and to draw on him a new bill for Rs. 12,000 for a further period of two months and cancel the old bill. B agrees to this proposal. Pass necessary Journal entries in the books of A and B.

Solution :

**Books of B
Journal Entries**

Date	Particulars	L.F.	Dr. Amount	Cr. Amount
1.	A's A/c	Dr.	Rs. 15,000	Rs. 15,000
	To Bills Receivable A/c			
	(Being cancellation of the old bill)			
2.	A's A/c	Dr.	200	200
	To Interest A/c			
	(Being Interest receivable from A on dishonour of bill)			
3.	Cash A/c	Dr.	3,200	3,200
	To A's A/c			
	(Being amount received from A including Rs. 200 for interest)			
4.	Bill Receivable A/c	Dr.	12,000	12,000
	To A's A/c			
	(Being new bill accepted by A)			

Books of A
Journal Entries

Date	Particulars	L.F.	Dr. Amount	Cr. Amount
1.	Bill Payable A/c To A's A/c (Being cancellation of the old bill)	Dr.	Rs. 15,000	Rs. 15,000
2.	Interest A/c To B's A/c (Being the interest payable to B on dishonour of the bill)	Dr.	200	200
3.	B's A/c To Cash (Being interest and part payment of the old bill given.)	Dr.	3,200	3,200
4.	B's A/c To Bill Payable A/c (Being the acceptance of a new bill)	Dr.	12,000	12,000

(9) **Insolvency of the Acceptor of Bill** : When the acceptor of the Bill or the debtor becomes insolvent, he is not in a position to make payment of his acceptance as in case of his other obligations. Acceptance in such a case is dishonoured. The entries regarding dishonour of acceptance will be passed as discussed earlier. The following Journal entries will be passed in the books of drawer and the drawer.

Books of Drawer		Books of Acceptor	
Acceptor's A/c To B/R A/c or Bank A/c or Endorsee's A/c (For acceptance dishonoured)	Dr.	Bills Payable A/c To Drawer's A/c (For Bills payable dishonoured)	Dr.
Bank A/c Bad debts A/c To Acceptor's A/c (For amount received from the acceptor, balance written off as bad debts)	Dr. Dr.	Drawer's A/c To Bank A/c To Deficiency A/c (Divident paid and balance treated as profit to Deficiency Account)	Dr.

Illustration 7.5 :

On 1st July, 2015 X sold goods to Y for Rs. 60,000, at 10% trade discount and accepted a bill for 3 m/d for the same. On the same date the bill was discounted by X with his bankers @ 6% per annum. On the due date the bill was dishonoured and the bank paid Rs. 150 as noting charges.

On 4th October, 2015 Y accepted another bill for 2 m/d for the amount due plus interest @ 10% per annum on Rs. 54,000. On 15th November, 2015 Y was declared insolvent and could pay only 50 paise in a Rupee of his dues on 21st December, 2015. Make Journal entries in the books of X and Y.

Solution :

Journal of X

Date	Particulars	L.F.	Amount	Amount
2015 July 1	Y's A/c To Sales A/c (Goods sold to Y)	Dr.	Rs. 54,000	Rs. 54,000
July 1	Bills Receivable A/c To Y (Acceptance received from Y)	Dr.	54,000	54,000
July 1	Bank A/c Discount A/c To Bills Receivable A/c (Bill discounted with the bank @ 6% per annum)	Dr. Dr.	53,190 810	54,000
Oct. 4	Y's A/c To Bank A/c (Acceptance dishonoured and noting charges paid by bank)	Dr.	54,150	54,150
Oct. 4	Y's A/c To Interest A/c (Interest charged from Y)	Dr.	900	900
Oct. 4	Bills Receivable A/c To Y's A/c (New acceptance received for Rs. 54,000 + 150 + 900)	Dr.	55,050	55,050
Nov. 15	Y's A/c To Bills Receivable A/c (Acceptance treated as dishonoured on account of insolvency of Y)	Dr.	55,050	55,050
Dec. 21	Cash A/c Bad debts A/c To Y's A/c (Y became insolvent and 50% received)	Dr. Dr.	27,525 27,525	55,050

Journal of Y

Date	Particulars	L.F.	Amount	Amount
2015			Rs.	Rs.
July 1	Purchases A/c To X's A/c (For goods bought on credit)	Dr.	54,000	54,000
July 1	X's A/c To Bills Payable A/c (For acceptance given to X)	Dr.	54,000	54,000
Oct. 4	Bills Payable A/c Trade Expenses A/c To X's A/c (For acceptance dishonoured and noting charges incurred)	Dr. Dr.	54,000 150	54,150
Oct. 4	Interest A/c To X's A/c (For interest charged by X)	Dr.	900	900
Oct. 4	X's A/c To Bills Payable A/c (New acceptance given for Rs. 54000 + 150 + 900 = 55,050)	Dr.	55,050	55,050
Nov. 15	Bills Payable A/c To X's A/c (For acceptance withdrawn)	Dr.	55,050	55,050
Dec. 21	X's A/c To Cash A/c To Deficiency A/c (For 50 paise in a Rupee paid and balance treated as profit)	Dr.	55,050	27,525 27,525

(8) **Retiring the Bill before due date** : When the acceptor or the drawee makes the payment of the Bill before its due date, it is called **Retiring a Bill**. In such cases the holder of the bill usually allows the drawee some discount which is called **Rebate**. The entries in such a case would be as follows :

Books or Drawer		Books or Drawer	
Cash A/c	Dr.	Bills Payable A/c	Dr.
Rebate A/c	Dr.	To Cash A/c	
To Bills Receivable A/c		To Rebate A/c	
(For amount received before maturity of the bill)		(For payment made of B/P before due date)	

Illustration 7.6 :

On 1st October, 2015 Murari Lal sold goods to Ramprakash for Rs. 50,000 at trade discount of 5%. He wrote a bill on the later for 3 m/d which was accepted by Ramprakash. On 4th October Murari Lal endorsed it to his creditor Lalta Prasad for Rs. 48,000. Lalta Prasad discounted the same with his banker @ 6% per annum on the same date. On due date Ramprakash could not make the payment and the bank paid Rs. 100 as noting charges. Lalta Prasad paid the amount to the Bank and drew another Bill for the total amount including interest Rs. 500 for 2 m/d which was accepted by Murari Lal. On the due date he became insolvent and could pay 50 paise in a Rupee. Make necessary entries in the Journal of Murari Lal.

Journal of Murari Lal

Date	Particulars	L.F.	Amount	Amount
2015			Rs.	Rs.
Oct. 1	Ram Prakash To Sales A/c (Goods sold to Ram Prakash)	Dr.	47,500	47,500
Oct. 1	B/R A/c To Ram Prakash (Acceptance received)	Dr.	47,500	47,500
Oct. 4	Lalta Prasad To B/R A/c To Discount A/c (Acceptance endorsed to Lalta Prasad)	Dr.	48,000	47,500 500
Jan. 4	Ram Prakash Discount A/c To Lalta Prasad (Acceptance dishonoured discount cancelled and Noting charges paid)	Dr. Dr.	47,600 500	48,100
Jan. 4	Interest A/c To Lalta Prasad (Interest charged by Lalta Prasad)	Dr.	500	500
Jan. 4	Lalta Prasad To Bills Payable A/c (New Acceptance given)	Dr.	48,600	4,860
Mar. 7	Bills Payable A/c To Lalta Prasad (Acceptance withdrawn)	Dr.	48,600	48,600
Mar. 7	Lalta Prasad To Cash A/c To Deficiency A/c (Paid 50 paise in a rupee in full settlement)	Dr.	48,600	24,300 24,000

Note : Discount is allowed for cash payment. If endorsed acceptance is dishonoured, the discount is also disallowed.

Illustration 7.7 :

On 1st January 2015 'R' drew on M, who is his debtor for Rs. 45,000, three bills of exchange. First for Rs. 12,000 at one month, second for Rs. 15,000 at two months and third for Rs. 18,000 at three months. M accepted all the three bills.

On 10th January 2015 R endorsed the first bill to his Creditor S in full settlement of his account of Rs. 12,360. This bill was duly met on maturity.

On 20th January 2015, the second bill was discounted from the bank for Rs. 14,550. This bill was dishonoured on the due date and bank paid Rs. 120 as noting charges. On M's request R drew a fourth bill on M for 2 months for the amount due plus Rs. 600 as interest.

Third bill was paid under a rebate of 15% per annum one month before maturity. The fourth bill was sent to bank for collection on 4th May 2015 and was duly met on maturity. Pass Journal entries in the books of R, M and S.

Solution :

Journal of R

Dr. Cr.

Date	Particulars	L.F.	Amount	Amount
2015			Rs.	Rs.
Jan. 1	Bills Receivable A/c (No. I) Dr.		12,000	
	Bills Receivable A/c (No. II) Dr.		15,000	
	Bills Receivable A/c (No. III) Dr.		18,000	
	To M's A/c			45,000
	(For three acceptances received)			
Jan. 10	S's A/c Dr.		12,360	
	To Bills Receivable (No. I)			12,000
	To Discount A/c			360
	(For first bill endorsed to S in full settlement of his account of Rs. 12,360)			
Jan. 20	Bank A/c Dr.		14,550	
	Discount A/c Dr.		450	
	To Bills Receivable A/c			15,000
	(For second bill discounted from the bank)			
Mar. 4	M's A/c Dr.		15,120	
	To Bank A/c			15,120
	(For second bill dishonoured and noting charges paid by the bank Rs. 120)			
Mar. 4	M's A/c Dr.		600	
	To Interest A/c			600
	(For interest charged to 'M')			
Mar. 4	Bills Receivable A/c (No. IV) Dr.		15,720	
	To M's A/c			15,720
	(For new bill received including Rs. 120 as noting charges and Rs. 600 as interest)			

Mar. 4	Cash A/c			
	Rebate A/c	Dr.	17,775	
	To Bills Receivable A/c	Dr.	225	
	(For payment of the third bill received before maturity and rebate allowed i.e. $18,000 \times 15\% = 2,700 + 12 = \text{Rs. } 225$)			18,000
May 4	Bill for Collection A/c			
	To Bills Receivable A/c	Dr.	15,720	
	(For fourth bill sent to Bank for collection)			15,720
May 7	Bank A/c			
	To Bills for Collection A/c	Dr.	15,720	
	(For bill collected by Bank on maturity)			15,720

Journal of M

Date	Particulars	L.F.	Amount	Amount
2015			Rs.	Rs.
Jan. 1	R's A/c Dr.		45,000	12,000
	To Bills Payable A/c (No. I)			15,000
	To Bills Payable A/c (No. II)			18,000
	To Bills Payable A/c (No. III)			
	(For three acceptances given)			
Feb. 4	Bills Payable A/c Dr.		12,000	
	To Cash A/c			12,000
	(For the amount of first bill paid on due date)			
Mar. 4	Bills Payable A/c Dr.		15,000	
	Nothing Charges A/c Dr.		120	
	To R's A/c			15,120
	(For second bills dishonoured and noting charges payable)			
Mar. 4	Interest A/c Dr.		600	
	To R's A/c			600
	(For interest payable to R)			
Mar. 4	R's A/c		15,720	
	To Bills Payable A/c (No. IV)			15,720
	(For new acceptance given to R)			
Mar. 4	Bills Payable A/c Dr.		18,000	
	To Cash A/c			17,775
	To Rebate A/c			225
	(For third bills paid before maturity and Rebate received)			
May 7	Bills Payable A/c Dr.		15,720	
	To Cash a/c			15,720
	(For the amount of fourth bill paid on maturity)			

Journal of S

Date	Particulars	L.F.	Amount	Amount
2015 Jan. 10	Bills Receivable A/c Discount A/c To R's A/c (For bill received from R in full satisfaction)	Dr. Dr.	Rs. 12,000 360	Rs. 12,360
Feb. 4	Cash A/c To Bills Receivable A/c (For cash received on maturity)	Dr.	12,000	12,000

Illustration 7.8 :

Mr. David draws two bills of exchange on 1.1.15 for Rs. 60,000 and Rs. 1,00,000. The bill of exchange for Rs. 60,000 is for two months while the bill of exchange for Rs. 1,00,000 is for three months. These bills are accepted by Mr. Thomas. On 4.3.15 Mr. Thomas requests Mr. David to renew the first bill with interest at 18% p.a. for a period of two months. Mr. David agrees to this proposal. On 20.3.15 Mr. Thomas retires the acceptance for Rs. 1,00,000, the interest or rebate, being Rs. 1,000. Before the due date of the renewed bill, Mr. Thomas becomes insolvent and only 50 paise in a rupee could be recovered from his estate.

You are to give the journal entries in the books of Mr. David.

Solution :

In the Books of Mr. David
Journal Entries

Date	Particulars	L.F.	Dr. Amount	Cr. Amount
2015 Jan. 1	B/R No. 1 A/c To Thomas (Being bill drawn for two months accepted by Thomas)	Dr.	Rs. 60,000	Rs. 60,000
	B/R No. 2 A/c To Thomas (Being bill drawn for three months accepted by Thomas)	Dr.	1,00,000	1,00,000
Mar. 4	Thomas To B/R No. 1 A/c (Being first bills dishonoured on maturity)	Dr.	60,000	60,000
	Thomas To Interest (Being interest payable by Thomas @ 18% p.a., viz., $(60,000 \times 18/100 \times 2/12)$)	Dr.	1,800	1,800

Mar. 4	B/R No. 3 A/c To Thomas (Being new bills drawn including interest and accepted by Thomas)	Dr.	61,800	61,800
Mar. 20	Cash A/c Rebate on Bill A/c To B/R No. 2 A/c (Being the second bill for Rs. 1,00,000 retired before due date, rebate allowed Rs. 1,000)	Dr. Dr.	99,000 1,000	1,00,000
	Thomas To B/R No. 3 A/c (Being the third bill for Rs. 61,800 dishonoured due to insolvency of Thomas)	Dr.	61,800	61,800
	Cash A/c To Thomas (Being 50 paise in the rupee received from Thoma's estate)	Dr. Dr.	30,900 30,900	61,800

Illustration 7.9 :

Ramratan sold goods to Ahmed for Rs. 50,000 on 30th June 2015, for which the latter accepted four bills of Rs. 12,500 each drawn on him payable after 2, 4, 6 and 8 months respectively. Ramratan retained the first bill. The second bill was sent by him for collection. The third bill was endorsed by him to C in part payment of Rs. 20,000 owed to him. The fourth bill was discounted by him with his bankers at a discount of 15% p.a. per annum.

The first bill was met on the due date. As regards the second bill, Ahmed met Ramratan two days before the maturity date of the bill and paid him Rs. 5,000 and accepted a fresh bill for 30 days for the balance with interest of 18% p.a. This bill as well as the third bill were met by the drawer.

Ahmed was declared insolvent on 31st December, 2015 and on the fourth bill becoming due, the bank debited Ramratan with the amount of the bill and charges of Rs. 1,250. It is ascertained by Ramratan that the estate of Ahmed will not be in a position to meet liabilities to an extent of more than 40%.

Journalise these transactions in the books of Ramratan.

Solution :

Books of Ramratan
Journal Entries

Date	Particulars	L.F.	Dr. Amount	Cr. Amount
2015 June 30	Ahmed To Sales (For sale of goods)	Dr.	Rs. 50,000	Rs. 50,000

	Bill Receivable No. I A/c	Dr.	12,500	
	Bill Receivable No. II A/c	Dr.	12,500	
	Bill Receivable No. III A/c	Dr.	12,500	
	Bill Receivable No. IV A/c	Dr.	12,500	
	To Ahmed			50,000
	(Being the acceptance received of four bills payable after 2, 4, 6 and 8 months respectively)			
	Bill for Collection A/c	Dr.	12,500	
	To Bill Receivable No. II A/c			12,500
	(Being the second bill sent for collection)			
	C's A/c	Dr.	12,500	
	To Bill Receivable No. III A/c			12,500
	(Being third bill endorsed to C in part payment)			
	Bank A/c	Dr.	11,250	
	Discount A/c	Dr.	1,250	
	To Bill Receivable No. IV A/c			12,500
	(Being the fourth bill discounted with bank, discount being Rs. 1,250, i.e., Rs. 12,500 × 15/100 × 8/12)			
Sept. 3	Bank A/c	Dr.	12,500	
	To Bill Receivable No. I A/c			12,500
	(Being cash received on maturity of the first bill which was retained by Ramratan)			
Nov. 1	Ahmed's A/c	Dr.	12,500	
	To Bills for Collection A/c			12,500
	(Being dishonour of the second bill which was sent for collection)			
	Ahmed's A/c	Dr.	112.50	
	To Interest			112.50
	(Being interest receivable from Ahmed, i.e. Rs. 7,500 × 18/100 × 1/12)			
	Bank A/c	Dr.	5,000	
	Bills Receivable No. V A/c	Dr.	7,612.50	
	To Ahmed's A/c			12,612.50
	(Being Rs. 5,000 cash received from Ahmed and new bill drawn and accepted by Ahmed for the balance along with interest)			
Dec. 30	Bank A/c	Dr.	7,612.50	
	To Bills Receivable No. V A/c			7,612.50
	(Being the amount received on maturity)			

Mar. 2009	Ahmed's A/c	Dr.	13,750	13,750
	To Bank A/c			
	(Being dishonour of the bill by Ahmed, charges of Rs. 1,250 paid)			
	Bad Debts A/c	Dr.	8,250	8,250
	To Ahmed's A/c			
	(Being amount to the extent of 60% of Rs. 13,750 not recoverable from estate of Ahmed)			

Note : On 31st December 2015 a bad debt provision to the extent of Rs. 8,250 could be made from profit and loss account. Journal entry will be

Profit & Loss A/c	Dr.	8,250	
To Provision for bad debts A/c			8,250

Illustration 7.10 :

On 1st January, 2015 Mohan draws on Ram a bill for 3 months for Rs. 20,000 which Ram duly accepts. Mohan discounted the bill for Rs. 19,400. On the same date Ram draws on Mohan a bill for 3 months for Rs. 20,000 which is accepted by Mohan. Ram gets the bill discounted with his banker at 18 percent. On the due date, Mohan met his bill, but Ram fails to honour his acceptance, the bank having to pay Rs. 10 as noting charges. (RU. BCA., 2003)

Give Journal entries in the books of Mohan.

Solution : **Journal Entries**
(Mohan's Books)

Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
2015				
Jan. 1	B/R A/c	Dr.	20,000	
	To Ram's A/c			20,000
	(For acceptance received from Ram)			
Jan. 1	Ram's A/c	Dr.	20,000	
	To Bills Payable A/c			20,000
	(For acceptance given to Ram)			
Jan. 4	Bank A/c	Dr.	19,400	
	Discount A/c	Dr.	600	
	To Bills Receivable A/c			20,000
	(For discounting of Ram's acceptance)			
Mar. 4	Ram's A/c	Dr.	20,010	
	To Bank A/c			20,010
	(For acceptance dishonoured and noting charges paid by Bank Rs. 10.)			
	Bills Payable A/c	Dr.	20,000	
	To Bank A/c			20,000
	(For acceptance met at maturity)			

Illustration 7.11 :

On 15th November, 2014 A owed to B an amount of Rs. 50,000. Since the amount was not received till 31st December, 2015. It was written off as bad debts. A however, paid Rs. 47,000 on 15th January, 2015 in full and final settlement of his dues. During the first 6 months of 2015 the following further transactions took place between A and B :

- On 20.1.15 : B sold goods to A for Rs. 80,000 and drew a bill at one month for Rs. 60,000 and received Cash Rs. 20,000. The bill was discounted with his Bankers for Rs. 59,500. A could not meet his acceptance on due date and B had to take it up. He paid Rs. 200 as noting charges.
- On 24.2.15 : A accepted another bill for Rs. 60,000 at two months. Paid Rs. 1,200 in cash the amount of interest on the new bill and noting charges relating to old bill.
- On 27.4.15 : A paid Rs. 40,000 in cash and accepted a new bill for Rs. 21,000 including interest for two months.
- On 25.6.15 : A became insolvent and only Rs. 17,000 could be received from his estate.

Record the above transactions in the ledger of B showing A's Account. Bills Receivable Account and Bad debts Account.

Solution :

**Ledger of B
A's Account**

Dr.				Cr.	
Date	Particulars	Amount	Date	Particulars	Amount
2014		Rs.	2014		Rs.
Nov. 15	To Balance b/d	50,000	Dec. 31	By Bad debts	50,000
2015			2015		
Jan. 20	To Sales	80,000	Jan. 20	By Cash	20,000
Jan. 23	To Bank (dish. of bill)	60,200		By Bills Receivable	60,000
	To Interest	1,000	Feb. 24	By Cash	1,200
Apr. 27	To Bills Receivable	60,000		By Bills Receivable	60,000
	To Interest	1,000	Apr. 27	By Cash	40,000
June 25	To Bills Receivable	21,000	Apr. 27	By Bills Receivable	21,000
			June 25	By Cash	17,000
			June 25	By Bad debts	4,000
		2,23,200			2,23,200

Bills Receivable Account

Dr.				Cr.	
Date	Particulars	Amount	Date	Particulars	Amount
2015		Rs.	2015		Rs.
Jan. 20	To A's A/c	60,000	Jan. 20	By Bank A/c	59,500
Feb. 24	To A's A/c	60,000		By Discount A/c	500
Apr. 27	To A's A/c	21,000	Apr. 27	By A's A/c	60,000
			June 25	By A's A/c	21,000
		1,41,000			1,41,000

Bad Debts Account					
Dr.				Cr.	
Date	Particulars	Amount	Date	Particulars	Amount
2014		Rs.	2014		Rs.
Dec. 31	To A's A/c	50,000	Dec. 31	By P & L (Transfer)	50,000
2015			2015		
June 25	To A's A/c	4,000	Jan. 15	By Cash A/c	47,000
Dec. 31	To P & L A/c (Transfer)	43,200		(Bad debt recovered)	
		47,000			47,000

Accommodation Bill :

Some times bills are drawn, accepted and endorsed for the purpose of arranging temporary financial assistance without any consideration. Such bills are called accommodation bills or 'Kite Bills'. As no consideration is involved, accommodation bills are not enforceable at law. In case of such bills one party draws the bill and the other party accepts it. The drawing party gets it discounted from the Bank and receives ready cash to meet his financial needs. The amount so received may be (i) used wholly by the drawer or (ii) by both the parties, drawer and the drawee. Before the maturity of the bill the required money is remitted to the acceptor in order to make him able to honour the bill on due date. Although there is no legal liability, but a strong moral understanding exists between the concerned parties. Journal entries in case of accommodation bills are the same as discussed in the aforesaid pages. The amount of discount is borne by both the parties in the ratio of utilisation of money.

Difference Between Trade Bills & Accommodation Bills

Basis of Difference	Trade Bills	Accommodation Bill
1. Purpose or object	Trade Bills are drawn against trade transactions of sale and purchase of goods on credit.	These bills are drawn with the object of providing short term financial needs for each other.
2. Relationship	These bills reveal the relationship of debtor and creditor between the drawee and the drawer.	These bills do not reveal such relationship since these are not a proof of debt.
3. Consideration	These bills are drawn against proper and legal consideration.	These bills are drawn without such consideration.
4. Distribution of proceeds	Upon discounting of these bills, the proceeds received are not distributed between the drawer and the drawee.	When these bills are discounted, the proceeds may be distributed between the drawer and the drawee.
5. Enforceability at Law	In case of dishonour of these bills, the creditor may realise the proceeds through court of Law.	Since these bills are drawn without any consideration, these bills are not enforceable at Law.

Illustration 7.12 :

On 1st March, 2015 for the mutual accommodation of Modi and Gupta, the former draws a bill on the latter for 3 m/d for a sum of Rs. 1,50,000. It was accepted by Gupta and returned to Modi, who discounted the bill on 4th March from his bankers and received Rs. 1,42,500 which was shared by them in 2 : 1 proportion. On the due date Modi remitted his share to Gupta and the latter met the acceptance on the due date. Make necessary Journal entries in the books of both the parties.

Solution :

Journal of Modi

Dr. Cr.

Date	Particulars	L.F.	Amount	Amount
2015			Rs.	Rs.
Mar. 1	Bills Receivable A/c To Gupta's A/c (Acceptance received)	Dr.	1,50,000	1,50,000
Mar. 4	Bank A/c Discount A/c To Bills Receivable A/c (Acceptance discounted)	Dr. Dr.	1,42,500 7,500	1,50,000
Mar. 4	Gupta's A/c To Bank A/c To Discount A/c (1/3rd proceeds remitted)	Dr.	50,000	47,500 2,500
June 4	Gupta's A/c To Bank A/c (Balance of the amount remitted)	Dr.	1,00,000	1,00,000

Journal of Gupta

Dr. Cr.

Date	Particulars	L.F.	Amount	Amount
2015			Rs.	Rs.
Mar. 1	Modi's A/c To Bills Payable (Acceptance given)	Dr.	1,50,000	1,50,000
Mar. 4	Bank A/c Discount A/c To Modi's A/c (One-third proceeds received)	Dr. Dr.	47,500 2,500	50,000
June 4	Cash or Bank A/c To Modi's A/c (Amount received from Modi)	Dr.	1,00,000	1,00,000
June 4	Bills Payable A/c To Bank A/c (Bill met at maturity)	Dr.	1,50,000	1,50,000

Illustration 7.13 :

X draws a bill for Rs. 3,00,000 and Y accepts the same for the mutual accommodation of both of them to the extent of X 2/3 and Y 1/3. X discounts the same for Rs. 2,82,000 and remits 1/3 of the proceeds to Y. Before the due date Y draws another bill for Rs. 4,20,000 on X in order to provide funds to meet first bill. The second bill is discounted for Rs. 4,08,000 with the help of which, the first bill is met and Rs. 72,000 are remitted to X. Before the due date of the second bill, X becomes bankrupt and Y received a dividend of 50 paise in the Rupee in full settlement. Pass necessary entries in the books of both X and Y.

Solution :

Journal of X

Date	Particulars	L.F.	Amount	Amount
			Rs.	Rs.
	B/R A/c To Y's A/c (Acceptance received)	Dr.	3,00,000	3,00,000
	Bank A/c Discount A/c To B/R A/c (Bill discounted from Bank)	Dr. Dr.	2,82,000 18,000	3,00,000
	Y's A/c To Cash A/c To Discount A/c (Being 1/3 of the proceeds remitted)	Dr.	1,00,000	94,000 6,000
	Y's A/c To B/P A/c (Acceptance given to Y)	Dr.	4,20,000	4,20,000
	Cash A/c Discount A/c To Y's A/c (Being 1/2rd cash received from Y)	Dr. Dr.	72,000 8,000	80,000
	Bills Payable A/c To Y's A/c (Being bill dishonoured)	Dr.	4,20,000	4,20,000
	Y's A/c To Cash A/c To Deficiency A/c (Being cash paid to Y in full satisfaction)	Dr.	1,40,000 1,40,000	2,80,000

Journal of Y

Date	Particulars	L.F.	Amount	Amount
			Rs.	Rs.
	X's A/c To Bills Payable A/c (Acceptance given)	Dr.	3,00,000	3,00,000
	Cash A/c Discount A/c To X's A/c (Being 1/3 proceeds received from X)	Dr. Dr.	94,000 6,000	1,00,000
	Bills Receivable A/c To X's A/c (Being acceptance received)	Dr.	4,20,000	4,20,000
	Bank A/c Discount A/c To Bills Receivable A/c (Being bill discounted with the Bank)	Dr. Dr.	4,08,000 12,000	4,20,000
	Bills Payable A/c To Cash A/c (Being acceptance met at maturity)	Dr.	3,00,000	3,00,000
	X's A/c To Cash A/c To Discount A/c (Being two-third remittance of the balance sent)	Dr.	80,000	72,000 8,000
	X's A/c To Bank A/c (Being acceptance dishonoured)	Dr.	4,20,000	4,20,000
	Cash A/c Bad Debts A/c To X's A/c (Being 50 paise in the Rupee received in full settlement)	Dr. Dr.	1,40,000 1,40,000	2,80,000

Ledger of Y :

Dr.		X's Account		Cr.	
Date	Particulars	Amount	Date	Particulars	Amount
	To B/P A/c	3,00,000		By Cash A/c	94,000
	To Cash A/c	72,000		By Discount A/c	6,000
	To Discount A/c	8,000		By B/R A/c	4,20,000
	To Bank A/c	4,20,000		By Cash A/c	1,40,000
		8,00,000		By Bad Debts A/c	1,40,000
					8,00,000

Illustration 7.14 :

Give necessary Journal entries in the Journal of Sarita for the following transaction and prepare Anita's Account in the Ledger of Sarita :

2015

- Jan. 4 Sarita drew a bill for Rs. 50,000 on Anita which was accepted by Anita on January 7, 2015.
 Jan. 8 Sarita discounted the bill with her banker for Rs. 49,000 and paid half the amount to Anita.
 Jan. 10 Anita drew a bill Rs. 40,000 which was accepted by Sarita.
 Jan. 14 Anita discounted the bill with banker and paid Rs. 700 as discounting charges. She paid half the amount to Sarita.
 April 10 Anita paid the Bill for Rs. 50,000.
 April 13 Sarita dishonoured the bill for Rs. 40,000. The Bank claimed the amount from Anita which was duly paid.
 April 14 A cheque for the balance amount payable by Sarita was received by Anita.

Solution :

Journal of Sarita

Date	Particulars	L.F.	Amount	Amount
			Rs.	Rs.
2015				
Jan. 7	Bill Receivable A/c To Anita's A/c (Bill accepted by Anita)	Dr.	50,000	50,000
Jan. 8	Bank A/c Discount A/c To Bills Receivable A/c (Bill discounted with the Bank)	Dr. Dr.	49,000 1,000	50,000
Jan. 8	Anita's A/c To Bank A/c To Discount A/c (Half proceeds of the discounted bill sent to Anita)	Dr.	25,000	24,500 500
Jan. 10	Anita's A/c To Bills Payable A/c (Bill drawn by Anita was accepted)	Dr.	40,000	40,000
Jan. 10	Bank A/c Discount A/c To Anita's A/c (Half the proceeds of discounted bill received)	Dr. Dr.	19,650 350	20,000
Apr. 13	Bills Payable A/c To Anita's A/c (B/P not paid at due date)	Dr.	40,000	40,000
Apr. 14	Anita's A/c To Bank A/c (Balance of payment made)	Dr.	45,000	45,000

Dr. **Anita's Account in Sarita's Ledger** Cr.

Date	Particulars	Amount	Date	Particulars	Amount
2015		Rs.	2015		Rs.
Jan. 8	To Bank A/c	24,500	Jan. 7	By B/R A/c	50,000
Jan. 8	To Discount A/c	500	Jan. 10	By Bank A/c	19,650
Jan. 10	To Bills Payable A/c	40,000	Jan. 10	By Discount A/c	350
Apr. 14	To Bank A/c	45,000	Jan. 13	By B/P A/c	40,000
		1,10,000			1,10,000

Bills Receivable Book and Bills Payable Book : In big business houses, the number of bill transactions are quite large and numerous. As such, it is desirable to have separate subsidiary books for acceptances received and acceptances given. The former is called Bills Receivable Book and the later Bills Payable Book.

These special books are earmarked for recording transactions relating to Bills. The rulling of these books is follows :

Bills Receivable Book

S. No.	Date of receipt	Party from whom received	Acceptor	Date of Bill	Due date of Bill	Place of Payment	Term of Bill	Amount Rs.	L.F.
Total									

Bills Payable Book

S. No.	Date of acceptance	Date of Bill	To Whom Given	Term of Bill	Due date of Bill	Place of Payment	Payee	Amount Rs.	L.F.
Total									

Ledger Posting : All entries recorded in Bills Receivable Book are posted to the credit side of individual party's ledger account from whom it was received. The total of Bills Receivable Book is posted to the debit side of Bill Receivable Account at periodical intervals, e.g. once in month or twice in a month or once in a quarter etc.

Similarly, all entries made in Bills Payable Book are posted to the debit side of individual party's ledger accounts to whom such acceptances have been given. The total of this book is posted to the credit side of the Bills Payable Account at specified intervals.

As already discussed in chapter 2, "Bills Receivable" is a current asset and will appear as an asset in the Balance Sheet. On the other hand, Bills Payable is a current liability which will appear on the liabilities side of the Balance Sheet.

Test Questions

Very Short Questions & Answers : (Not exceeding 40 words)

- Q1. **State the meaning of Bill of Exchange.**
 Ans. : The bills of exchange is a instrument of credit which facilitate the credit sale of goods. In India, these are known as Hundies.
- Q2. **Name the parties of Bill of Exchange (B/E).**
 Ans. : Generally, these are three parties to a Bill of Exchange.
 (i) Drawer of the Bill or Creditor
 (ii) Drawee of the Bill or Debtor
 (iii) Payee of the Bill
- Q3. **Name the parties of Promisory Note (P/N).**
 Ans. : There are two parties to a Promisory Note -
 (i) The Maker or the Debtor
 (ii) The Payee or the Creditor
- Q4. **State Four characteristics of Bill of Exchange.**
 Ans. : Characteristics of B/E are -
 (i) Bill Exchange must be in writing.
 (ii) It must contain an order and not a request.
 (iii) The order must be unconditional
 (iv) The amount of the bill must be definite.
- Q5. **State any two merits of Bill of Exchange.**
 Ans. : Merits of B/E.
 (i) It serves as an evidence of Debt.
 (ii) It is a legal document in the eyes of law.
- Q6. **Enumerate any four characteristics of a Promisory Note.**
 Ans. : Characteristics of P/N :
 (i) It must be in writing.
 (ii) There must be a promise to pay a certain sum of money.

(iii) The promise must be unconditional.

(iv) It must be signed by the Promisor.

Q.7. What are different types of Bill of Exchange?

Ans. : Types of B/E are

(i) Trade Bill of Exchange written and accepted on account of sale and purchase of goods.

(ii) Accommodation Bill of Exchange, written and accepted for meeting short term financial need.

Q.8. Does a promisory note need acceptance?

Ans. : A promisory note does not need acceptance because it is already a valuable instrument in writing containing an unconditional undertaking to pay a certain sum of money.

Q.9. "I promise to pay you Rs. 10,000 as soon as possible? Is it a promisory note?"

Ans. : It is not a promisory note since it is not an unconditional promise to pay certain amount.

Q.10. What are days of grace?

Ans. : Generally, 3 days are added to the date of maturity of the Bill or the date on which the Bill of Exchange falls due for payment. These three days are called days of grace.

Q.11. What do you understand by Promisory Note?

Ans. : A promisory note is an instrument in writing (not being a bank note or a currency note), containing an unconditional undertaking, signed by the maker to pay a certain sum of money only to or to the order of a certain person.

Q.12. Whether a promisory note is payable to the bearer?

Ans. : According to sec. 31(2) of the Reserve Bank of India Act, a promisory note cannot be made payable to bearer.

Q.13. What Journal entry is passed in the books of the acceptor when discounted Bill is dishonoured?

Ans. : The Journal entry for dishonouring of a Bill in the books of Drawee in all cases would be ?

Bills Payable A/c	Dr.
To Drawer's A/c	

Q.14. Give Journal entry in the books of Drawer when an acceptance received is endorsed and dishonoured on the date of maturity.

Ans. : Journal Entry for Dishonouring of an Endorsed Acceptance.

Drawee's A/c	Dr.
To Endorsee's A/c	
(For acceptance dishonoured by drawee)	

Q.15. What is meant by Retiring a Bill under Rebate?

Ans. : When the acceptor or the drawee of the bill makes the payment of acceptance before the due date or before the date of maturity, it is called Retiring a Bill under rebate. It is a sort of discount allowed to the acceptor by the Payee.

Short Questions & Answers : (Not exceeding 80 words)

Q.1. Define Bill of Exchange and prepare a specimen of it assuming that Ram Kumar of New Delhi is a debtor and Ramesh creditor for Rs. 50,000.

Ans. : According to Indian Negotiable Instrument Act 1881 :

"A bill of Exchange is an instrument in writing, an unconditional order signed by the maker directing to pay a certain sum of money only to or to the order of a certain person or to the bearer of the instrument".

Specimen of a Bill of Exchange	
Rs. 50,000	210 Himmat Nagar JAIPUR 302018 Date 2nd Jan. 2015
STAMP	Two Months after date, pay to me or order, the sum of Rupees Fifty thousand only, for value received.
To,	
Shri Ram Kumar	
Kabir Marg	
New Delhi	Ramesh

Q.2. Give necessary features of Bill of Exchange.

Ans. : Features of Bill of Exchange :

1. It must be in writing. (Black and White)
2. It must contain an order (and not a request) for payment.
3. The order must be unconditional.
4. It must be signed by the maker (drawer) of the bill.
5. It must be signed by the acceptor (drawee) also.
6. The amount of bill of exchange must be definite.
7. The date of payment must be a fixed one.
8. It must bear stamp according to the amount of the Bill.
9. The amount of the Bill is payable either to the bearer of the Bill or to a specified person named therein.

Q.3. Explain five merits of Bill of Exchange.

Ans. Advantages of Bill of Exchange :

The following are the advantages for using bill of exchange :

- (i) **Evidence of Debt :** A bill of exchange serves an evidence in writing of a debt. It is a proof that the acceptor or the drawee of the bill owes the amount mentioned in it. Thus goods may be sold on credit without difficulty.
- (ii) **Legal Document :** A bill of exchange is a legal document in the eyes of law. If the acceptor of the bill fails to make its payment, it is easier to recover the amount through the court.
- (iii) **Reminders not needed :** On the basis of due date of the bill, creditor knows the date and amount receivable. Similarly the debtor knows, when and how much amount is payable by him. Thus creditor need not approach the debtor to demand the payment every now and then.
- (iv) **Liquidity of the Creditor :** The holder of the bill need not wait till the due date of the bill. In case he needs money, he may receive its payment by discounting it from his bankers before the date of maturity. Thus he can maintain his liquidity.

(v) **Endorsement Possible** : A bill of exchange can easily be transferred from one party to another party in settlement of former's debt as it is a negotiable instrument.

Q.4. What is meant by Promisory Note? Give its definition.

Ans. : **Promisory Note** : A promisory note is a written unconditional promise made by one person to another to pay a specified sum of money on demand or on a specified future date. It closely resembles a bill of exchange explained above and is also a mode of payment. It has been defined by section 4 of negotiable instrument act of 1881 as under :

Definition of Promisory Note :

"It is an instrument in writing (not being a bank note or a currency note) containing an unconditional undertaking signed by the maker, to pay a certain sum of money only to or to the order of a certain person."

Q.5. State the characteristics of a Promisory Note.

Ans. Characteristics of Promisory Note are as follows :

- (i) It must be in writing.
- (ii) There must be a promise to pay a certain sum of money.
- (iii) The promise must be unconditional.
- (iv) The amount payable must be specified and definite.
- (v) It must be signed by the promisor or the maker.
- (vi) The name of the payee be written in it.
- (vii) It cannot be made payable to the bearer.
- (viii) It must be properly stamped.
- (ix) The payment be made in country's legal currency.

Q.6. State the difference between Trade Bills and Accommodation Bills.

Ans. : Difference between trade bills of exchange and accommodation bills of exchange is as under :

- (i) Trade bills are drawn and accepted on account of sale and purchase of goods, whereas accommodation bills are written and accepted for mutual short term financial needs.
- (ii) Trade bills are drawn for consideration, whereas accommodation bills are written for no consideration.
- (iii) Where trade bills are discounted, total proceeds received are utilized and used by the payee of the bill only, whereas in case of accommodation bills, the proceeds received on discounting may be divided by both the parties viz, drawer and the acceptor.
- (iv) If the payment of trade bills is not received on due date, the creditor can go to court of law to realise his dues, whereas in case of accommodation bills, drawer can not file suit against drawee, if the later refuses to make payment.

Q.7. Explain the meaning of Due date or Date of maturity of the Bill.

Ans. : **Date of maturity or the Due date :**

The date on which the payment of the bill becomes due is called due date or it is the date of maturity. While calculating the due date of the bill, it is necessary to add three days to the period of the bill. These 3 days are called days of grace. For example, if the bill is drawn on 1st August, 2015 payable after 3 months, its due date will be 4th November, 2015.

The following points are important to be remembered for calculating the date of maturity of the bill:

- (i) If a bill of exchange falls due in those months in which there are no 29th or 30th or 31st dates, the maturity will be the last date of the month. For example a bill was drawn and

accepted on 30th January payable one month after date. The date of maturity will be one month and three days after January 30 i.e., 28th Feb. + 3 dys or 3rd March.

- (ii) If the due date falls on a gazetted holiday or Sunday, the due date shall be one day earlier than its actual due date.
- (iii) If the due date falls on a day which is neither Sunday nor a gazetted holiday but is a causal declaration as holiday, (emergency holiday) the due date will be the next working day.

Q.8. Explain the meaning of Noting Charges and who bears these expenses.

Ans. : **Noting Charges** : When an Acceptor of bill of exchange refuses to make the payment of his acceptance on due date, it is called dishonour of the bill on due date.

To establish the fact that the bill was presented but dishonoured, it is usually presented to the drawee through a person called Notary Public appointed by the court. Notary public notes down the fact of dishonour on the bill itself. It is called "Noting". The person who charges a fee for such service rendered by him is called noting charges. Such noting charges are first paid by the holder of the bill. But ultimately this amount is recovered from the acceptor of the bill who is responsible for dishonouring of the bill.

Essay Type or Long Answers Questions :

1. Define Promisory Note give its characteristics and distinguish it from Bills of Exchange. (See page nps. 7.3 and 7.4)
2. What is an accommodation on Bill ? Give its importance, what entries would be passed in the books of both the parties in case one of the party is declared insolvent ? (See page nps. 7.22)
3. Explain the meaning and characteristics of Bill of Exchange. (See page nps. 7.1 and 7.2)
4. Mohan draws a bill on Sohan for Rs. 10,000 which is accepted by Sohan. The bill is of 2 months duration. Give Journal entries in the books of Mohan :
 - (i) If he retains the bill till due date and realised it on maturity.
 - (ii) If he discounts it from his Bank for Rs. 9,850 and it is honoured on due date.
 - (iii) If he endorses it to his Creditor Modi in full settlement of Rs. 10,100.
 - (iv) If he sends it to his banker for collection.
5. Anil sold goods to Sunil for Rs. 10,000 and draws a bill for 3 month after date. Sunil accepted it and returned it to Anil. On the due date the bill was dishonoured by Sunil. Make Journal entries regarding its dishonour in the books of both the parties in following cases :
 - (i) If he retained the bill till due date.
 - (ii) If he discounted the bill from him Bank for Rs. 9,800.
 - (iii) If the bill was endorsed to Mohan
 - (iv) If the bill was sent to Bank for collection.

Numericals :

1. Kapil sold goods to Vipul for Rs. 20,000 on 1st January, 2015 and drew a bill for 3 months after date. It was accepted by Vipul and returned to Kapil. On the due date it was met by the drawee. Make necessary Journal entries in the books of Kapil and Vipul.
2. On 1st February, 2015, A draws two bills of exchange on B for Rs. 25,000 and Rs. 35,000, for 2 m/d and 3 m/d respectively. The first acceptance is discounted by A at Rs. 23,500 and the second was endorsed to C. Both the acceptances were met at maturity.
3. X drew a bill on Y for Rs. 25,000 payable two months after date immediately after its acceptance. X sent the bill to his banker for collection. On the due date bank collects the bill and sends the advice of collection after deducting Rs. 125 as collection charges. Pass journal entries in the books of X.

Note : The above 3 questions are based on Illustration 8.2. Please solve these questions after learning that illustration.

4. A bill for Rs. 45,000 is drawn by Ram Kumar & Co. on Shyam Nath & Co. and accepted by the latter payable at Central Bank of India. Show what Journal entries would be passed in the books of both the parties under each of the following circumstances :

- (i) If they retained the bill till the due date and then realised it on maturity.
- (ii) If they discounted it with their bankers. Bank of Baroda, for Rs. 43,800
- (iii) If they endorsed it over to their creditor, Mehta & Co. in settlement of their debt of Rs. 45,200.
- (iv) If they sent the same to their bankers for collection.

Solution : Books of Ram Kumar & Co. Books of Shyam Nath & Co.

B/R A/c To Shyam Nath & Co.	Dr. 45,000 45,000	Ram Kumar & Co. To Bills Payable A/c	Dr. 45,000 45,000
(i) On realisation : Bank or Cash A/c To B/R A/c	Dr. 45,000 45,000	(i) When Bill is paid off B/P A/c To Cash/Bank A/c	Dr. 45,000 45,000
(ii) For Discounting : Bank A/c Discount A/c To B/R A/c	Dr. 43,800 Dr. 1,200 45,000	(ii) No entry on discounting of bill. For payment on due date, same entry under case (i) will be passed.	
Note : On due date, Bank will receive payment.			
(iii) For endorsement : Mehta & Co. To B/R A/c To Discount Received A/c	Dr. 45,200 45,000 200	(iii) No entry on endorsement of bill. For Payment, same entry will be passed as under case (i) above.	
No entry will be passed when bill is met at due date.			

- Q.5. Mohan owes Shyam Rs. 40,000. On 1st-January, 2015, Mohan accepts a 3 months bill for Rs. 39,000 in settlement of his claim. On the same day it was endorsed to Gyan for a claim of Rs. 39,800. The bill was discounted on due date. Give Journal entries in the books of Mohan, Shyam and Gyan.

Solution : Mohan's Books

Shyam's Books

(1) Shyam's A/c To B/P A/c To Discount Received A/c (Acceptance given and discount received)	Dr. 40,000 39,000 1,000	(2) B/R Discount Allowed A/c To Mohan's A/c (For acceptance received & discount allowed)	Dr. 39,000 Dr. 1,000 40,000
(2) B/P A/c Discount Received A/c To Shyam's A/c (Acceptance dishonour and discount cancelled)	Dr. 39,000 Dr. 1,000 40,000	(2) Gyan's A/c To B/P A/c To Discount-Received A/c (For acceptance endorsed & discount received)	Dr. 39,800 39,000 800
Books of Gyan :		(3) Mohan's A/c Discount Received A/c To Gyan's A/c To Discount Allowed A/c (For acceptance dishonoured & discount canceled)	Dr. 40,000 Dr. 800 39,800 1,000
(1) B/R A/c Discount Allowed A/c To Shyam's A/c (Acceptance received in full satisfaction)	Dr. 39,000 Dr. 800 39,800		

On dishonour of the bill – Shyam's A/c will be debited with Rs. 39,800 and B/R A/c and Discounted Allowed A/c will be credited with Rs. 39,000 & Rs. 800 respectively.

- Q.6. Sen and Banerjee had numerous transactions of Bill of Exchange between them. You are required to give Journal Entries in the books of Sen and Banerjee :

- (i) 1-1-2015 Sen draws a Bill on Banerjee for Rs. 15,450 payable after a month inclusive of interest @ 3% on Rs. 15,000.
- (ii) 2-1-2015 The bill of Rs. 25,000 was discounted by Sen drawn on 30-12-2014, discounting charges being 15% per annum. The bill is due on 2-2-2015.
- (iii) 4-1-2015 Sen endorses the Bill for Rs. 15,450 in favour of Ram.
- (iv) 1-2-2015 Banerjee meets the Bill for Rs. 15,450.
- (v) 4.2.2015 The bill for Rs. 25,000 was returned by Bankers as unpaid with noting charges Rs. 10

Solution :

Books of Sen

Books of Banerjee

(i) B/R A/c To Banerjee's A/c To Interest A/c (For interest charged & B/R received)	Dr. 15,450 15,000 450	Sen's A/c Interest A/c To B/P A/c (For acceptance given including interest charges)	Dr. 15,000 Dr. 450 15,450
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(ii) Bank A/c Discount A/c To B/R A/c (For another acceptance discounted discount = 25,000 × 15% 1/12)	Dr 2,46,87.50 Dr. 312.50 25,000	(ii) No Entry
(iii) Ram's A/c To B/R A/c (For acceptance endorsed)	Dr. 15,450 15,450	(iii) No Entry
(iv) No entry since payment will be received by the endorsee, Ram.		(iv) B/P A/c Dr. 15,450 To Bank A/c 15,450 (For acceptance met on due date)
(v) Banerjee's A/c To Bank A/c (For acceptance discounted was dishonoured, noting charges Rs. 10)	Dr. 25,010 25,010	B/P A/c Dr. 25,000 Trade Expenses A/c Dr. 10 To Sen's A/c (For acceptance not paid, noting charges being Rs. 10)

Q.7. Journalise the following transactions :

- Sarita renewed our acceptance for Rs. 25,000 for 3 m/d, by adding interest @18% per annum.
- We accepted a new bill in favour of Vibha against our acceptance of Rs. 50,000 by making a payment of Rs. 25,000 by cheque and adding Rs. 1,500 for interest.
- On the due date Kapil could not make payment of his acceptance for Rs. 22,000. He paid Rs. 10,000 cash and a fresh acceptance of Rs. 12,500.

Solution :

- When old acceptance cancelled—Debit B/P A/c with Rs. 25,000 and credit the A/c of Sarita with the same amount.
- For Charging interest by Sarita—Debit Interest A/c and Credit Sarita's A/c with Rs. 25,000 × 18% × 3/12 = 4,500 × 3/12 or Rs. 1,125
- For new acceptance given—Debit Sarita's A/c with Rs. 26,125 and credit B/P A/c with the same amount.

(ii) First old B/P is cancelled :			
(a) B/P A/c	Dr. 50,000		
To Vibha's A/c	50,000		
(b) Interest A/c	Dr. 1,500	(c) Vibha's A/c	Dr. 51,500
To Vibha's A/c	1,500	To Bank A/c	25,000
(For interest charges by Vibha)		To B/P A/c	26,500
		(For new acceptance and Rs. 25,000 given)	
(iii) (a) Kapil's A/c	Dr. 22,000	(b) Kapil's A/c	Dr. 500
To B/R A/c	22,000	To Interest A/c	500
(Acceptance Cancelled)		(Interest charged to Kapil Rs. 500)	

Bank A/c	Dr. 10,000	
B/R A/c	Dr. 12,500	(For acceptance received for Rs. 12,500 and a cheque for Rs. 10,000)
To Kapil's A/c	22,500	

Q.8. On 1st July, Anil sold goods to Babu for Rs. 60,000 at 10% trade discount. Babu accepted a 3 months bill in payment for the purchases. Anil discounted the same with his bankers @ 12% per annum on the same day. The bill was dishonoured at maturity. On 4th October, Babu accepted a new bill for 2 months for the amount of the original bill and interest @ 10% per annum. Babu was declared insolvent on 15th November. The final payment recovered from his estate on 21st December @ 50 paise in a Rupee. Pass necessary Journal entries in the books of Anil and Babu.

Note : Solve this question on the basis of illustration 8.6.

Q.9. On 1st January 2015, X purchased goods for Rs. 90,000 from Y. On the same day Y draws on X three bills of equal amount for 2 months, 3 months and 4 month respectively. X accepted the same on 10th January, 2015. Y discounted the first bill with his Banker at 10% per annum. On the same date Y endorsed the 2nd bill to his creditor Z for Rs. 30,480. On the due date of the 3rd bill X requests Y to receive Rs. 12,000 in cash and a new Bill for Rs. 18,600 and cancel the old bill. Y agrees to his proposal. On the due date first bill was dishonoured and bank paid Rs. 240 as noting charges. The 2nd bill was met at maturity. On 4th June, 2015 the new bill was retired under rebate @ 9% per annum. Record these transactions in the Journal of Y.

Note : This question is based on illustration 8.7. Please solve it on the basis of that illustration.

Q.10. Patel received from one of his customers a bill at three months for Rs. 20,000. He discounted on the same day at 10% per annum with his bankers. On the date of maturity, the bill was dishonoured and the bank incurred noting charges Rs. 80. However, the customer paid him Rs. 2,000 plus noting charges plus interest for three months amounting to Rs. 420 in cash and accepted a fresh bill at three months for Rs. 18,000 being the balance amount due from him. Patel gave the second bill to Mr. Gagan one of his Creditors. The second bill was duly met on due date. Record these transactions in the Journal of Patel.

Solution : Journal of Patel

Date	Particulars	L.F	Dr. (Rs.)	Cr. (Rs.)
	B/R A/c	Dr.	20,000	
	To Customer (Name) A/c			20,000
1000 × 3 12	Bank A/c	Dr.	19,500	
	Discount A/c	Dr.	500	20,000
	To B/R A/c			
20,000 + 80	Customer's A/c	Dr.	20,080	
20,080	To Bank A/c			20,080
	(B/R Cancelled)			
	Customer's A/c	Dr.	420	
	To Interest A/c			420
	(Interest Charged)			

Cash A/c (Rs. 2,000 + 80 + 420)	Dr.	2,500	
B/R A/c	Dr.	18,000	
To Customer's A/c (Cash received Rs. 2,500 and a new acceptance)			20,500
Gagan's A/c	Dr.	18,000	
To Bills Receivable A/c (For new acceptance endorsed to Gagan)			18,000

Note : Payment of new acceptance will be received by Gagan.

Q.11. Journalise the following transactions :

- Anil's acceptance for Rs. 35,000 renewed for three months plus Rs. 2,500 for interest.
- Retired our acceptance to Babu for Rs. 50,000 by cheque Rs. 20,000 and a new bill for the balance at 2 months after date with interest Rs. 1,500.
- Our acceptance to K for Rs. 40,000 renewed for 3 months with interest at 12% per annum.
- Sunil retires his acceptance for Rs. 80,000 by cheque Rs. 30,000 and a new bill at 4 months date for the balance, interest at 12% being paid in cash.
- Anil (our Creditor) notifies us of the dishonour of P's acceptance for Rs. 65,000 due this day. Noting charges Rs. 1250 being paid by him. We withdraw the same in exchange for our cheque.

Solution : **Journal**

Date	Particulars	L.F	Dr. (Rs.)	Cr. (Rs.)
(i)	Anil's A/c	Dr.	35,000	
	To Bills Receivable A/c (Old acceptance cancelled)			35,000
	B/R A/c	Dr.	37,500	
(ii)	To Interest A/c			2,500
	To Anil's A/c (Interest Charged & new bill received)			35,000
	Bills Payable A/c	Dr.	50,000	
(iii)	To Babu (For old acceptance cancelled)			50,000
	Interest A/c	Dr.	1,500	
	To Babu (For Interest Charged by Babu)			1,500
(iv)	Babu's A/c	Dr.	51,500	
	To Bank A/c			20,000
	To Bills Payable A/c (For Babu's A/c settled by cheque & new acceptance)			31,500
(v)	Bills Payable A/c	Dr.	40,000	
	To K's A/c (Cancellation of old acceptance @ 12% p.a. for 3 months)			40,000

(i)	Interest A/c	Dr.	1,200	
	To K's A/c (For interest charged by K @ 12% p.a. for 2 months)			1,200
(ii)	K's A/c	Dr.	41,200	
	To Bills Payable A/c (For new acceptance given)			41,200
(iii)	Sunil's A/c	Dr.	80,000	
	To Bills Receivable A/c (Old acceptance cancelled)			80,000
(iv)	Sunil's A/c	Dr.	2,000	
	To Interest A/c (For interest charged on Rs. 50,000 @ 12% per annum = $6,000 \times 4/12 = \text{Rs. } 2,000$)			2,000
(v)	Cash A/c	Dr.	2,000	
	Bank A/c	Dr.	30,000	
	B/R A/c	Dr.	50,000	
(vi)	To Sunil's A/c (For interest received in cash and a cheque for Rs. 30,000 & for balance new acceptance)			82,000
	P's A/c	Dr.	66,250	
(vii)	To Anil's A/c (For P's acceptance endorsed to Anil being dishonoured noting charges Rs. 1,250)			66,250
	Anil's A/c	Dr.	66,250	
(viii)	To Bank A/c (For payment made to Anil by cheques)			66,250

Accommodation Bills :

- Q.12. On 1st January, 2015 A drew and B accepted a bill for Rs. 30,000 at two months after date for mutual benefit of both. On 4th January A discounted the bill from his Bank for Rs. 29,600 and remitted half the proceeds to B. On 8th February, B drew and A accepted bill at 3 months after date for Rs. 30,000. On 11th February B discounted the bill from the Bank for Rs. 26,400 and remitted half the proceeds to A. At maturity A met his acceptance but B failed to meet his. A drew and B accepted a new bill at 3 months for the amount of the old bill and interest at 10% per annum. On 3rd June, B became insolvent and a final dividend of 80 paise in a rupee was paid by him. The payment was received on 4th July, 2015. Pass Journal-entries in the books of A and B.

[Ans : Dividend received Rs. 24,600, Bad debts Rs. 6,150.]

Solution :

A's Journal				B's Journal					
Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)	Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
2015 Jan.	B/R A/c Dr. To B		30,000	30,000		A's A/c Dr. To B/P A/c		30,000	30,000
Jan. 4	Bank A/c Dr. Discount A/c Dr. To B/R A/c		29,000 1,000	30,000		Cash A/c Dr. Discount A/c Dr. To A's A/c		14,500 500	15,000
	B's A/c Dr. To Bank A/c To Discount A/c		15,000	14,500 500		B/R A/c Dr. To A's A/c		30,000	30,000
Feb. 8	B's A/c Dr. To B/P A/c (Acceptance given)		30,000	30,000		Bank A/c Dr/ Discount A/c Dr. To B/R (Bills discounted)		26,400 3,600	30,000
11	Cash A/c Dr. Discount A/c Dr. To B's A/c (Half amount recd.)		13,200 1,800	15,000		A's A/c Dr. To Bank A/c To Discount A/c		15,000	13,200 1,800
April 4	B's A/c Dr. To Bank A/c (B's acceptance dish.)		30,000	30,000		B/P A/c Dr. To A's A/c (Bill dishonoured)		30,000	30,000
April 4	B/R A/c Dr. To B's A/c To Interest A/c (New bill received with interest @ 10% for 3 months)		30,750	30,000 750		Interest A/c Dr. To A's A/c (Int. charged by A)		750	750
May 11	B/P A/c Dr. To Bank A/c (For meeting own bill)		30,000	30,000		A's A/c Dr. To B/P A/c (New Bill given with Int.)		30,750	30,750
June 3	B/s A/c Dr. To B/R A/c (B's bill dishonoured be becoming insolvent)		30,750	30,750		B/P A/c Dr. To A's A/c (Bill dishonoured on becoming insolvent)		30,750	30,750
	Cash A/c Dr. Bad debts A/c Dr. To B's A/c (For B became insolvent & paid 80 Paise in a Rupee)		24,600 6,150	30,750		A's A/c Dr. To Cash A/c (80%) To Deficiency A/c (20%) (For 80% of amount due paid in cash balance treated as profit)		30,750	24,600 6,150

Note : Dr.

B's A/c		Cr.
To Bank	Rs. 14,500	By B/R
To Discount	500	By Cash A/c
To Bills Payable	30,000	By Discount
To Bank A/c (dish.)	30,000	By B/R
To Interest	750	By Cash
To B/R A/c	30,750	By Bad debts
Total	1,06,500	Total
		1,06,500

Note : Balance due from B will be ascertained by preparing his A/c in A's Books.

13. X draws a bill for Rs. 36,000 and Y accepts the same for mutual accommodation of both of them to the extent of 2 : 1 respectively. X discounts the same for Rs. 33,840 and remits 1/3 of proceeds to Y. Before the due date Y draws another bill on X for Rs. 50,400 in order to provide funds to meet the first bill. The second bill is discounted for Rs. 48,960 with the help of which first bill is met and Rs. 8,640 was remitted to X. Before the due date of the second bill, X became insolvent and Y received a dividend of 50 paise in a rupee in full satisfaction. Pass necessary Journal entries in the books of X and Y. [Ans : Dividend received Rs. 16,800.]

Solution : Books of X

Books of X		Books of Y	
B/R A/c Dr. 36,000 To Y 36,000	X's A/c Dr. 36,000 To B/P A/c 36,000		
Bank A/c Dr. 33,840 Discount A/c Dr. 2,160 To B/R A/c 36,000 (Acceptance discounted)	Cash A/c Dr. 11,280 Discount A/c Dr. 720 To X's A/c 12,000 (One-third proceeds received)		
Y's A/c Dr. 12,000 To Bank A/c 11,280 To Discount A/c 720 (For 1/3rd proceeds remitted)	B/R A/c Dr. 50,400 To X's A/c 50,400 (For acceptance received from X to mat first bills)		
Y's A/c Dr. 50,400 To B/P A/c 50,400 (Acceptance given to Y)	Bank A/c Dr. 48,960 Discount A/c Dr. 1,440 To B/R A/c 50,400 (For discounting of Bill)		
Cash A/c Dr. 8,640 Discount A/c Dr. 960 To Y's A/c 9,600 (Two-third proceeds after paying the amount of 1st Bill was received, 48,960 - 36,000 = 12,960)	B/P A/c Dr. 36,000 To Cash A/c 36,000 (For payment of acceptance which was given to X)		
B/P A/c Dr. 50,400 To Y's A/c 50,400 (Own acceptance dishonoured on due date)	X's A/c Dr. 9,600 To Cash A/c A/c 8,640 To Discount A/c 960 (2/3rd Proceeds given)		

Y's A/c Dr. 33,600 To Bank A/c 16,800 To Deficiency A/c 16,800 (For 50% payment made and balance treated as profit on becoming insolvent)	X's A/c Dr. 50,400 To Bank A/c 50,400 (X's acceptance dishonoured on due date)
Note : Amount due to be given to Y will be ascertained by preparing Y's A/c in X's books as unders)	Cash A/c Dr. 16,800 Bad debts A/c Dr. 16,800 To X's A/c 33,600 (For 50% amount due received)

Y's A/c		Cr.
Dr.	Rs.	Rs.
To Bank	11,280	By B/R 36,000
To Discount	720	By Cash 8,600
To B/P	50,400	By Discount 960
To Bank A/c	16,800	By B/P 50,400
To Deficiency	16,800	
	96,000	96,000

Q.14. On 1st January 2014, Harish drew and Shyam accepted a bill at three months for Rs. 40,000. On 4th January 2014, Harish discounted the bill at his bank at 15% per annum and remitted half the proceeds to Shyam. On 1st February, 2014 Shyam drew and Harish accepted a bill at four months for Rs. 30,000. On 4th February, 2014, Shyam discounted the bill at 15% per annum with his bank and remitted half the proceeds to Harish. They both agreed to share the discount equally. At maturity, Harish met his acceptance, but Shyam dishonoured his and Harish had to pay for it. Harish drew and Shyam accepted a new bill at three months for the original bill plus interest at 18% per annum. On 1st July 2015 Shyam became insolvent and only 50 paise in the rupee was received from him. Record the above transactions in Harish's Journal.
 [Ans : Bad debts Rs. 18,400, and Cash received Rs. 18,400.]

Q.15. On 1st January, 2014 Kapil accepted a 4 months draft (Bill) of Pawan worth Rs. 1,20,000. On 4th January Pawan discounted the bill @ 10% per annum and sent half the proceeds to Kapil. On 5th Feb. 2014, Pawan accepted two months draft of Kapil for Rs. 30,000. On 8th February Kapil discounted this bill @ 14% per annum and sent half the amount to Pawan. Pawan and Kapil agreed to share the amount of discount equally. On maturity Pawan met his acceptance but Kapil was unable to make the payment. So Pawan had to pay for Kapil also. Pawan drew a fresh bill for 4 months for the amount of the old bill together with interest @ 12% per annum, which was accepted by Kapil. On 9th June, 2014 Kapil became insolvent and on 31st October, 2015 only 40 paise in the Rupee was realised from his Assets. He made this payment on 20th February, 2015. Record these transactions in the books of Pawan and Kapil and prepare the account of Kapil in the Ledger of Pawan.
 [Ans : Cash received Rs. 30,640, bad debts Rs. 45,960.]

Q. Nos. 14 and 15 may be solved on the basis of the solution of Q. No. 12 and 13.

