

2018

July 15	Cash in hand	800
“ 15	Balance in bank account	4,500
“ 16	Purchased goods and issued cheque	3,000
“ 17	Cash sales	4,000
“ 18	Received from Saniad in full settlement of his account Rs.4,000 cheque	2,000
	cash	1,950
“ 20	Cash deposited into bank	5,000
“ 21	Paid Rama Krishna by cheque	2,970
	Received discount	30
“ 22	Received from Bose	1,680
	Discount allowed	20
“ 24	Cash withdrawn for office purpose	2,000
“ 25	Paid Mahantha in cash	3,000
	Discount allowed by him	40
“ 26	Paid for stationery	100
“ 28	Deposited cash into bank	2,000
“ 30	Cash withdrawn from bank for personal use of proprietor	500

Solution :

Joshi & Sons
Cash Book (With Discount and Cash Columns)

Rs.					Rs.						
Date	Particular	I.F.	Discount Allowed	Cash		Date	Particula	I.F.	Discount Received	Cash	Bank
2018				Rs.	Rs.	2018			Rs.	Rs.	
July.15	To Balance c/d			800	4,500	July 16	By Purchase A/c				3,000
“ 17	To Sales A/c			4,000		“ 20	By Bank A/c	C		5,000	
“ 18	To Samad		50	1,950	2,000	“ 21	By Rama Krishna		30		2,970
“ 20	To Cash A/c	C			5,000	“ 24	By Cash A/c	C			2,000
“ 22	To Bose		20	1680		“ 25	By Mahanta		40	3000	
“ 24	To Bank A/c	C		2,000		“ 26	By Stationery A/c			100	
“ 28	To Cash A/c	C			2,000	“ 28	By Bank A/c	C		2,000	
						“ 30	By Drawings A/c				500
						“ 31	By Balance c/d			330	5,030
			70	10,430	13,500				70	10,430	13,500
Aug. 1	To Balance b/d			330	5030						

LEDGER**Sales Account**

			2018	
			July 17 By Sales A/c	4,000

Sanad's Account

			2018		
			July 18	By Discount Allowed	50
			“ 18	By Cash A/c	1,950
			“ 18	By Bank A/c	2,000

Bank Account

			2018		
			July 22	By Discount Allowed	20
			“ 22	By Cash A/c	1,680

Purchase Account

2018			Rs.		
July 16	To Bank A/c		3,000		

Rama Krishna's Account

2018			Rs.		
July 21	To Discount allowed		30		
“ 21	To Bank A/c		2,970		

Mahendra's Account

2018			Rs.		
July 25	To Discount Received A/c		40		
“ 25	To Cash A/c		3,000		

Stationery Account

2018			Rs.		
July 26	To Cash A/c		100		

Drawings Account

2018			Rs.		
July 30	To Bank A/c		500		

Discount Allowed Account

2018			Rs.		
July 31	By Sundries as per Cash book		70		

Discount Received Account

			2018		
			July 31	By Sundries as per Cash book	70

In illustration 4, you will notice that the total of bank column on the debit side is more than the total of bank column on the credit side of the cash book. This indicates that there is money in the bank. If, however, the total of bank column on the debit side is less than the total on the credit side, it will reflect an overdraft in the bank. You will find this in Illustration 5.

1.13.4 Special Points Regarding Cheques Received

Generally, cheques received from various parties are deposited in the bank on the same day. However, for some reason, if a cheque is not sent to the bank on the day of receipt, it can be entered in the cash column, treating the cheque as cash. Then, the day it is sent to the bank, it can be recorded in the cash book as cash deposit in the bank in the form of a contra entry. For example, on April 8, a cheque for Rs. 500 is received from Rao and it is sent to the bank on April 11. The entries in cash book will appear as follows:

Banking Transactions and Three Column Cash Book

Cash Book (Cash and Bank Column only)

Dr.					Cr.				
Date	Particulars	L.F.	Cash	Bank	Date	Particulars	L.F.	Cash	Bank
			Rs.	Rs.				Rs.	Rs.
2018 Apr. 8	To Rao		500		2018 Apr. 11	By Bank a/c	C	500	
“ 11	To Cash A/c	C		500					

Normally, this procedure is avoided. The entry is made directly in the bank column on the day the cheque is deposited in the bank. In the absence of any specific instructions, it can be presumed that the cheque received from a party was sent to the bank for collection on the same day.

Sometimes, a cheque received by the firm may not be deposited in the bank but may be endorsed to a third party. In that case, the cheque received will be recorded first in the cash column on the debit side of the cash book and then on its credit side in the cash column. This ensures entries in the personal accounts of (i) the party from whom it is received, and (ii) the party to whom it is endorsed. For example, on April 12, a cheque for Rs. 800 was received from Ganpati and it was endorsed on April 14, in favour of Shiva, a creditor of the firm. The entries in cash book will appear as follows:

Cash Book (Cash Column only)

Dr.				Cr.			
Date	Particulars	L.F.	Amount	Date	Particulars	L.F.	Amount
			Rs.				Rs.
2018 Apr. 12	To Ganpati		800	2018 Apr. 14	By Shiva a/c		800

Sometimes, a cheque sent to the bank for collection may be dishonoured. In that case, the bank will return the cheque along with the advice stating the cause of dishonour. Whatever the firm may do to realise its payment from the concerned

party, the entry for dishonour of the cheque must immediately be recorded in the cash book. The entry will be made on the credit side in bank column. This nullifies the effect of the entry made earlier at the time of receiving and depositing the cheque in the bank. For example, on April 16, a cheque for Rs. 750 was received from Yogesh and sent to bank for collection on the same day. The bank dishonoured the cheque and returned it on April 20. The entries in the cash book will appear as follows:

Cash Book
(Bank Column only)

Dr.				Cr.			
Date	Particulars	L.F.	Amount	Date	Particulars	L.F.	Amount
2018 Apr. 16	To Yogesh		Rs. 750	2018 Apr. 20	By Yogesh		Rs. 750

Check Your Progress E

Fill in the blanks.

1. All deposits into the bank are recorded in bank column on the..... side of the cash book.
2. All withdrawals from the bank are recorded in bank column on the side of the cash book.
3. If debit as well as the credit aspects of a transaction are recorded in the cash book itself it is called.....
4. When a cheque received on a particular date is not deposited the same day into bank, it is entered in column on the debit side of the cash book.
5. When a cheque received is endorsed, it is recorded in cash column on..... sides of the cash book.
6. When a cheque is returned dishonoured, it is recorded on the..... side of the cash book in bank column.

Illustration 5

Record the following transactions in Three Column Cash Book of Balaji Agencies and balance the same.

		Rs.
2018		
July 1	Cash in hand	40,000
“ 2	He opened a current account with a bank	36,000
“ 3	Purchased goods for cash and by cheque	600 1,500
“ 5	Sold goods for cash	800
“ 6	Sold goods to Mohan and received a cheque for the same	1,200
“ 8	Deposited Mohan's cheque in the bank	1,200
“ 9	Purchased stationery by cheque	200
“ 10	Cash sales	2,000

“ 11	Issued cheque for cash purchase of furniture to Woodland	2,500
“ 12	Deposited cash in the bank	3,000
“ 13	Misra paid directly into bank account	1,000
“ 15	Received from Madhu cash	1,000
	cheque	1,400
	Allowed him discount	50
“ 16	Paid to Ravi in cash	500
	cheque	2,500
	Received discount	40
“ 17	Received a cheque from Joseph	1,500
“ 18	Withdrew cash from the bank for office use	1,500
“ 20	Balaji paid his son’s college fees in cash	400
“ 22	Paid Subhan & Co. by cheque	975
	Received discount	25
“ 24	Joseph’s cheque returned dishonoured	1,500
“ 25	Received a cheque from Gagan. It was endorsed to Ram	700
“ 26	Withdrew from bank for personal use	1,600
“ 27	Issued cheque for purchase of machinery	40,000
“ 28	Paid sundry expenses in cash	200
“ 30	Paid rent by cheque	600
“ 31	Deposited Cash in excess of	500

Balaji Agencies Cash Book

Date	Particulars	L.F.	Discount Allowed	Cash	Bank	Date	Particulars	L.F.	Discount Received	Cash	Bank
2018			Rs.	Rs.	Rs.	2018			Rs.	Rs.	Rs.
July 1	To Balance b/d			40,000		July 2	By Bank A/c	C		36,000	
“ 2	To Cash A/c	C			36,000	“ 3	By Purchases A/c			600	1,500
“ 5	To Sales A/c			800		“ 8	By Bank A/c	C		1,200	
“ 6	To Sales A/c			1,200		“ 9	By Stationery A/c				200
“ 8	To Cash A/c	C			1,200	“ 11	By Furniture A/c				2,500
“ 10	To Sales A/c			2,000		“ 12	By Bank A/c	C		3,000	
“ 12	To Cash A/c	C			3,000	“ 16	By Ravi		40	500	2,500
“ 13	To Misra				1,000	“ 18	By Cash A/c	C			1,500
“ 15	To Madhu		50	1,000	1,400	“ 20	By Drawings A/ c			400	
“ 17	To Joseph				1,500	“ 22	By Subhan & Co		25		975
“ 18	To BankA/c	C		1,500		“ 24	By Joseph				1,500
“ 25	To Gagan			700		“ 25	By Ram			700	
“ 31	To Cash A/c	C			4,100	“ 26	By Drawings A C				1,600
“ 31	To Balance c/d				4,675	“ 27	By Machinery A/c				40,000
						“ 28	By Sundry exp.A/c			200	
						“ 30	By Rent A/c				600
						“ 31	By Bank A/c	C		4,100	
						“ 31	By Balance c/d			500	
		50	47,200	52,875				65	47,200	52,875	
Aug.1	To Balance b/d			500		Aug.1	By Balance b/d				4,675

Note :

1. When cheques are received from parties, unless otherwise specified, it is assumed that they are deposited in the bank on the same day. But, in case of the transaction dated July 6, the cheques was received on July 6, but was deposited in the bank on July 8. Hence on July 6, it is recorded as the cash column on the debit side, and on July 8, it is shown as cash deposit through a contra entry.
2. On July 17, Joseph gave a cheque for Rs. 1,500 which was duly entered on the debit side. On July 24, the cheque was returned dishonoured. When a cheque is dishonoured, the rule is to reverse the entry made earlier. Hence, on July 24, an entry has been passed on the credit side in the bank column. This nullifies the entry made on July 17.
3. On July 25, a cheque was received from Gagan which was endorsed to Ram. It has been first entered in the cash column on the debit side on July 25, and then on the credit side on the same date.
4. The credit side total of the bank column is Rs 52,875 and the debit side total is Rs 48,200. It means that there is a credit balance of Rs. 4,675 in the bank account. As you know this is a case of overdraft. On July 31, it has been shown on the debit side of the cash book making two sides equal, and then on August 1, it is recorded on the credit side of the bank column.

1.14 PURCHASES JOURNAL

While studying sub-division of journal, you learnt that Purchases Journal is used for recording credit purchases of goods and raw materials. The goods or raw materials can be purchased either on cash basis or on credit basis. When they are purchased on cash basis, the entry is made in the cash book. But when they are purchased on credit, they are recorded in the Purchases Journal. Note that the credit purchases of fixed assets like typewriter, vehicle, etc., are not recorded in this book. They are recorded in Journal Proper about which you will learn later. The Purchases Journal is also called 'Purchases Book', 'Purchases Day Book', and 'Invoice Book'.

1.14.1 Invoice

When you purchase something from a shop, you receive a bill Such bill is called 'invoice'. It contains the details pertaining to the quantity, description, price, total amount, and trade discount, if any. Thus, an invoice is a business document giving full details of the goods purchased. It is a 'Purchase Invoice' or 'Inward invoice' for the purchaser and a 'Sales Invoice' or 'Outward Invoice' for the seller. Entries in the Purchases Journal are made on the basis of the purchase invoices received (inward invoices). Look at Figure 6.8 for a specimen of an invoice.

Invoice			
Book Lovers Private Limited Hyderabad			
No.3891		Date: 15-7-2018	
To M/s. Book Paradise, Nagpur			
Quantity	Particulars	Rate per unit	Total
10 Copies	Principles and Practice of Accountancy by R. Srirani Less: Discount 10% (Rupees two hundred and twenty five only)	Rs. 25.00	Rs. 250.00
			25.00
			225.00
xxxxx For Book Lovers Private Limited			

Fig. 1.8

1.14.2 Recording in the Purchases Journal Look

at Figure 1.9. It shows the Proforma of a Purchases Journal.

Purchases Journal

Date	Name of the supplier	Inward invoice Number	L.F.	Amount	Remarks
(1)	(2)	(3)	(4)	(5)	(6)
				Rs.	

Fig. 1.9

The Purchases Journal has six columns.

Column 1: It is meant for writing the date of purchase.

Column 2: In this column, you write the name and address of the supplier.

Column 3: The inward invoice number is recorded in this column. As stated earlier, when you purchase goods on credit, you get an invoice from the supplier. Although it bears a number, you have to accord your own serial numbers to all inward invoices for easy reference. It is this serial number which will be entered in the inward invoice column of the Purchase Journal.

Column 4: In this column, you will write the page number of the account in ledger where posting is done.

Column 5: In this column, the amount payable to the supplier is recorded. You must note that the amount payable is arrived at after deducting the trade discount, if any. For example, see the invoice given in Figure 1.8. The amount payable is Rs. 225. If, some sales tax is also involved, the amount payable should include that also.

Column 6: Any other relevant information is to be recorded in this column. Information such as the date on which the amount of the bill is payable and the date on which it is actually paid may be noted in this column.

1.14.3 Posting the Purchases Journal

The transactions recorded in the Purchases Journal are to be posted to their respective personal accounts in the ledger. When a purchase is made on credit, the supplier becomes the creditor for the firm. Hence, every credit purchase recorded in the Purchases Journal is posted on the credit side of the personal account of the supplier by writing 'By Purchases A/c' in particulars column. The Purchases Journal is totalled periodically, say, weekly or monthly. This total is posted to the debit side of Purchases Account in the ledger by writing 'To Sundries—as per Purchases Journal'.

Thus, you observe that posting of Purchases Journal involves two steps: (i) posting each purchase to the credit of the respective personal accounts of suppliers, and (ii) posting the total purchases to the debit of the Purchases Account. With this, double entry for credit purchases is complete. Look at illustration 6 for recording i the Purchases Journal and its posting into ledger.

Illustration 6

Record the following transactions in the Purchases Journal of M/s. Dharam Chand & Co., and show the ledger postings.

2018		Rs.
July 1	Bought goods from Shreedhar	5,000
“ 2	Purchased goods from Shreekant	4,000
“ 3	Purchased from Shreenivas goods worth	2,500
“ 4	Shreedhar sold us goods	1,500
“ 5	Purchased goods from Shreenivas subject to a trade discount of 10%	3,000
“ 6	Bought from Shreekant goods worth with discount of 20%	3,500

Dharam Chand & Co. PURCHASES JOURNAL

Date	Name of the supplier	Inward invoice number	L.F.	Amount	Remarks
2018	Shreedhar	25		Rs. 5,000	
July 1	Shreekant	26		4,000	
“ 2	Shreenivas	27		2,500	
“ 3	Shreedhar	28		1,500	
“ 4	Shreenivas	29		2,700	
“ 5	Shreekant	30		2,800	
“ 6	Total			18,500	

Note: i) The inward invoice numbers are imaginary.

ii) Sometimes, the particulars of items purchased can also be given with each entry.

But it is considered unnecessary because the details are available in the invoice, the serial numbers of which are duly given in the Purchases Journal.

LEDGER

Shreedhar's Account

Dr.					Cr.
			2018		Rs.
			July 1	By Purchases A/c	5,000
			“ 4	By Purchases A/c	1,500

Shreekant's Account

			2018		Rs.
			July 2	By Purchases A/c	4,000
			“ 6	By Purchases A/c	2,800

Shreenivas's Account

			2018		Rs.
			July 3	By Purchases A/c	2,500
			“ 5	By Purchases A/c	2,700

Purchases Account

2018		Rs.			
July, 31	To Sundries - as per Purchase Journal	18,500			

1.15 PURCHASES RETURNS JOURNAL

In any business, sometimes goods purchased may have to be returned to the supplier either partly or fully. This may become necessary when they are found to be defective, damaged in transit, inferior quality, short weight, received too late (off season), or not in conformity with the order given. If the number of such returns is small, they can be recorded in the journal itself. But, if it is large, a separate book called 'Purchases Returns Journal' should be used for recording these transactions. This book is also called 'Returns Outwards Journal'.

1.15.1 Debit Note

When you return goods to supplier, a statement called 'Debit Note' is sent to the supplier. It informs the supplier that his account has been debited to the extent of the value of goods returned. You know that when goods were purchased, the supplier's account was credited. Debiting his account now means that the amount payable to him has been reduced by the value of goods returned. The debit note also contains other particulars such as the name and address of the supplier, the description of the goods returned, etc. The specimen of a debit note is shown in Figure 6.10.

Debit Note

Book Paradise Nagpur Debit Note			
No. 587		Date: 20-7-18	
To			
M/s. Book Lovers Pvt. Ltd. Hyderabad.			
WE HAVE DEBITED YOUR ACCOUNT FOR			
GOODS RETURNED AS FOLLOWS			
	Rs.	Ps.	Rs. Ps.
2 Copies of 'Principles and Practice of Accountancy' by Sriram @ Rs, 25 each	50.00		
Less: Trade discount allowed by you @ 10%	5.00		
(Rupees forty five only)			45.00
xxxxx For Book Paradise			

Fig. 1.10**1.15.2 Recording in the Purchases Journal**

Look at Figure 1.11. It shows the Proforma of a Purchases Returns Journal.

Purchase Returns Journal					
Date	Name of the supplier	Inward invoice Number	L.F.	Amount	Remarks
(1)	(2)	(3)	(4)	(5)	(6)
				Rs.	

Fig. 1.11

Like the Purchase Journal, the Purchases Returns Journal also has six columns. As usual, the date on which the goods are returned is recorded in the first column. The name and address of the supplier to whom goods are returned are entered in the second column. Write the serial number of the debit note in the third column. The page number of the account in the ledger where posting is done will be entered in the L.F. column. In the fifth column, the value of goods returned is entered. At the time of original purchase, if some trade discount had been given, the same should also be adjusted so as to arrive at the value of goods returned. If there is any other relevant information, the same may be recorded in the remarks column.

1.15.3 Posting the Purchases Returns Journal

The transactions recorded in the Purchases Returns Journal are to be posted to their respective personal accounts in the ledger. Separate accounts in the name of each supplier already exists in the ledger (opened at the time of purchase). The entries made in the Purchases Returns Journal will be posted to the debit of each supplier's account by writing To Purchases Returns A/c'.

The total of the Purchases Returns Journal is posted to the credit side of the Purchases Returns Account' in the ledger by writing 'By Sundries—as per Purchases Returns Journal'.

Look at illustration 7 for the procedure of recording in the Purchases Returns Journal and its posting into the ledger.

illustration 7 (Continuation of illustration 6)

Enter the following transactions in the Purchases Returns Journal of M/s. Dharam Chánd and Co. and show the ledger postings.

2018		Rs.
July 5	Returned goods to Shreekant (vide invoice No. 26)	200
“ 10	Returned goods to Shreenivas (vide invoice No. 29)	90
“ 12	Returned goods to Shreekant (vide invoice No. 30)	120

Dharam Chand & Co.

PURCHASES RETURNS JOURNAL

Date	Name of the supplier	Debit note number	L.F.	Amount	Remarks
2018				Rs.	
July 5	Shreekant	16		200	
“ 10	Shreenivas	17		90	
“ 12	Shreekant	18		120	
“ 31	Total			----- 410 -----	
-				-----	

Note : Debit Note numbers are imaginary.

LEDGER

Shreekant's Account

2018		Rs.	2018	Rs.	
July 5	To Purchases Return A/c	200	July 2	By Purchases A/c	4,000
“ 12	To Purchases Return A/c	120	“ 6	By Purchases A/c	2,800

2018		Rs.	2018		Rs.
July 10	To Purchases Return A/c	90	July 3	By Purchases A/c	2,500
			" 5	By Purchases A/c	2,700

Purchase Returns Account

			2018		Rs.
			July 31	By Sundries – as per Purchase Returns Journal	410

1.16 SALES JOURNAL

This book is used for recording only the credit sales of goods. Note that the cash sale of goods or sale of fixed assets (cash or credit) are not recorded in this book. The Sales Journal is also called 'Sales Day Book', or 'Sales Book'.

1.16.1 Recording in the Sales Journal

The ruling of the Sales Journal is similar to that of Purchases Journal. The difference is only with regard to the second column. In Purchases Journal, the second column is used for recording the name of the supplier. But, in case of Sales Journal, it is used for writing the name of the customer.

When goods are sold on credit, an invoice is given to the buyer. The seller generally has a bound invoice book. It contains consecutively numbered invoices in duplicate. While the original copy is given to the buyer, the duplicate remains in the book itself. The entries in the Sales Journal are made with the help of the duplicate copies which are duly numbered. The procedure for recording in the Sales Journal is similar to that of the Purchases Journal.

1.16.2 Posting the Sales Journal

All entries made in the Sales Journal are posted to the respective personal accounts in the ledger. In a credit sale, the customer becomes a debtor to the firm. Hence, every credit sale recorded in the Sales Journal is posted on the debit side of the personal account of individual customers by writing 'To Sales A/c' in particulars column. Then, the total of the Sales Journal is posted on the credit side of the Sales Account by writing 'By Sundries—as per Sales Journal'.

Look at illustration 8 and study how credit sales of goods are recorded in the Sales Journal and how they are posted into ledger.

Illustration 8

Prepare the Sales Journal of M/s. Bharat Furniture Works, Delhi from the following transactions:

2018

Aug. 1 Sold to Doulath Furniture House, Delhi
50 Chairs @ Rs. 150 each

- 10 Tables @ Rs. 500 each
At a trade discount of 10%
- “ 4 Supplied the following furniture, as per the order, to Kesav Memorial School, Mehrauli
100 Chairs @ Rs. 135 each
40 Tables @Rs. 450 each
2 Almirahs @Rs. 750 each
5 Black boards @ Rs. 800 each
- “ 10 Supplied on credit to Pyarelal Furniture Palace, Okhla
10 Sofa sets @ Rs. 800 each
10 Dining tables @ Rs. 500 each
5 Cots @ Rs. 600 each
5 Dining tables @ Rs. 800 each
Trade discount 10%

Solution :

Bharat Furniture Works
Sales Journal

Date	Name of the supplier	Debit note number	L.F.	Amount	Remarks
2018				Rs.	
Aug. 1	Doulath Furniture House, Delhi	107		11,250	
“ 4	Kesav Memorial School, Mehrauli	108		37,000	
“ 10	Pyarelal Furniture Palace, Okhla	109		18,000	
“ 31	Total			66,250	

- Note: i) Invoice numbers are imaginary,
ii) Sometimes, the particulars of items sold can also be given with each entry, but it is considered unnecessary because the details are available in the invoices and the serial numbers of which are duly given in the Sales Journal.

LEDGER
Daulath Furniture House Account

Dr.		Cr.			
2018		Rs.			
Aug 1	To Sales A/c	1,250			

Kesav Memorial School, Mehrauli

2018		Rs.			
Aug 4	To Sales A/c	37,000			

2018 Aug 10	To Sales A/c	Rs. 18,000			
Sales Account					
			2018 Aug 31	By Sundries – as per Sales Journal	Rs. 66,250

1.17 SALES RETURNS JOURNAL

When customers return the goods to the business, it will be recorded in a separate book called 'Sales Returns Journal'. Normally, if the number of such returns is small, they can be recorded in the journal itself. But if their number is large, it is better to maintain a separate book called Sales Returns Journal. This book is also called 'Returns Inwards Journal'.

1.17.1 Credit Note

When a customer returns goods, a statement called 'Credit Note' is sent to him. The credit note informs the customer that his account has been credited to the extent of the value of goods returned. You know that when goods were sold, the customer's account was debited. Now crediting his account means the amount payable by him stands reduced by the value of goods returned. The credit note also contains other information such as the name and address of the customer, description of the goods returned, etc. The credit notes are consecutively numbered and are prepared in duplicate. The original is sent to the customer and the duplicate is carefully filed. The specimen of a credit note is shown in Figure 1.12.

Credit Note

Book Lovers Private Limited		
Hyderabad		
No.698	Date: 25-7-2018	
M/s. Book Paradise		
Nagpur		
WE HAVE CREDITED YOUR ACCOUNT FOR GOODS RETURNED AS FOLLOWS		
	Rs. Ps.	Rs.Ps.
2 Copies of 'Principles and Practice of Accountancy' by Shriram @Rs. 25 each	50.00	
Less: Trade discount allowed @ 10%	5.00	
(Rupees forty five only).		45.00
xxx		
For Book Lovers Pvt. Ltd		

Fig. 1.12

Note: Normally the customer, while returning the goods, may also send a debit note. But quite often they do not do so. Hence, the seller always prepares a credit note for his record. If debit note is also received, it may be filled along with the respective credit note.

1.17.2 Recording in the Sales Returns Journal

The ruling of the Sales Returns Journal is similar to that of Purchases Returns Journal. The difference is only with regard to the second column. In Purchases Returns Journal, the second column is used for recording the name of the supplier. But in case of Sales Returns Journal, it is used for writing the name of the customer. The Procedure for recording in the Sales Returns Journal is also similar to that the Purchases Returns Journal. The entries in the Sales Returns Journal are made with the help of duplicate copy of the credit notes.

1.17.3 Posting the Sales Returns Journal

The transaction recorded in the Sales Returns Journal are posted to the respective personal accounts in the ledger. Separate accounts in the name of each customer already exist in the ledger (opened at the time of sale). Credit the customers' accounts individually by writing 'By Sales Returns A/c'. Then post the total of the Sales Returns Journal to the debit side of the Sales Returns A/c by writing 'To Sundries—as per Sales Returns Journal'.

Look at illustration 9 and study how sales returns have been recorded in the Sales Returns Journal and posted into ledger.

Illustration 9 (Continuation of illustration 8)

2018

- Aug. 5 Received a debit note along with one chair and a table from Douloth Furniture House, Delhi, saying that the legs of the chair and table are broken (remember, each chair was sold at Rs. 150 and each table at Rs. 500 with a trade discount of 10%).
- 10 Received 2 chairs and 2 tables along with a letter from Kesav Memorial School, Mehrauli, saying that they were damaged (chairs were sold at Rs. 135 each and tables at Rs. 450 each).
- 16 Received a debit note from M/s. Pyarelal Furniture Palace, Okhla, stating that the mirrors of two dressing tables were found defective and so returned.

Enter the above transactions in the Sales Return Journal of M/s Bharat Furniture Works, Delhi, and show the ledger postings.

Bharat Furniture Works SALES RETURNS JOURNAL

Date	Name of the supplier	Credit note number	L.F.	Amount	Remarks
2018					
Aug.5	Doulath Furniture House, Delhi	56		585	
“ 10	Kesav Memorial School, Mehrauli	57		1,170	
“ 16	Pyarelal Furniture Palace, Okhla	58		200	
“ 31	Total			1,955	

Note: Credit Note numbers are imaginary.

LEDGER
Doulath Furniture House Account

Dr.		Rs.		Cr.	
2018 Aug 1	To Sales A/c	11,250	2018 Aug 5	By Sales Returns A/c	Rs. 585

Kesav Memorial School Account

		Rs.			Rs.
2018 Aug 4	To Sales A/c	37,000	2018 Aug 10	By Sales Returns A/c	1,170

Pyarelal Furniture Palace Account

		Rs.			Rs.
2018 Aug 10	To Sales A/c	18,000	2018 Aug 16	By Sales Returns A/c (Allowance granted)	200

Sales Returns Account

		Rs.			
2018 Aug 31	To Sundries - as per Sales Returns Journal	1,955			

These postings were made from Sales Journal, when goods were sold (refer illustration 9).

Check Your Progress F

1. What is an invoice?

.....

.....

.....

2. What is a debit note?

.....

.....

.....

3. What is a credit note?

.....

.....

.....

.....

4. Fill in the blanks

- a) Purchases Journal records credit purchase ofonly.
- b) Sales Journal records allsales of goods.
- c) Ais sent to a customer when he returns the goods.
- d) Total purchases are posted toAccount at the end of every month.
- e) Total of Sales Journal is posted on the side of Sales Account at the end of every month.
- f) Sales Returns are also called
- g) Purchase Returns are also called.....
- h) Debit Note is sent to the supplier when the goods are
..... to him.

1.18 JOURNAL PROPER

By now, you know what a journal is and what its sub-divisions are. You also know that the special journals discussed earlier take care of certain types of transactions which are repetitive and numerous. However, there are a number of transactions which do not occur frequently and hence do not warrant preparation of special journals. But they have to be recorded somewhere. For them, the proper place is the original journal itself, which is now called 'Journal Proper'. Thus all events and transactions which cannot be recorded in any of the special journals maintained by the firm, shall be recorded in the Journal Proper. Examples of such transactions are:

- a) Opening Entry
- b) Closing Entries
- c) Transfer Entries
- d) Adjustment Entries
- e) Rectification Entries
- f) Miscellaneous Entries
- a) **Opening Entry:** An opening entry is passed in the journal for opening a new set of accounts. This may be needed at the time of the commencement of business or at the commencement of new accounting year.

If a person commences business only with cash, there is no need to pass a journal entry. The cash brought in is just entered in the cash book. But, if he also brings some other assets, then an opening entry is passed in Journal Proper, debiting the concerned assets accounts and crediting the Capital Account.

In case of a running business, an opening entry is passed at the commencement of a new accounting year to incorporate various balances of assets and liabilities brought forward from the previous year into current year's books.

- b) **Closing Entries:** At the end of the accounting year, when final accounts are prepared, the nominal accounts are closed by transferring them to Trading

Account or Profit and Loss Account. The journal entries passed for this purpose are called 'Closing Entries'.

- c) **Transfer Entries:** When an amount is to be transferred from one account to another, you have to pass an entry in the Journal Proper in order to effect the transfer. Such entries are called 'Transfer Entries'. Suppose, you want to transfer proprietor's total drawings made during the year to his Capital Account. The proprietor's total drawings appear in Drawings Account which shows a debit balance. You will transfer the balance of Drawings Account to Capital Account by passing the following entry in the Journal Proper.

Capital Account	Dr.
To Drawings Account	
(Transfer entry)	

- d) **Adjustment Entries:** At the time of preparing the final accounts, it is necessary to bring into the books of account certain unrecorded items like closing stock, depreciation on fixed assets, interest on capital, expenses incurred but not yet paid, income earned but not yet received, etc. Entries passed in the Journal Proper to record such items are called 'Adjustment Entries'. These entries are explained in detail later.
- e) **Rectification Entries:** You may commit errors while recording transactions in various books, and while posting, totalling, balancing, etc. Such errors are generally corrected through entries in Journal Proper and are known as 'Rectification Entries'.
- f) **Miscellaneous Entries:** In addition to the entries mentioned above, if there is any transaction which cannot be recorded in any of the special journals, it will be entered in the Journal Proper. Example of such transactions are:
- i) Credit purchases of fixed assets, investments, etc.
 - ii) Credit sales of fixed assets, investments etc.
 - iii) Withdrawal of goods from the business by the owner for his personal use.
 - iv) Loss of goods by theft, accident, fire, etc.
 - v) Special allowances received from suppliers or given to customers.
 - vi) Endorsement or dishonour of bills.
 - vii) Writing off bad debts.

Look at illustration 10 for entries of such transactions in the Journal Proper.

Illustration 10

Enter the following in the Journal Proper of Rajani Enterprises.

2018

Aug. 3 Sold office van on credit for Rs. 15,000 to Ahmed Ali.

“ 8 The owner has taken away goods worth Rs. 1,000 for his domestic use.

“ 15 Fire broke out in the premises and goods worth Rs. 5,000 were destroyed.

- “ 21 Bill drawn on Singh returned dishonoured when presented for payment, Rs. 2,000.
- “ 25 Amount due Rs. 500 from Bahadur is irrecoverable, as he has been declared insolvent.
- “ 28 Misra, a customer, informed that some goods were damaged in transit. An allowance of Rs. 50 was granted to him for repairs.

Solution :

JOURNAL PROPER

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
2018 Aug. 3	Ahmed Ali Dr. To Office Van A/c (Being the credit sale of office van to Ali)		15,000	15,000
“ 8	Drawing A/c Dr. To Purchases A/c (Being the withdrawal of goods By the owner for domestic use)		1,000	1,000
“ 15	Loss by Fire A/c Dr. To Purchases A/c (Being loss of goods by fire accident)		5,000	5,000
“ 21	Singh Dr. To Bills Receivable A/c (Being the dishonour of bill by Singh)		2,000	2,000
“ 25	Bad Debts A/c Dr. To Bahadur (Being the amount irrecoverable from Bahadur)		500	500
“ 28	Allowances A/c Dr. To Misra (Being an allowance granted for repair of goods damaged in transit)		50	50

1.19 LET US SUM UP

- Journal is the book of original entry in which normally all transactions are recorded. But when transactions are numerous, there are many difficulties in recording all of them in one journal. Hence, the need for sub-division of journal arises.
- In business many transactions are of repetitive nature. The journal is therefore sub-divided in such a way that a separate book is used for each category of transactions which are repetitive in nature and are sufficiently large in number.
- Depending on the requirements of business, the special journals used are:
 - Cash book
 - Purchases Journal,
 - Sales Journal,
 - Purchase Returns Journal
 - Sales Returns Journal
 - Journal Proper

4. All cash transactions are recorded in cash book. There are different types of cash books. The most commonly used are: (i) Single Column Cash Book, (ii) Two Column Cash Book, and (iii) Three Column Cash Book.
5. The Single Column Cash Book has only one amount column on both sides. All cash receipts are recorded on the debit side and all cash payments on the credit side.
6. The Two Column Cash Book has an additional amount column for cash discount on both sides. The discount allowed is recorded on the debit side and the discount received on the credit side.
7. Petty Cash Book is prepared for recording payments of various petty expenses. This saves a lot of labour and time.
8. The main functions of a bank are to accept deposits and lend money to business. It also provides various other services to its customers.
9. There are three types of accounts available in the bank. The businessman generally opens current account.
10. When an account is opened in the bank, the depositor receives a pass book, a pay-in-slip book, and a cheque book.
11. A cheque is an instrument used for withdrawal of money from the bank. It can also be used for making payments to other parties.
12. For safety, the cheques can be crossed. Crossing can be general or specific.
13. The Payee of a cheque can endorse it to a third party by putting his signature at the back of the cheque.
14. The bank can refuse payment of a cheque. Refusing to pay is called dishonouring the cheque.
15. The Three Column Cash Book has three amount columns on each side. One of these three columns is for recording banking transactions of the firm.
16. All deposits into the bank are recorded in the bank column on the debit side of the cash book, and all withdrawals on the credit side.
17. The bank column in the cash book serves the purpose of bank account. Hence, there is no need to open bank account in the ledger.
18. Purchases Journal is meant for recording all credit purchase of goods. Inward invoice is the basis for recording in the Purchases Journal.
19. Purchases Returns Journal is used for recording goods returned to the suppliers. Debit note is the basis for recording in Purchases Returns Journal.
20. Sales Journal is meant for recording all credit sales of goods. Outward invoice is the basis for recording in the Sales Journal.
21. Sales Returns Journal is used for recording goods returned by the customers. Credit note is the basis for recording in it.
22. All transactions which cannot be recorded in any of the special journals will be recorded in the journal itself, which is now called Journal Proper.

1.20 KEY WORDS

Adjustment Entry : An entry passed to bring into account certain unrecorded items like closing stock, outstanding expenses and incomes, at the time of preparing final accounts.

Bearer Cheque : A cheque payable at the counter of the bank without identification.

Cash Book : A special journal used for recording all cash receipts and cash payments.

Cash Discount : An allowance given by the creditor to the debtor for prompt payment.

Closing Entries : Entries passed at the end of each accounting year to close the nominal accounts by transferring them to Trading and Profit and Loss Account.

Credit Note : A statement sent by the seller to his customer informing that his account is credited to the extent of the goods returned by him or allowance granted to him.

Cheque : An instrument used for withdrawing money from the bank.

Crossed Cheque : A cheque on which two parallel lines have been drawn. It is not payable at the counter.

Contra Entry : When both the debit and credit aspects of a transaction are recorded in the cash book itself.

Debit Note : A statement sent by the purchaser to his supplier informing that his account is debited to the extent of the goods returned or allowance claimed.

Dishonour : Refusal to pay the cheque by the bank

Endorsement : A written statement signed by the payee at the back of the cheque for its transfer.

Imprest System : A system of advancing a fixed amount to the petty cashier periodically.

Invoice : A bill or a statement issued by the seller to the purchaser giving details of goods sold.

Opening Entry : An entry passed to open a new set of accounts.

Order Cheque : A cheque in respect of which identification of the payee is necessary.

Pass Book : A book or a statement supplied by the bank to its customer showing his transactions with the bank.

Pay-in-slip : A slip or a challan used for depositing cash or cheques in the bank.

Petty Cash Book : A cash book prepared for recording small payments of cash.

Subsidiary Book : Any special journal used for recording a particular category of transactions.

Special Crossing : A crossing specifying the name of bank through whom the cheque can be presented for payment.

Transfer Entry : An entry passed to transfer an amount from one account to another account.

1.21 ANSWERS TO CHECK YOUR PROGRESS

- A a) iii b) i c) iii d) ii e) iii
- B a) Cash b) debit, credit c) Cash Account d) credit e) debit f) cash
- C 2. a) True b) True c) False d) False e) True
- E 1) Debit 2) Credit 3) Contra entry 4) Cash 5) Both 6) Credit
- F 4. (a) goods (b) credit (c) credit note (d) Purchases (e) credit (f) returns inwards (g) returns outwards (ii) returned
- G 6. (a) True (b) False (c) False (d) True (e) False (f) False (g) True (h) False

1.22 TERMINAL QUESTIONS / EXERCISES

Questions

1. Why is journal sub-divided? Name the special journals and state the type of transactions entered in each of them.
2. Explain the following in about 10 lines each.
 - a) 'Cash Book is both a journal and a ledger'
 - b) Imprest system
 - c) Types of Cash Books
 - d) Posting of Two Column Cash Book.
3. What are the advantages of maintaining a Petty Cash Book? Explain the method of balancing and posting the Petty Cash Book.
4. Explain the following in about ten lines each.
 - a) Bank Column in cash book serves the purpose of a Bank Account in the ledger
 - b) Advantages of having a bank account.
 - c) Effect of crossing a cheque.
 - d) Contra Entry.
5. State the reasons for the following:
 - a) All entries in Three Column Cash Book are not posted into the ledger.
 - b) The total in the cash column on the debit side of the cash book is always more than its credit side, but it is not true of the bank column.
 - c) When a cheque received is endorsed to a third party, it must be entered on both sides of the cash book.
6. Why is a cheque dishonoured? How do you record it in the cash book?

7. Give the proforma of Purchases Journal. Explain the method of recording the transactions in the Purchases Journal and its posting into ledger.
8. How does Debit Note differ from Credit Note? Discuss the utility of these notes.
- 9 Write short notes on the following:
 - a) Returns Inward Journal
 - b) Returns Outward Journal
10. What is a Journal Proper? List the transactions recorded in the Journal Proper.

Exercises

1. Enter the following transactions of Motilal Stores in the Single Column Cash Book and balance the same.

2018		Rs.
Jan.1	Motilal started business with a capital	20,000
“ 2	Purchased furniture	5,000
“ 2	Purchased goods	3,000
“ 3	Paid cartage	75
“ 5	Sold goods for cash	2,800
“ 10	Paid to Ratan Lal	2,000
“ 18	Sold goods for cash	1,000
“ 25	Paid wages	225
“ 28	Paid rent	500
“ 30	Purchased goods	2,000

(Answer: Cash in hand Rs. 11,000)

2. From the following transactions of Mani Ram Agencies, prepare a Single Column Cash Book, balance it, and post it into ledger.

2018		Rs.
Jan. 1	Mani Ram started business with cash	40,000
“ 2	Opened a bank account and deposited	15,000
“ 5	Purchased furniture	8,000
“ 8	Purchased goods	12,000
“ 10	Sold goods for cash	7,000
“ 15	Sold goods on credit to Rajan	6,000
“ 20	Purchased electrical fan	450
“ 25	Received cash from Rajan	6,000
“ 28	Paid rent	550
“ 29	Deposited into the bank	10,000
“ 31	Paid wages	1,500

Hint: Credit sales are not a cash transaction. Hence, not recorded in the Cash Book.

(Answer: Cash in hand Rs. 5,500)

3. Enter the following transactions of Gupta Emporium in Two Column Cash Book and balance it.

2018	
Apr. 1	Cash in hand Rs. 3,000
“ 3	Paid to S.K, Basu Rs. 580 and received discount Rs. 20.
“ 5	Purchased goods for cash Rs. 2,000
“ 8	Received from N.K. Prasad Rs. 960, and allowed him discount of Rs. 40
“ 15	Sold goods on credit to Adinarayan Rs. 2,000
“ 20	Cash sales Rs. 600 -
“ 25	Paid to Narayan Rs. 1,150 in full settlement of his account of Rs. 1,200
“ 28	Received from Adinarayan Rs. 1,950 in full settlement of his account
“ 29	Rent paid Rs. 600
“ 30	Took cash for personal use Rs. 500

(Answer: Cash balance Rs. 1,680. Discount allowed total Rs. 90, Discount received total Rs. 70).

4. Prepare Two Column Cash Book of M/s. Sanjay Enterprises from the following transactions. Also show the ledger postings.

2018		Rs.
Apr. 1	Cash in hand	3,000
“ 3	Purchased goods	800
“ 5	Paid to Gupta	600
	Discount allowed by him	40
“ 7	Sold goods	1,000
“ 9	Received from Pannalal	1,960
	Discount allowed to him	40
“ 12	Received cash from Nagesh in full settlement of his account Rs. 1,000	970
“ 15	Paid to Rakesh after deducting 2.5% discount	1,170
“ 18	Received from Shanker	590
	Discount allowed to him	10
“ 24	Paid wages	100
“ 27	Paid for stationery	60
“ 29	Paid to Kartar Singh in full settlement of his account Rs. 800	780
“ 30	Deposited cash into bank in excess of	800

(Answer: Amount deposited in the bank Rs. 3,210. Discount allowed total Rs. 80. Discount received total Rs. 90).

5. Prepare a Petty Cash Book on the Imprest System from the following particulars of M/s. Preetam Industries.

2018		Rs.
July 1	Received a cheque for petty cash	150.00
“ 2	Paid bus charges	1.50
	Paid cartage	5.00
“ 3	Paid for postage and telegrams	15.25
	Paid wages to casual workers	10.00
“ 4	Paid for Stationery	4.75
“ 5	Paid for repairs of chairs	15.00
	Bus Charges	1.00
“	Cartage	4.50
“ 6	Purchased locks	35.00
“ 7	Tea expenses to customers	4.00
“ 15	Repair to typewriter	7.00
“ 20	Paid tanga charges	6.00
“ 24	Paid taxi fare to manager	18.00
“ 26	Purchased stamps	5.00
“ 29	Auto charges	7.00

(Answer: On August 1, 2018, petty cashier will be given a cheque for Rs. 139)

6. Enter the following transactions in the Three Column Cash Book of M/s. Shreelekha & Co.

2018		Rs.
May 1	Cash in hand	1,134
“ 1	Cash at bank	25,350
“ 2	Deposited into bank	1,000
“ 4	Received from Ram Lal	1,580
	and discount allowed	20
“ 8	Purchased furniture for cash	500
“ 11	Paid to Jai Kishan by cheque	1,490
“	received discount	10
“ 15	Received from Gopal by cheque	1,000
“ 16	Cash sales	1,570
“ 20	Deposited into bank	2,000
“ 21	Purchased an old motor car for office and paid by cheque	10,480
“ 22	Paid by cheque to Ranganath	734
	and received discount	6
“ 24	Withdrew from bank for office use	500
“ 27	Purchased goods for cash	600
“ 28	Withdrew from bank for personal use	1,000
“ 31	Paid establishment expenses through bank	900

(Answer: Discount allowed Rs. 20; Discount Received Rs. 16; Cash Balance Rs. 684; Bank Balance Ps. 14,246.)

7. Record the following transactions in Three Column Cash Book of M/s Modern Commercial, and post them into ledger.

2018		Rs.
Jan. 1	Cash balance	700
	Bank balance (overdraft)	1,400
“ 2	Cash sales	900
“ 3	Paid into bank	1,000
	Paid to Alag by cheque	1,225
“ 5	Discount allowed by him	25
“ 10	Paid to Prasad	150
“ 14	Paid wages	250
“ 16	Received a cheque from Dasgupta in full settlement of a claim of Rs	980
“ 20	Paid for stationery	150
“ 21	Purchased by cheque	600
“ 23	Received a cheque from Ram. It was endorsed to Shyam	800
“ 24	Paid Ranga by cheque and discount received	245 5
“ 29	Withdrew from bank for office use	250
“ 31	Cash drawn for personal use	150

(**Answer:** Discount Allowed Rs. 20; Discount Received Rs. 30; Cash Balance Rs. 150; Bank Overdraft Rs. 1,740.)

8. Prepare a Three Column Cash Book from the following transactions and post them into ledger.

2018		Rs.
Aug 1	Cash in hand	700
“ 1	Cash at bank	10,000
“ 3	Cash sales	6,000
“ 5	Paid rent by cheque	2,400
“ 9	Cash deposited in the bank	6,000
“ 10	Wages paid	100
“ 11	Purchased stationery	180
“ 13	Received cheque from Roy	780
	Discount allowed	20
“ 15	Purchased goods	400
“ 16	Withdrawn from bank for office use	2,000
“ 18	Issued cheque to Gagan	1,340
	Received discount	60
“ 20	Withdrew cash for personal use	400
“ 20	Received cheque from Nath	1,000
“ 24	Nath's cheque dishonoured	1,000

“ 26	Issued cheque for furniture purchased	600
“ 28	Received interest on securities by cheque	300
“ 30	Paid salaries	480

(**Answer:** Discount Allowed Rs. 20; Discount Received Rs. 60; Cash Balance Rs. 1,140; Bank Balance Rs. 10,740.)

9 From the following particulars, prepare the Purchases Book of Devi Stationers and also show the ledger postings.

2018

- Aug. 5 Purchased from Madan Mohan & Sons on credit 5 reams of white paper @ Rs. 75 per ream,
- 10 Purchased from Gopikrishna Bros. 5 dozen ink bottles @ Rs. 52 per dozen at a discount of 10%.
- 14 Purchased from Avanti Pen Stores 3 dozen ball pens @ Rs. 15 per dozen at a discount of 20%.
- 18 Purchased 100 pencils from Muralidhar & Co. @ Rs. 0.75 each.
- 25 Purchased a typewriter on credit from Office Equipment Limited for Rs. 4,500.
- 28 Purchased one dozen pen stands @ Rs. 100 per dozen for cash.
- 30 Purchased 5 dozen of note books on the credit from Rama & Co. @ Rs. 24 per dozen.

(**Hint:** Transactions dated August 25 and 28 are not to be entered in Purchases Book.)

(**Answer:** Total of Purchases Book Rs. 840)

10. Enter the following in the Purchases Returns Book of Lakshmi Traders. Also show their ledger postings.

2018	Rs.
June 2 Returned goods to Sharma Bros.	350
“ 4 Returned goods to Eswar & Sons.	500
“ 6 Returned goods to Venkat & Co. on which a discount of 10% was received.	600
“ 8 Allowance claimed from Ranga & Co. for goods damaged.	450
“ 10 Goods returned to Suryanarayana	200

(**Answer:** Total of Purchases Returns Book Rs. 2,040)

11 Write up the Sales Book of Kiran Associates, wholesale cloth dealers, from the following transactions and post them into ledger.

2018

- Aug.16 Sold to Patel Nanded:
100 metres of silk @ Rs. 45 per metre.
75 metres of velvet @ Rs. 12 per metre.
- “ 18 Sold to Hassen, Gulbarga:

- 60 pieces of two by two cloth @ Rs. 10 per piece.
 100 pieces of velvet @ Rs. 8 per piece.
- “ 20 Sold to Shankaraiah, Vikarabad:
 50 pieces of dhoties @ Rs. 50 per dhoti.
 40 towels @ Rs. 8 per towel.
- “ 25 Sold to Koteswara Rao, Vijayawada:
 100 metres of shirting cloth @ Rs. 40 per metre.
 60 sarees @ Rs. 75 per sari.
- “ 28 Krishna Murthy, Warangal, purchased from us:
 100 metres of long cloth @ Rs. 15 per metre.
 100 metres of coarse cloth @ Rs. 9 per metre.

(Answer: Sales Book Total Rs. 20,520)

12. From the following particulars of Sriram Stationers, prepare the Sales Returns Book and show their ledger posting.

2018

- July 5 M/s Sridevi Stationers returned:
 4 dozens 100 page note books @ Rs. 18 per dozen.
 2 dozens 200 page note books @ Rs. 30 per dozen.
- “ 10 Ramakrishna & Bros. returned @
 3 dozen ink bottles @ Rs. 30 per dozen.
 1 dozen gum bottles @ Rs. 20 per dozen.
 2 dozen erasers @ Rs. 6 per dozen.
- “ 15 Sanjeev & Co. returned:
 5 dozen pencils @ Rs. 12 per dozen.
 2 dozen reflis @ Rs. 5 per dozen.

(Answer: Sales Returns Book Total Rs. 336)

13. Enter the following transactions in proper subsidiary books of Chekra Enterprises.

2018	Rs.
Aug. 1 Sold goods to Ram Singh	2,550
“ 2 Bought goods from Dhillon	1,200
“ 3 Sold goods to Gopinath	2,500
“ 4 Purchased goods from Habeeb	3,600
“ 5 Ram Singh returns goods	350
“ 6 Goods returned to Dhillon	200
“ 9 Gopinath returned goods	150
“ 10 Returned goods to Habeeb	260
“ 12 Bought goods from Sanyal	4,750
“ 13 Sold goods to Sailo	6,200
“ 14 Sold goods to Michael	4,850
“ 15 Purchased goods from Anthony	3,940
“ 18 Returned goods to Sanyal	320
“ 19 Sailo returned us goods	230

“ 22	Michael returned goods	150
“ 25	Returned goods to Anthony	250
“ 27	Sold goods to Solanki	5,340
“ 28	Purchased goods from Gopalan	4,670
“ 29	Sold goods to Harbinder Singh subject to trade discount of 5%	2,000
“ 30	Purchased goods from Bhandari subject to a trade discount of 10%	1,000

(**Answer:** Totals of Purchases Book Rs. 19,060, Purchases Returns Book Rs. 1,030, Sales Book Rs. 23,340, and Sales Returns Book Rs. 880)

14. The following are the bill transactions of Saptagiri Agencies, Hyderabad. All bills accepted by Saptagiri Agencies are payable at the Andhra Bank, Hyderabad. Prepare Bills Receivable and Bills Payable Journals and post them into ledger.

2018

Aug. 3 A bill is drawn on Ram Narayan of Hyderabad, payable after three months for Rs. 5,000. It was duly accepted by him on the same day, payable at State Bank of India, Hyderabad.

“ 5 Accepted a bill dated August 1, 2018 drawn by Agarwal of Lucknow, payable after 60 days, for Rs. 3,000.

“ 8 Drew a bill on Milkha Singh of Chandigarh for Rs. 4,000 payable after 2 months at Punjab National Bank, Chandigarh. The bill is received on August 16, duly accepted.

“ 12 Accepted a bill dated August 6, 2018 drawn by Ghanshyam Oza of Rajkot, payable after one month, for Rs. 2,500.

“ 18 Received an acceptance dated August 12, 2018 from N. Mirdha of Jaipur, payable at State Bank of Bikaner, Jaipur 90 days after date, for Rs. 6,000. It was endorsed to S. Sakeecha of Bhopal on the same day.

“ 22 Accepted the bill dated July 14, 2018 drawn by P. Obul Reddy, Tirupathi, for Rs. 3,500, payable after 2 months.

“ 23 A bill is drawn on S. Mukherjee of Calcutta for Rs. 9,000 payable at Allahabad Bank, Calcutta, 90 days after date. The bill was received duly accepted on August 28, 2018, and was discounted with Andhra Bank, on the same day.

“ 30 Accepted the bill dated August 25, 2018 drawn by Paleirio of Panaji, for Rs. 2,800, payable after 30 days.

(**Answer:** Total of Bills Receivable Book Rs. 24,000. Bills Payable Book Rs. 11,800)

Note : These questions will help you to understand the unit better. Try to write answers for them. But, do not submit your answers to the University for assessment. These are for your own practice only.

UNIT 2 TRIAL BALANCE

Structure

- 2.0 Objectives
- 2.1 Introduction
- 2.2 What is a Trial Balance?
- 2.3 Preparation of a Trial Balance
- 2.4 Preparation of Trial Balance from a Given List of Balances
- 2.5 Causes for the Disagreement of a Trial Balance
- 2.6 Locating Errors when the Trial Balance Disagrees
- 2.7 Errors not Disclosed by Trial Balance
- 2.8 Advantages of a Trial Balance
- 2.9 Limitations of a Trial Balance
- 2.10 Rectification of Errors
 - 2.10.1 Rectification of One-sided Errors
 - 2.10.2 Rectification of Two-sided Errors
- 2.11 Suspense Account and Rectification
- 2.12 Effect of Rectifying Entries on Profits
- 2.13 Let Us Sum Up
- 2.14 Key Words
- 2.15 Some Useful Books
- 2.16 Answers to Check Your Progress
- 2.17 Terminal Questions/Exercises

2.0 OBJECTIVES

After studying this unit, you should be able to:

- define trial balance;
- prepare trial balance from a given set of balances;
- explain the causes of disagreement of a trial balance;
- describe the procedure for locating the errors;
- describe the types of errors which remain undisclosed by the trial balance;
- explain the advantages and limitations of trial balance;
- rectify errors before preparing the final accounts;
- explain the use of suspense account;
- prepare the suspense account;

- rectify errors located during subsequent accounting years; and
- compute the effect of rectifying errors on profits.

2.1 INTRODUCTION

You have learnt the method of recording transactions in journal and its sub-divisions. You have also learnt their posting to various accounts in the ledger. This process of recording and posting continues throughout the year. At the end of the year it becomes necessary to check the arithmetical accuracy of the books of account before the final accounts can be prepared. For this purpose, we prepare a statement called Trial Balance. In this unit, you will study about the preparation of Trial Balance and the extent upto which it can be relied upon for testing the accuracy of accounts. You will also learn about the errors that will be disclosed by Trial Balance and the method of locating such errors.

You know that Trial Balance is prepared to verify the arithmetical accuracy of accounting records. When the Trial Balance does not tally, it means there are errors in the books of account and you will also learn about the errors that affect the Trial Balance and also study the procedure for locating such errors. In the process of rechecking, a number of errors are detected. These errors must be rectified before preparing the final accounts. In this unit, you will also learn about the method of rectifying various errors and study the effect of the rectification on the profit of the business. You are advised to go through this unit once again and note the errors that are usually committed in the process of recording various transactions in subsidiary books and their postings.

2.2 WHAT IS A TRIAL BALANCE ?

Numerous transactions take place in business everyday. They are first recorded in some books of original entry i.e., Journal Proper or one of its sub-divisions. Then they are posted to the appropriate accounts in the ledger. Each ledger account is balanced periodically so as to ascertain the net effect of various transactions posted therein. In the process, some accounts may get closed, while the others may show a debit or a credit balance. Based on these balances, the final accounts are prepared for ascertaining the profit or loss and the financial position of the business. The quality and reliability of the results obtained depend largely on the correctness of the entries made in various books of account. Hence, it is necessary to ascertain the accuracy of these entries before we proceed with the preparation of final accounts. For this purpose, we prepare a statement called 'Trial Balance', which shows balance of all ledger accounts. The ruling of trial balance is similar to that of journal. We write the name of each account in the particulars column. If the account shows a debit balance, its amount is entered in the debit balances column and if it shows a credit balance the amount is entered in the credit balances column. You know that the total of the debit balances column must tally with the total of the credit balances column, because for every debit there is a corresponding credit and vice versa. When the two totals tally, it is considered as a preliminary proof of the arithmetical accuracy of entries in the books of accounts. It is an assurance that posting into ledger has been correctly done and that equality between debits and credits has been maintained throughout. If, however, the two totals do not tally it implies that there are errors in the books of account.

Trial Balance can thus be defined as a statement (or a schedule) listing, in separate columns, the debit and credit balances of all ledger accounts on a particular date. It indicates whether or not the books of account have been written in accordance with the rules of double entry and ensures, to a great extent, the arithmetical accuracy of accounting entries.

2.3 PREPARATION OF A TRIAL BALANCE

At the outset, it is necessary to note that Trial Balance is a statement of balances. Its preparation does not involve passing of any journal entries. We simply balance various accounts in the ledger and list all accounts which show some balance, whether it is debit or credit. You are aware that when cash book is maintained, the ledger does not contain cash and bank accounts. Hence, cash and bank balances are taken from the cash book. If the number of personal accounts is large, you may prepare separate statements of balances for all debtors and creditors and show only the total debtors and total creditors in the trial balance.

Let us now take a comprehensive example covering all types of transactions, record them in appropriate books, post them into ledger, and prepare a trial balance. Look at illustration 1. It shows the accounting process right upto the preparation of Trial Balance.

Illustration 1

The following is the Balance Sheet of Kapil Dev as on March 31, 2018.

Liabilities	Rs.	Assets	Rs.
Capital	50,000	Cash in hand	15,000
		Stock	50,000
Loan from bank	8,000	Due from Khanna	1,500
Due to Saluja Bros.	15,000	Due from Mittal	2,500
		Furniture	4,000
	73,000		73,000

The following transactions took place during April, 2018:

	Rs.
April 2 Paid wages and salaries	6,000
“ 2 Cash sales of bicycles	3,000
“ 3 Purchased 20 bicycles on credit from Mehra Cycle Co. @ Rs. 600 per bicycle	12,000
“ 5 Sold 30 bicycles to Mittal @ 900 per bicycle	27,000
“ 8 Paid to Saluja Bros. in full settlement of their account	14,600
“ 10 Received from Mittal 2 bicycles as defective, and sent him a credit note	1,800
“ 13 Paid rent	1,750
“ 15 Purchased from Saluja Bros. on credit	
20 cycle rims @ Rs. 100 each	2,000
20 cycles hubs @ Rs. 20 each	400

“ 18	Sold to Rao 10 bicycles @ Rs. 800 per bicycle	8,000	Trial Balance
“ 20	Returned to Saluja Bros. 10 cycle hubs being cracked	200	
“ 21	Rao returned 2 bicycles, and sent him credit note	1,600	
“ 22	Mittal Paid	14,000	
“ 24	Purchased one typewriter on credit from Kutub Typewriter Co.	6,500	
“ 25	Cash sales	3,500	
“ 28	Khanna paid; no hope of getting the balance	1,000	
“ 30	Rao paid	6,200	
	Discount allowed	200	
“ 30	Paid to Mehra Cycle Co. on account	10,000	

Prepare Journal Proper and the subsidiary books involved. Show their postings into ledger and prepare a Trial Balance.

Cash Book									
Dr.					Cr.				
Date	Particulars	L.F.	Discount	Cash	Date	Particulars	L.F.	Discount	Cash
2018			Rs.	Rs.	2018			Rs.	Rs.
Apr. 1	To Balance b/d			15,000	Apr.2	By Wages and Salaries A/c			6,000
“ 2	To Sales A/c			3,000					
“ 22	To Mittal			14,000	“ 8	By Saluja Bros.		400	14,600
“ 25	To Sales A/c			3,500	“ 13	By Rent Alc			1,750
“ 28	To Khanna			1,000	“ 30	By Mehra Cycle Co.			10,000
“ 30	To Rao		200	6,200	“ 30	By Balance c/d			10,350
			200	42,700				400	42,700
May 1	To Balance b/d			10,350					

PURCHASES JOURNAL

Date	Particulars	Invoice No.	L.F.	Amount
2018				Rs.
Apr. 3	Mehra Cycle Co.			12,000
“ 15	Saluja Bros.			2,400
“ 30	Total			14,400

PURCHASES RETURNS JOURNAL

Date	Particulars	Debit Note No.	L.F.	Amount
2018				Rs.
Apr. 20	Saluja Bros.			200
“ 30	Total			200

Date	Particulars	Invoice No.	L.F.	Amount
2018				Rs.
Apr. 5	Mittal			27,000
“ 18	Rao			8,000
“ 30	Total			35,000

SALES RETURNS JOURNAL

Date	Particulars	Credit Note No.	L.F.	Amount
2018				Rs.
Apr. 10	Mittal			1,800
“ 21	Rao			1,600
“ 30	Total			3,400

JOURNAL

Date	Particulars	L.F.	Dr. Amount	Cr. Amount
2018			Rs.	Rs.
Apr. 1	Cash A/c Dr. Stock A/c Dr. Khanna Dr. Mittal Dr. Furniture A/c Dr. To Capital A/c To Bank Loan A/c To Saluja Bros. (Opening balances of assets and liabilities being brought in on April 1, 2018)		15,000 50,000 1,500 2,500 4,000	50,000 8,000 15,000
“ 24	Typewriter A/c Dr. To Kutub Typewriter Co. (Being purchase of typewriter on credit)		6,500	6,500
“ 28	Bad Debts A/c Dr. To Khanna (Being amount still due from Khanna, now written off as bad debt)		500	500
“ 30	Total		80,000	80,000

LEDGER
Capital Account

Trial Balance

Dr.		Rs.			Cr.
2018 Apr. 30	To Balance c/d	50,000	2018 Apr. 1	By Balance b/d	50,000
			May 1	By Balance b/d	50,000

Saluja Bros Account

2018 Apr. 8	To Cash A/c	14,600	2018 Apr. 1 " 15	By Balance b/d	15,000
" 8	To Discount A/c	400		By Purchases A/c	2,400
" 20	To Returns Outward A/c	200			
" 30	By Balance c/d	2,200			
		17,400			17,400
			May 1	By Balance b/d	2,200

Bank Loan Account

2018 Apr. 30	To Balance c/d	8,000	2018 Apr. 1	By Balance b/d	8,000
		8,000	May 1	By Balance b/d	8,000

Mehra Cycle Co. Account

2018 Apr. 30	To Cash A/c	10,000	2018 Apr. 3	By Purchases A/c	12,000
" 30	To Balance c/d	2,000			
		12,000			12,000
			May 1	By Balance b/d	12,000

Khanna's Account

2018 Apr. 1	To Balance b/d	1,500	2018 Apr. 28 " 30	By Cash A/c	1,000
				By Bad Debts A/c	500
		1,500			1,500

Mittal's Account

2018		Rs.	2018		Rs.
Apr. 1	To Balance b/d	2,500	Apr. 10	By Return Inward A/c	1,800
“ 5	To Sales A/c	27,000	“ 22	By Cash A/c	14,000
			“ 30	By Balance c/d	13,700
		29,500			29,500
May 1	To Balance b/d	13,700			

Rao's Account

2018		Rs.	2018		Rs.
Apr. 18	To Sales A/c	8,000	Apr. 21	By Return Inward A/c	1,600
			“ 30	By Cash A/c	6,200
			“ 30	By Discount A/c	200
		8,000			8,000

Furniture Account

2018		Rs.	2018		Rs.
Apr. 1	To Balance b/d	4,000	Apr. 30	By Balance c/d	4,000
May 1	To Balance b/d	4,000			

Typewriter Account

2018		Rs.	2018		Rs.
Apr. 24	To Kutub Type Writer Co.	6,500	Apr. 30	By Balance c/d	6,500
May 1	To Balance b/d	6,500			

Stock Account

2018		Rs.	2018		Rs.
Apr. 1	To Balance b/d	50,000	Apr. 30	By Balance c/d	50,000
May 1	To Balance b/d	50,000			

Sales Account

2018		Rs.	2018		Rs.
			Apr. 2	By Cash A/c	3,000
			“ 25	By Cash A/c B	3,500
			“ 30	By Sundries as per Sales Book	35,000

Purchase Account

Trial Balance

2018 Apr. 30	To Sundries as per Purchase Book	Rs. 14,400			
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Return Outwards Account

			2018 Apr. 30	By Sundries as per Returns Outward Book	Rs. 200
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Return Inwards Account

2018 Apr. 30	To Sundries as per Returns Inward Book	Rs. 3,400			
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Wages & Salaries Account

2018 Apr. 2	To Cash A/c	Rs. 6,000			
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Rent Account

2018 Apr. 13	To Cash A/c	Rs. 1,750			
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Bad Debts Account

2018 Apr. 28	To Gupta	Rs. 500			
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Discount Account

2018 Apr.30	To Sundries - as per Cash Book	Rs. 200	2018 Apr. 30	By Sundries - as per Cash Book	Rs. 400
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Kutub Typewriter Co.

2018 Apr. 30	To Balance c/d	Rs. 6,500	2018 Apr. 24 May 1	By Typewriter A/c By Balance b/d	Rs. 6,500
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Trial Balance as on April 30, 2018

Name of Account		L.F.	Dr. Balances	Cr. Balances
Cash in hand			Rs. 10,350	Rs.
Capital				50,000
Saluja Bros.				2,200

Bank Loan			8,000
Mehra Cycle Co.			2,000
Kutub Typewriter Co.			6,500
Mittal		13,700	
Furniture		4,000	
Typewriter		6,500	
Stock		50,000	
Sales			41,500
Purchases		14,400	
Returns Outwards			200
Returns Inwards		3,400	
Wages & Salaries		6,000	
Rent		1,750	
Bad Debts		500	
Discount Allowed		200	
Discount Received			400
Total		1,10,800	1,10,800

- Note:**
1. You should know that the Trial Balance can also be prepared on the basis of the totals of all debits and credits in various accounts. But, this method is not followed any more. Hence it has not been discussed.
 2. In this illustration, you will find that some accounts have not been balanced. It is because these are all nominal accounts which are to be closed by transfer to the Trading and Profit & Loss Account.

2.4 PREPARATION OF TRIAL BALANCE FROM A GIVEN LIST OF BALANCES

Normally when a trial balance is to be prepared, you have full details of ledger accounts with you. You can, therefore, easily ascertain whether a particular account has a debit balance or credit balance, and prepare the Trial Balance without any difficulty. But, sometimes, you are given only a list of balance. The nature of each balance is not mentioned. In other words, it is not clearly indicated whether the account is showing a debit balance or credit balance. Can you prepare a Trial Balance in such a situation? No you can't unless you know the nature of each balance. You will not know whether to show a particular balance in the debit column or in the credit column of the Trial Balance.

Hence, when you are asked to prepare a Trial Balance from a given list of balances and it is not clearly indicated whether a particular account has a debit balance or credit balance, you will first have to determine the nature of each balance. In this exercise, your knowledge of rules of debit and credit should help you. For example, you are aware that in case of nominal accounts all expenses and losses are debited and all incomes and gains are credited. Hence, accounts like salaries, wages, etc., will show debit balances and the accounts like interest received, discount received, etc., will show credit balances. Similarly, you know the rules for real and personal accounts. The accounts of assets like cash in hand, machinery, etc., will show debit balances and accounts like capital, creditors, etc., will show credit balances. For

convenience, however, a few guidelines may help you to determine quickly the nature of each balance. These are:

- a) All accounts of expenses (including purchases) and losses will be debit balances.
- b) All accounts of incomes (including sales) and gains will be credit balances.
- c) All accounts of assets will be debit balances.
- d) All accounts of liabilities will be credit balances.
- e) Capital Account will normally be a credit balance.
- f) Drawings Account will be a debit balance.

The difficulty may arise with regard to items like commission, discount, rent and interest, because these can take the form of expenses as well as incomes. In such cases, the nature of balance is usually indicated by mentioning (Dr.) or (Cr.) against each item, or the word 'received' or 'paid' is usually added. So you can treat them correctly without much difficulty. If, however, there is one item for which no such indication is given and you find it difficult to identify the nature of its balance, you just proceed with the preparation of Trial Balance. At the time of totalling the amount columns in the trial balance, you will find that the total of one column is less than the other. This implies that the unindicated balance pertains to the column which is short. For example, there is an item of commission Rs. 300. But it is not indicated whether it is paid or received. When you prepare the trial balance, you find that the debit total is short by Rs. 300. This means that Commission Account has a debit balance. Now, if you show it as such in the Trial Balance, it will tally.

Look at illustration 2. The Trial Balance has been prepared from a given list of balances where the nature of each balance is not indicated. Study illustration carefully and note how each item has been shown in the Trial Balance.

Illustration 2

Prepare a Trial Balance from the following balances taken from the books of Sudhakar on March 31, 2018.

	Rs.		Rs.
Capital	1,80,000	Discount Received	360
Stock (1-4-2017)	49,200	Bills Payable	12,270
Sales	2,43,600	Sundry Creditors	31,110
Gas & Water	2,520	Returns Outwards	19,200
Land & Buildings	60,000	Bank Charges	3,000
Machinery	55,470	Drawings	14,550
Debtors	1,07,400	Trade Expenses	2,970
Commission (Dr.)	4,410	Cash	2,400
Plant	30,810	Bank	15,780

Accounting Process

Carriage	3,370	Purchases	96,480
Rent Received	1,290	Rates & Taxes	2,520
Insurance	3,180	Furniture	3,750
Returns Inwards	5,970	Bills Receivable	4,410
Salaries	19,640		

Solution :**Trial Balance as on March 31, 2018**

Name of Account	L.F.	Dr. Balances	Cr. Balances
		Rs.	Rs.
Capital		—	1,80,000
Stock (1-4-2017)		49,200	—
Sales		—	2,43,600
Gas and Water		2,520	—
Land & Buildings		60,000	—
Machinery		55,470	—
Debtors		1,07,400	—
Commission (Dr.)		4,410	—
Plant		30,810	—
Carriage		3,370	—
Rent Received		—	1,290
Salaries		19,640	—
Insurance		3,180	—
Returns Inwards		5,970	—
Discount Received		—	360
Bills Payable		—	12,270
Sundry Creditors		—	31,110
Returns Outwards		—	19,200
Bank Charges		3,000	—
Drawings		14,550	—
Trade Expenses		2,970	—
Cash		2,400	—
Bank		15,780	—
Purchases		96,480	—
Rates & Taxes		2,520	—
Furniture		3,750	—
Bills Receivable		4,410	—
Total		4,87,830	4,87,830

In illustration 2, the Trial Balance has tallied i.e., the total of debit balances is equal to the total of credit balances. This implies that each balance has been entered in the appropriate amount column.

However, you require constant practice to determine the correct nature of items. Hence, another illustration is given where the accountant has not been able to correctly place the balances and, consequently, the Trial Balance does not tally. Look at illustration 3. The total of debit balances (Rs. 10,83,600) is different from the total of credit balances (Rs. 7,16,400). It is because a number of balances have been entered in the wrong amount columns. To cite one example, stock (an asset) is a debit balance but it has been wrongly entered in the credit column. Now, go through all items and identify those which have not been correctly shown in the given Trial Balance. Then, study the Revised Trial Balance and note how they are actually shown. This should help you gain clarity about the nature of various balances.

Illustration 3

Given below is a Trial Balance prepared by an inexperienced accountant and the Trial Balance has not tallied. Rewrite the Trial Balance.

Trial Balance of Buddhu & Co. as on December 31, 2018

Name of Account	L.F.	Dr. Balances	Cr. Balances
		Rs.	Rs.
Capital		—	1,12,600
Buildings		1,70,000	—
Motor Car		—	30,000
Sales		6,00,000	—
Purchases		—	3,40,000
Furniture		25,000	—
Stock		—	44,000
Bank Overdraft		12,000	—
Cash		3,000	—
Interest on Bank Loan		—	4000
Discounts Received		2,600	—
Discounts Allowed		—	4,600
Salaries		14,000	—
Wages		—	12,000
Printing & Stationery		4,000	—
Investments		10,000	—
Advertisement		6,000	—
Legal Charges		2,000	—
Audit Fees		1,000	—
Bad Debts		3,000	—
Debtors		2,31,000	—
Creditors		—	1,72,800
Total		10,83,600	7,16,400

**Revised Trial Balance of Buddhu & Co.
as on December 31, 2018**

Name of Account	L.F.	Dr. Balances	Cr. Balances	Remarks
		Rs	Rs.	
Capital		—	1,12,600	—
Buildings		1,70,000	—	Asset Dr.
Motor Car		30,000	—	Asset Dr.
Sales		—	6,00,000	Income Cr.
Purchases		3,40,000	—	Expense Dr.
Furniture		25,000	—	Asset Dr.
Stock		44,000	—	Asset Dr.
Bank Overdraft		—	12,000	Liability Cr.
Cash		3,000	—	Asset Dr.
Interest on Bank Loan		400	—	Expense Dr.
Discounts Received		—	2,600	Income Cr.
Discounts Allowed		4,600	—	Expense Dr.
Salaries		14,000	—	“
Wages		12,000	—	“
Printing & Stationery		4,000	—	“
Investments		10,000	—	Asset Dr.
Advertisement		6,000	—	Expense Dr.
Legal Charges		2,000	—	“
Audit Fees		1,000	—	“
Bad Debts		3,000	—	“
Debtors		2,31,000	—	Asset Dr.
Creditors		—	1,72,800	Liability Cr.
Total		9,00,000	9,00,000	

Check Your Progress A

1. Define Trial Balance

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2. Mention against each item whether it will generally show a debit balance or a credit balance.

Item	Nature of Balance (Debit or Credit)
a) Opening Stock
b) Bad Debts
c) Carriage Inwards

d) Carnage Outwards	.....
e) Returns Inwards	.....
f) Returns Outwards	.....
g) Loan from Bank	.....
h) Drawings	.....
i) Goodwill	.....
j) Bill Payable	.....
k) Cash at Bank	.....
l) Interest on Loan	.....
m) Discount Allowed	.....
n) Freehold Premises	.....
o) Insurance	.....
p) Salaries Payable	.....

2.5 CAUSES FOR THE DISAGREEMENT OF A TRIAL BALANCE

As mentioned earlier, when the Trial Balance does not tally, it means that there are errors in the books of account. Let us now analyse the errors which usually affect the Trial Balance and lead to its disagreement.

1. **Omission of posting in one account:** You are aware that both the debit and credit aspects of a transaction have to be posted in the ledger accounts. If you post it to the debit of one account and forget its posting to the credit of the other concerned account, it is bound to affect the Trial Balance. For example, an amount of Rs. 200 received from Ali, correctly entered on the debit side of the cash book but is not posted to the credit side of Ali’s Account. This error shall result in the lower credit and hence the Trial Balance will not tally.

2. **Double posting in one account:** If by mistake you post an entry two times to the debit or to the credit of an account it would result in extra debit or credit and as such cause disagreement in the Trial Balance. If, however, the whole entry is posted twice i.e., both the debit and the credit aspects are posted twice, it won’t affect the Trial Balance. It is because both the debit and the credit sides will be equally affected.

3. **Posting on the wrong side of an account:** When an entry is posted on the wrong side of an account i.e., instead of debit side it is posted on the credit side, it would also cause disagreement in the Trial Balance. In such a situation, the difference will be for double the amount. For example, Rs. 300 received from Khan which is correctly entered on the debit side of the Cash Book, but while posting it to Khan’s Account, it is wrongly posted to the debit side instead of the credit side. This would mean that a debit of Rs. 600 (Rs. 300 in Cash Account and Rs. 300 in Khan’s Account) has no corresponding credit. So, in the Trial Balance, the credit side will be lower by Rs. 600.

4. **Posting wrong amount in an account:** If you post an entry to the correct side of an account but commit an error in writing the amount, this would affect the Trial Balance. Suppose, in the above example you post the entry

correctly on the credit side of Khan's Account but the amount is wrongly put as Rs. 200. It would cause a difference of Rs. 100. In the Trial Balance, the credit side will be lower by Rs. 100.

5. **Wrong totalling of the subsidiary book:** If any subsidiary book is overcast or undercast, it affects the concerned account in ledger. Suppose the correct total of Sales Journal is Rs. 5,600, but it is actually totalled as Rs. 5,300. You know that the total of Sales Journal is posted to the credit side of the Sales Account. So, the Sales Account will be short by Rs. 300, and the Trial Balance will not tally.
6. **Omitting to post the total of a subsidiary book:** If the total of a subsidiary book is not posted to the concerned account, it would affect the Trial Balance. Such mistake relates only to the account where posting was to be done and as such affects only one account. Take for example, the Sales Journal. If its total of Rs. 18,900 is not posted to the credit of Sales Account, the credit side on the Trial Balance will be lower by Rs. 18,900.
7. **Wrong totalling or balancing of an account:** When an account is wrongly totalled or wrongly balanced, this would affect the Trial Balance. Suppose the debit side of Shyam's Account is totalled as Rs. 1,300 instead of Rs. 1,100. It would lead to wrong balance in Shyam's Account. Consequently, the debit total in the Trial Balance will be higher by Rs. 200. Similarly, if the totalling is correctly done but a mistake is committed in balancing the account, it would also cause a difference in the Trial Balance.
8. **Omission of an account from Trial Balance:** You know that all accounts which show some balance must be included in the Trial Balance. If you forget to write the balance of any account in the Trial Balance, it will not tally. In practice, cash book balances are often omitted from Trial Balance.
9. **Writing the balance of an account on the wrong side of the Trial Balance:** If the balance of an account which is to be shown in the debit column of the Trial Balance is actually shown in the credit column, the Trial Balances will not tally. It will be affected by double the amount. You noticed such error in respect of many items in illustration 3.
10. **Wrong totaling of the Trial Balance :** If a mistake is committed in totalling the Trial Balance amount columns of the Trial Balance itself, the Trial Balance will not tally. Thus, you learn about various errors which may cause differences in the Trial Balance. Note that these errors affect only one aspect (debit or credit). This upsets the debit-credit correspondence leading to the disagreement of the Trial Balance.

2.6 LOCATING ERRORS WHEN THE TRIAL BALANCE DISAGREES

When a Trial Balance disagrees, an attempt must be made to locate the errors and rectify them. If all errors are rectified and the Trial Balance is revised, it will tally.

The following routine procedure is usually adopted for locating the errors.

- a) Check the totals of both the debit and the credit columns of the Trial Balance.
- b) If the difference still persists, ascertain the exact amount of difference; and then

- i) See whether an account having that balance has been omitted from the Trial Balance. Suppose the debit column in Trial Balance is short by Rs. 630, it is just possible that an account with a debit balance of Rs. 630 has not been entered in the Trial Balance.
 - ii) Check whether an account with a balance equal to that difference has been entered twice in the Trial Balance.
 - iii) Take the half amount of difference, see whether there is any account with such balance in the Trial Balance and, if so, check whether it is entered in the correct column or not. If an account with a debit balance of Rs. 315 has been entered in the credit column, the debit column becomes short by Rs. 630.
- c) Verify whether (i) the balances of all the accounts are included in the Trial Balance, (ii) they are entered in the correct column, and (iii) their amounts have been correctly written. If no errors are found upto this stage, or the errors located have been duly corrected, but still the Trial Balance does not tally, there is need to take further action. You may take the following steps:
- d) Check the totals of the lists of sundry debtors and sundry creditors.
 - e) Check the totals and balances of all accounts in the ledger.
 - f) Check the totals and the postings of all subsidiary books.
 - g) Check the postings of all amounts equal to the difference in Trial Balance. It is possible that a posting has been omitted. Similarly, check the postings of all amounts equal to half the difference. It is possible that the amount has been posted on the wrong side of the concerned account.
 - h) See that correct amounts have been brought forward from the previous pages.
 - i) Verify that all opening balances have been correctly entered in various accounts.
 - j) Compare the current year's Trial Balance with that of the previous year. Any variation noticed should be carefully checked.

The procedure outlined above, if carefully followed, should normally reveal all the errors. The errors are then rectified and a Revised Trial Balance is prepared. If no other errors exist, the Revised Trial Balance is likely to tally. However, if the Revised Trial Balance also does not tally, there is no alternative but to recheck the entire accounting work done during the year. Sometimes, all these efforts fail to reveal the errors. In such a situation, the difference may be placed to the debit or credit of a Suspense Account (as the case may be) and you may proceed with the preparation of the final accounts. Later on, as and when the errors come to light, they will be corrected through proper rectifying entries in the journal.

2.7 ERRORS NOT DISCLOSED BY TRIAL BALANCE

As stated earlier, the Trial Balance is only a reasonable proof (not a conclusive proof) of the arithmetical accuracy of accounting entries. There is no guarantee

that when the Trial Balance has tallied, there will be no errors left. As a matter of fact, there are a number of errors which do not affect the Trial Balance at all. They are:

1. **Errors of Principle:** When a transaction has not been recorded as per the rules of debit and credit, or some other accounting principle has been ignored, the errors so arising are called 'Errors of Principle'. Example of such errors are:
 - i) A credit purchase of a fixed asset recorded in the Purchases Journal instead of the Journal Proper: This results in debiting the Purchases Account instead of the concerned fixed asset account. It means that a capital expenditure has been treated as a revenue expenditure. This is an error of principle. This does not disturb the debit-credit correspondence. Hence, the Trial Balance will not be affected.
 - ii) An expenditure incurred on repairs of machinery debited to Machinery Account: As per rules it should have been debited to Machinery Repair Account, as it is a revenue expenditure. Debiting to Machinery Account amounts to treating it as a capital expenditure. It is therefore an error of principle. This also does not affect the Trial Balance because the debit has been duly recorded, though in the wrong account.
 - iii) Salary paid to Shyam recorded in the Cash Book as a payment to Shyam: This results in debiting Shyam's personal account instead of the Salaries Account. This is also an error of principle and does not affect the Trial Balance.
2. **Errors of Omission:** When a transaction is completely or partially omitted to be recorded in books of account, it is called an 'Error of Omission'. If the transaction is omitted to be recorded in the subsidiary books or its posting is completely omitted, it is called an 'Error of Complete Omission'. If, however, the posting is done in one account, but omitted to be done in the other, it is called an 'Error of Partial Omission'. For example, if a credit purchase of goods from Shyam is not recorded in the Purchases Journal or a credit purchase of furniture from Ram is duly recorded in the Journal Proper but no posting is done in any of the two accounts involved, then these will be termed as errors of complete omission. If the purchase of goods from Shyam is recorded in the Purchases Journal but is omitted to be posted in Shyam's Account, it will be called an error of partial omission. Other examples of partial omission are: omission in carrying forward the total from one page to the other, omission to balance an account, and so on.

The errors of complete omission do not, affect the Trial Balance. But the errors of partial omission would certainly cause disagreement of the Trial Balance because they would lead to either short debit or short credit.

3. **Some Errors of Commission:** When an error is committed in recording a transaction in the subsidiary book with a wrong amount, or is committed in posting it to a wrong account or to the wrong side of an account, it is called an 'Error of Commission'. Errors like double posting, wrong totalling of an account, wrong carry forward, wrong balancing, etc., are also regarded as errors of commission. Such errors will generally affect the Trial Balance. But, if an error of commission is committed while recording a transaction in

any of the subsidiary books, it shall not affect the Trial Balance because both the debit and the credit are equally affected. Suppose, a machine of Rs. 5,000 purchased on credit from Gautam is recorded in the journal for Rs. 5,500. It means both the debit and the credit have been recorded for Rs. 5,500. Hence, the Trial Balance remains unaffected.

4. **Compensating Errors:** Those errors which nullify the effect of each other are called 'Compensating Errors'. In other words, compensating errors refer to such a group of errors wherein the effect of one error is compensated by the effect of another error or errors. Such errors do not affect the Trial Balance. For example, while posting an entry of Rs. 200 to the debit of Ram's personal account, we wrongly wrote Rs: 400. Then, while posting an entry of Rs. 500 to the debit of some other account we wrote Rs. 300. The first error will result in a higher debit of Rs. 200 whereas the second error will result in a lower debit of Rs. 200. Thus, the effect of the first error is nullified by the effect of the second error. So the Trial Balance will not be affected. Take another example. The Purchases Journal is overcast by Rs. 1,000 which means the Purchases Account will be debited in excess by Rs. 1,000. The sales founal also, by mistake, is overcast by Rs. 1000 which means the sales account will be credited in excess by Rs. 1000. These two mistakes together result in excess debit of Rs. 1,000 as well as an excess credit of Rs. 1,000. Thus, they cancel out each other and the Trial Balance remains unaffected.

Check Your Progress B

1. Select one of the following alternatives and tick the correct answer.
 - a) Overcastting of Purchases Journal would affect:
 - i) Sales Account ()
 - ii) Purchases Account ()
 - iii) Supplier's Account and Purchases Account ()
 - b) Sales to Benson Rs. 500 posted to his account as Rs. 50 would affect:
 - i) Sales Account ()
 - ii) Benson's Account ()
 - iii) Cash Account ()
 - c) Sales to Gill recorded in Purchases Journal would affect:
 - i) Sales Account ()
 - ii) Sales Account, Purchases Account and Gill's Account ()
 - iii) Purchases Account and Gill's Account ()
 - d) Purchases made on credit not recorded at all would affect:
 - i) Purchases Account ()
 - ii) Supplier's Account ()
 - iii) Purchases Account and Supplier's Account ()

- e) Amount paid to Billu posted to the credit side of his account would affect:
 - i) Billu’s Account ()
 - ii) Cash Account ()
 - iii) Cash Account and Billu’s Account ()
- f) Amount received from Sita Ram posted to the credit of Mela Ram would affect:
 - i) Sita Ram’s Account ()
 - ii) Mela Ram’s Account ()
 - iii) Sita Ram’s Account and Mela Ram’s Account ()
- 2. Give two examples of errors of principle.

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- 3. Give two examples of compensating errors.

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- 4. A few errors committed in Ahluwalia’s books of account are given below. State which errors would affect the Trail Balance.
 - a) Sales of Rs. 950 to Ram completely omitted from books of account.
 - b) Purchases of Rs. 720 from Shyam entered in the Purchases Journal as Rs.700.
 - c) Purchases Journal is overcast by Rs. 1,000.
 - d) Sales Returns Journal is undercast by Rs. 200.
 - e) Amount paid to Agarwal wrongly posted to the debit of Mittal’s Account.
 - f) Bank overdraft shown under debit column in the Trial Balance.
 - g) Sales of Rs. 500 to Sadiq entered in Sales Journal as sales to Mushtaq.
 - h) Wages paid for installation of machinery debited to Wages Account.

2.8 ADVANTAGES OF A TRIAL BALANCE

The following advantages accrue from a Trial Balance:

1. It is a reasonable proof of the arithmetical accuracy of accounting entries. If the two sides of a Trial Balance tally, it is an indication that the books of account are arithmetically correct. Of course, there may still be some errors left.

2. It contains the balances of all ledger accounts on a particular date. Thus it serves as a summary of the results of all transactions during the period. The position of each account can be judged simply by looking at the Trial Balance. The ledger may be referred only if some further details are required in respect of a particular account.
3. It acts as a basis for preparing the final accounts i.e., Profit & Loss Account and the Balance Sheet. Of course, one can prepare these statements even by taking each balance directly from the ledger. But, that will be too cumbersome.
4. Regular preparation of a trial balance ensures that the accounting staff will work carefully. They will keep the accounts up to date and strive hard to avoid mistakes.

2.9 LIMITATIONS OF A TRIAL BALANCE

The following can be considered as the limitations of Trial Balance:

1. Trial balance does not disclose all types of errors. Certain types of errors remain undetected even when the Trial Balance tallies. Hence, it is not a conclusive proof of the accuracy of the books of account.
2. A Trial Balance does not provide any additional information. You can not have any idea about the net result of the trading activity or about the financial position directly from the Trial Balance. Thus, the Trial Balance serves a limited purpose only.

Notwithstanding the limitations expressed above, the Trial Balance serves a useful purpose as a preparatory step in the preparation of final accounts.

2.10 RECTIFICATION OF ERRORS

Any error when located must be rectified. However, the rectification should not be made by overwriting or by striking off the wrong entry. This would destroy the authenticity of the books of account. Hence, the errors should always be corrected by making suitable entries called rectifying entries. For purposes of rectification, the errors are divided into two categories: (i) one-sided errors, and (ii) two-sided errors.

One-sided Errors : Certain errors affect only one side of an account, either the debit side or the credit side. Such errors are called 'one-sided errors'. Examples of one-sided errors are:

- i) Rs. 100 received from Deshmukh was posted to his account as Rs. 10. It means Deshmukh's Account has been credited with Rs. 10 instead of Rs. 100 and there is no mistake in the Cash Book. Thus, this error has affected only one side of an account.
- ii) The Purchase Book is overcast by Rs. 1000. This will affect the debit side of Purchases Account where the total of the Purchases Book is posted, and no other account is affected.

Two-sided Errors : Certain errors may affect two or more accounts. Such errors are called 'two-sided errors'. Examples of two-sided errors are:

- i) A credit sale of Rs. 1,080 to Anand was wrongly recorded in the Sales Book for Rs. 1,800. This error will affect two accounts viz., Anand's Account and Sales Account. Anand's Account has been debited by Rs. 1,800 instead

of Rs. 1,080. The Sales Account has also been credited by an additional amount of Rs. 720 (Rs. 1,800—Rs. 1,080), because the Sales Book shows a higher total.

- ii) A sale of Rs. 500 made to Kamal has been posted on the debit side of Kishore's Account. This error will affect two accounts viz., Kamal's Account and Kishore's Account. An entry of Rs. 500 does not appear on the debit side of Kamal's Account whereas Kishore's Account has been wrongly debited with that amount.

2.10.1 Rectification of One-sided Errors

Generally errors are corrected by passing suitable journal entries. You know passing a journal entry means debiting one account and crediting another. But in the case of one-sided error only one account is involved. So it cannot be corrected by passing journal entry. It is rectified by noting the correction on the appropriate side. Take the first example of one-sided error. Deshmukh's Account was credited short by Rs. 90. This will be corrected by an additional entry for Rs. 90 on the credit side of his account as follows:

Deshmukh's Account

Dr.	Cr.
	By Difference in amount received from him posted on
	Rs. 90

In the second example of one-sided error, the Purchases Account is debited in excess by Rs. 1,000. This will be corrected by crediting the Purchases Account with Rs. 1,000 as follows:

Purchases Account

Dr.	Cr.
	By Overcasting of Purchases Book for the month of
	Rs. 1,000

The wrong total in the Purchases Book will be circled with red ink and the correct total entered above or below the circle. The person doing the rectification will also put his initials.

Let us take a few more examples of one-sided errors and study how they will be rectified.

- The Sales Returns Book for the month of June was undercast by Rs. 10 :** You know the periodical total of the Sales Returns Book is posted to the debit side of Sales Returns Account. So, a mistake in totalling the Sales Returns Book will affect only the Sales Returns Account. It has been debited short by Rs. 10. So, this error can be corrected by an additional entry for Rs. 10 on the debit side of Sales Returns Account as shown below:

Sales Returns Account

Dr.	Cr.
To Undercasting of Sales Returns Book for the month of June	Rs. 10

2. **A payment of Rs. 1,000 towards interest was posted twice to Interest Account :** You know when interest is paid it is recorded on the credit side of the Cash Book and posted On the debit side of Interest Account. The error lies in repeating the posting to interest Account. Thus, it has affected only the Interest Account which now shows an excess debit of Rs. 1,000. This will be corrected by crediting the Interest Account with Rs. 1,000 as follows:

Interest Account

Dr.	Cr.
	By Double posting from Cash Book on now, rectified
	Rs. 1,000

3. **A receipt of Rs. 300 towards commission was omitted to be posted :** You know receipt of commission is recorded on the debit side of the Cash Book and posted on the credit side of the Commission Account. The error lies in omitting to post. Hence, it has not been credited by Rs. 300. This error can be corrected by making the posting now as shown below:

Commission Account

Dr.	Cr.
	By Omission of posting from Cash Book
	Rs. 300

4. **A credit sale for Rs. 1,000 to Tiwari was posted to the credit side of his account:** You know a credit sale is entered in the Sales Book and posted on the debit side of the customer’s account from the Sales Book. This error relates to posting on wrong side of Tiwari’s Account. His account should have been debited and not credited. To correct this error, we have not only to remove the wrong credit of Rs. 1,000 from his account but also give a debit of Rs. 1,000 to his account. Hence, the error can be rectified by debiting Tiwari’s Account with double the amount i.e. Rs, 2,000 as shown below:

Tiwari’s Account

Dr.	Cr.
To Posting of sales made to him on credit side on Now rectified	Rs. 2,000

Check Your Progress C

- What do you understand by one-sided error?

- The following errors have been committed in the books of account.
 - Purchase Book was overcast by Rs. 500.
 - Sales Book was undercast by Rs. 600.

- iii) Payment made to Krishna has not been posted to his account.
 - iv) Rs. 675 received from Rahul was posted to the debit of his account.
 - v) A total of Rs. 67 in the discount allowed column of the Cash Book was posted to the Discount Allowed Account as Rs. 76.
 - vi) Payment of Rs. 750 towards salaries was posted twice to Salaries Account.
3. You are required to answer the following questions.
- a) State the name of the account affected by each error.
 - i)
 - ii)
 - iii)
 - iv)
 - v)
 - vi)
 - b) State how you will rectify each error.
 - i)
 - ii)
 - iii)
 - iv)
 - v)
 - vi)

2.10.2 Rectification of Two-sided Errors

You have learnt that one-sided errors are corrected by noting the Correction on the appropriate side of the account affected by the error. These cannot be rectified by suitable journal entries because only one account was involved. But, the two-sided errors are mostly rectified by journal entries. It is because such errors affect two or more accounts and in most cases the debit and credit are equally affected. Take the case of first example of two-sided errors given earlier. A credit sale of Rs. 1,080 to Anand was wrongly recorded in the Sales Book as Rs. 1,800. The two accounts affected are: (i) Anand’s Account which shows an excess debit of Rs. 720, and (ii) Sales Account which stands credited in excess by Rs. 720. To rectify this error, we must credit Anand’s Account with Rs. 720 and debit the Sales Account with Rs. 720. So, a journal entry can be passed as follows:

	Rs.	Rs.
Sales Account Dr.	720	
To Anand		720

(Being sales of Rs. 1,080 to Anand wrongly recorded in the Sales Book as Rs. 1,800, now rectified)

Take the second example of two-sided errors given earlier. A sale of Rs. 500 made to Kamal was posted to the debit side of Kishore's Account. The two accounts affected are: (i) Kamal's Account which has not been debited by Rs. 500, and (ii) Kishore's Account which has been wrongly debited with Rs. 500. To rectify this error we have to debit Kamal's Account with Rs, 500 and credit Kishore's Account with Rs. 500. So, journal entry for the rectification of this error will be as follows:

		Rs.		Rs.
Kamal	Dr.	500		
To Kishore				500
(Being rectification of wrong debit to Kishore for sale made to Kamal)				

Now let us take a few more examples of two-sided errors and see how they will be rectified

- Sale of old machinery to Chakraborty for Rs. 600 was wrongly entered in the Sales Book.** You know the correct entry for this transaction would be as follows:

		Rs.		Rs.
Chakraborty	Dr.	600		
To Machinery Account				600

Instead of the above entry, the transaction was recorded as

		Rs.		Rs.
Chakraborty	Dr.	600		
To Sales Account				600

Thus, debit to Chakraborty's Account is correctly given. But it has affected two other accounts (i) Machinery account: which has not been credited, and (iii) Sales Account which has been wrongly credited. This can be rectified by debiting the Sales Account since it has been wrongly credited, and crediting the Machinery Account which has not been credited. Hence, a rectifying entry can be passed

		Rs.		Rs.
Sales Account	Dr.	600		
To Machinery Account				600

(Being rectification of wrong credit to sales for the sale of old machinery)

- A credit sale of Rs. 7,600 to Sharma was recorded in the Sales Book for Rs. 6,700:** It means the entry in the Sales Book has been made with Rs. 900 (Rs. 7,600 – Rs. 6,700) short. So, this error has affected two accounts: (i) Sharma's Account which is having a short debit of Rs. 900, and (ii) the Sales Account which is having a short credit of Rs. 900. It can be rectified by debiting Sharma's Account and crediting Sales Account. The rectifying journal entry will be as follows:

		Rs.		Rs.
Sharma	Dr.	900		
To Sales Account				900

(Being the rectification of a credit sale for Rs. 7,600 wrongly recorded as Rs. 6,700)

3. **A credit sale of Rs. 2,000 to Sinha was wrongly passed through the Purchases Book.** This should have been recorded in the Sales Book and the correct entry would have been:

		Rs.	Rs.
Sinha	Dr.	2,000	
	To Sales Account		2,000

Since it was wrongly passed through Purchases Book, the effective entry is:

		Rs.	Rs.
Purchases Account	Dr.	2,000	
	To Sinha		2,000

By comparing the above two entries, you will notice that:

- i) Sinha's Account which should have been debited with Rs. 2,000 is actually credited with Rs. 2,000. So, to rectify this error in his account. You have to debit Sinha's Account with double the amount—Rs. 2,000 to cancel the wrong credit and another Rs. 2,000 to give the correct debit.
- ii) Sales Account has not been credited with Rs. 2,000. So, to rectify error, the Sales Account should now be credited with Rs. 2,000.
- iii) Purchases Account has been wrongly debited with Rs. 2,000. So, to rectify this error, the Purchases Account should be credited with Rs 1000.

After identifying the three accounts involved and nature of correction required in each account, you can easily make out the rectifying journal entry. This will as follows:

		Rs.	Rs.
Sinha	Dr.	4,000	
	To Purchases Account		2,000
	To Sales Account		2,000

(Being the rectification for a credit sale wrongly passed through the Purchases Book)

4. **Repairs to machinery amounting to Rs. 400 was wrongly debited to Machinery Account :** You know when routine repairs are made, such expenditure is debited to Repairs Account and not to the concerned asset account. So, in this case the debit should have gone to Repairs Account and not to Machinery Account. To rectify this error, we should now debit the Repairs Account and credit the Machinery Account. Thus, the rectification entry will be:

		Rs.	Rs.
Repairs Account	Dr.	400	
	To Machinery Account		400

(Being the rectification of wrong debit to Machinery Account for routine repairs)

Illustration 4

How would you rectify the following errors in the books of Kiran & Co.?

1. The Sales Returns Book has been undercast by Rs. 500.

2. The total of the Bills Receivable Book amounting Rs. 4,500 has been posted to the credit of Bills Receivable Account.
3. While posting Purchases Book to the ledger, the personal account of Kumar has been credited with Rs. 221 instead of Rs. 212.
4. Rs. 10,000 paid for the purchase of a TV set for the proprietor is debited to General Expenses Account.
5. An amount of Rs. 1,000 paid by Pran has been credited to the account of Praneet.
6. Goods sold to Inder for Rs. 1,200 have been entered in the Purchases Book.

Solution:

1. This error will be rectified by entering Rs. 500 on the debit side of Sales Returns Account by writing “To Undercasting of Sales Returns Book for the Month ofRs. 500”.
2. This error will be rectified by entering an amount of Rs. 9,000 on the debit side of Bills Receivable Account by writing “To Wrong posting of the total of Bills Receivable Book on the opposite side Rs. 9,000”.
3. Kumar’s Account has been credited with an excess amount of Rs. 9 (Rs. 221— Rs. 212). This error will be rectified by debiting his account with Rs. 9 by writing “To Difference in amount posted from the Purchases Book onRs. 9”.
4. The following journal entry is required for rectification:

		Rs.	Rs.
Drawings A/c	Dr.	10,000	
To General Expenses A/c			10,000
(Being rectification of purchase of TV wrongly debited to General Expenses A/c)			

5. The following journal entry is required for rectification:

		Rs.	Rs.
Praneet	Dr.	1,000	
To Pran (Being rectification of wrong credit to Praneet for the amount paid by Pran)			1,000

6. The following journal entry is required for rectification:

		Rs.	Rs.
Inder	Dr.	2,400	
To Purchases A/c			1,200
To Sales A/c			1,200
(Being rectifying entry for sale to Inder wrongly entered in the Purchases Book)			

Illustration 5

How would you rectify the following errors:

1. Rs. 3,000 received from the sale of old machinery has been wrongly posted to Sales Account.
2. Rs. 600, the cost of repairing the machinery has been wrongly charged to Machinery Account.
3. Goods purchase for Rs. 500 from Sanjay has been wrongly debited to Furniture Account.
4. A sales of Rs. 600 has been wrongly credited to the customer's account.
5. A payment of Rs. 460 on account of rent has been posted twice to the Rent Account.
6. An item of Rs. 197 has been debited to a personal account as Rs. 179.

Solution:

1. The following journal entry is required for rectification:

		Rs.	
Sales A/c	Dr.	3,000	
To Machinery A/c			3,000
(Being rectifying entry for sale of old machinery credited to Sales A/c)			

2. The following journal entry is required for rectification:

		Rs.	
Repairs A/c	Dr.	600	
To Machinery A/c			600
(Being rectification of wrong debit to Machinery A/c instead of Repairs A/c)			

3. The following journal entry is required for rectification:

		Rs.	
Purchases A/c	Dr.	500	
To Furniture A/c			500
(Being rectifying entry for purchase wrongly debited to Furniture A/c)			

4. This error will be rectified by debiting the customer's account with Rs. 1,200 (double of Rs. 600) by writing "To Wrong posting from Sales Book on the credit side on Rs. 1,200"
5. This error will be rectified by entering Rs. 460 on the credit side of the Rent Account by writing "By Double posting from Cash Book onRs. 460"
6. The personal A/c has been debited Rs. 18 short (Rs. 197-179). To rectify this error, the personal A/c will be debits with the difference by writing "To Difference in amount posted on Rs. 18".

Check Your Progress D

1. Following errors have been detected:
 - a) A credit purchase of goods from Chetan amounting to Rs. 15,000 has been wrongly passed through the Sales Book.

- b) A Sale of an old Typewriter for Rs. 800 was passed through the Sales Book.
- c) Rs. 700 withdrawn for personal use has been debited to General Expenses Account.
- d) A credit sale of Rs. 2,300 to Zatin was omitted from Sales Book.
- e) Purchase of a wooden cupboard for Rs. 3,000 has been passed through the Purchases Day Book.

You are required to answer the following questions.

1. In case of each error name the accounts affected.
 - a) i)
 - ii)
 - b) i)
 - ii)
 - c) i)
 - ii)
 - d) i)
 - ii)
 - e) i)
 - ii)

2. In case of each error, write the effect on the accounts involved.
 - a) i)
 - ii)
 - b) i)
 - ii)
 - c) i)
 - ii)
 - d) i)
 - ii)
 - e) i)
 - ii)

2.11 SUSPENSE ACCOUNT AND RECTIFICATION

You have learnt the method of rectifying the errors. This method is used for rectifying the errors located before preparing the final accounts. After the corrections have been made, a revised Trial Balance is prepared which should normally tally. But, if it does not tally, it means there are still some errors which have not been

detected. As considerable time and effort have already been spent in locating and rectifying the errors, it may not be possible to wait any longer because it will delay the preparation of final accounts. Hence, in such situation the usual practice is to place the difference to Suspense Account and tally the Trial Balance for the time being. If the total of the debit column in the Trial Balance is more than the total of its credit column, the difference is placed to the credit of Suspense Account and the Trial Balance will tally. Similarly, if the credit column total is more than the debit column total, the difference is placed to the debit of Suspense Account. The Suspense Account thus created is shown in the Balance Sheet and is carried forward to the next year.

Note that the Suspense Account is not the result of any transaction. It merely represents the net effect of errors which still remain undetected. Therefore, during the next accounting year, after the errors are located and rectified, the Suspense Account will get closed. Let us now understand how errors will be corrected during the next year. As for the two sided errors, there is no change in the method of rectification. These errors do not affect the agreement of Trial Balance and hence do not involve the Suspense Account. They are rectified by means of the journal entries as usual. This is not the case in respect of one-sided errors. When one-side errors were to be corrected before preparing the Trial Balance we did it by writing an appropriate note in the concerned account. But, when they are to be corrected during the next year i.e., after Suspense Account has been created, the rectification will be through an appropriate journal entry. The one-sided error usually affects only one account. So to pass a journal entry for rectification of such error, we shall now take Suspense Account as the other account involved. For example, Rs. 580 received from Shyam were posted to his account as Rs. 850. It means Shyam's Account is to be debited with Rs. 270. You can now pass the following journal entry to rectify this error:

		Rs.	
Shyam A/c	Dr.	270	
To Suspense Account	(Being rectification entry)		270

Thus all errors, whether they are two-sided or one-sided will now be rectified by means of journal entries.

Let us assume that a businessman could not tally his Trial Balance. The difference of Rs. 1 between the totals of the two columns was put against the Suspense Account on its debit side and the Trial Balance was made to tally temporarily. The Suspense Account was carried forward to the next accounting year. The following errors were then located:

1. An amount of Rs. 99 was omitted to be posted to the credit of a customer's account from the Cash Book.
2. The Sales Book was overcast by Rs. 100.

The first error involved the omission of posting to the credit of customer's account. So, to rectify this error, you will have to credit customer's account with Rs. 99. As the Suspense Account is in existence, the corresponding debit would be given to the Suspense Account. Thus, the journal entry will be:

		Rs.	Rs.	
Suspense A/c	Dr.	99		
To Customer's A/c			99	
(Being the rectification of omission in posting)				

The second error refers to Sales Book being overcast by Rs. 100. It means that the Sales Account has been credited with Rs. 100 in excess. To rectify this error, the Sales Account will have to be debited with Rs. 100. The corresponding credit would be given to Suspense Account. The rectifying entry will be:

		Rs.	Rs.	
Sales A/c	Dr.	100		
To Suspense A/c			100	
(Being the rectification of overcasting in Sales Book)				

The Suspense Account, after posting the two rectification entries, would appear as follows:

Suspense Account

Dr.			Cr.
To Difference in Trial Balance	Rs.		Rs.
To Customer's A/c	1	By Sales A/c	100
	199		
	100		100

With the posting of the two rectification entries the Suspense Account got closed. Note that the opening balance in Suspense Account simply shows the net effect of these errors. **Sometimes, the balance of Suspense Account is not given. In that case it can be worked out after completing the posting of the rectification entries.**

Suppose in the above example, the amount with which the Suspense Account was opened was not given. Leave the first line blank on both the debit and credit sides of the Suspense Account and post the rectification entries. The difference between the totals of two sides will be considered as the balance with which the Suspense Account was opened. This is based on the assumption that there are no more errors remaining undetected.

Look at illustrations 6, 7 and 8 and study how errors are rectified when Suspense Account is in existence.

Illustration 6

The Trial Balance of Siva did not tally. The credit side exceeded by Rs. 1,455. This amount was entered in the debit column against Suspense Account and the Trial Balance was made to tally.

Later, the following errors were discovered.

1. Goods worth Rs. 1,250 were sold to Mahesh on credit. This was entered in the Sales Book but was not posted.
2. Goods worth Rs. 313 were returned by Ahmed. The amount was credited to his account but was not recorded in the Returns Inwards Book.

3. Manoj paid Rs. 670 but his account was wrongly credited with Rs. 607.
4. An amount of Rs. 375 owed by Dinesh was omitted from the schedule of Sundry Debtors.
5. The Sales Book was undercast by Rs. 420.

Rectify the errors and show the Suspense Account.

Solution:

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		Rs.	Rs.
1.	Mahesh Dr. To Suspense A/c (Being sales to Mahesh not posted)	1,250	1,250
2.	Returns Inwards A/c Dr. To Suspense A/c (Being goods returned not recorded in Returns Inwards Book though credited to personal account)	313	313
3.	Suspense A/c Dr. To Manoj (Being Cash paid by Manoj underposted)	63	63
4.	Sundry Debtors A/c Dr. To Suspense A/c (Being Dinesh's debit omitted from the list of Sundry Debtors)	375	375
5.	Suspense A/c Dr. To Sales A/c (Being rectification of overcasting in Sales Book)	420	420

Suspense Account

Dr.		Cr.	
	Rs.		Rs.
To Difference in Trial Balance	1,455	By Mahesh	1,250
To Manoj	63	By Returns Inwards A/c	313
To Sales A/c	420	Sundry Debtors A/c	375
	1,938		1,938

Illustration 7

Kishan, the accountant, found certain errors in the books. He transferred the difference in the Trial Balance to the credit of a Suspense Account. Subsequently, the following errors were discovered. Pass the necessary journal entries to rectify the errors and show the Suspense Account.

1. An amount of Rs. 300 paid as Commission was not posted to Commission Account.
2. Rs. 3,400 paid towards rent was wrongly entered in the Rent A/c as Rs. 4,300.

3. Discount Received column of the Cash Book was undercast by Rs. 100.
4. Cash sales not posted to the Sales Account amounted to Rs. 1,000.

Solution:

JOURNAL

		Dr.	Rs.		Rs.
1.	Commission A/c To Suspense A/c (Being the omission of posting to commission A/c rectified)	Dr.	300		300
2.	Suspense A/c To Rent A/c (Being excess debit to Rent Account now rectified)	Dr.	900		900
3.	Suspense A/c To Discount Received A/c (Being rectification of undercasting in the discount received column of the Cash Book)	Dr.	100		100
4.	Suspense A/c To Sales A/c (Being the omission of posting to sales account now rectified)	Dr.	100		100

Suspense Account

	Rs.		Rs.
To Rent A/c	900		
To Discount Received A/c	100	By Balance b/d (balancing figure)	1,700
To Sales A/c	1,000	By Commission A/c	300
	2,000		2,000

Illustration 8

Rectify the following errors assuming that a Suspense Account was opened.

1. A purchase made from Anthony & Co. for Rs. 8,000 was not entered in the Purchases Book.
2. An amount of Rs. 500 received from Mr. Roy was credited to Ray's A/c.
3. A sale of Rs. 600 to Gopal was debited to his account as Rs. 6,000.
4. Salaries paid amounting to Rs. 1,000 was wrongly debited to Wages Account.
5. Rs. 450 received on account of interest stands wrongly credited to Commission Account.

6. The total of Returns Outwards Book amounting to Rs. 560 was not posted in the ledger.
7. A credit sale of Rs. 250 to Rakesh was wrongly credited to his Account.
8. A credit sale of Rs. 520 to Madhu debited to him as Rs. 250.
9. A credit purchases from Kailash of Rs. 400 was debited to him.
10. In Cash Book, the total of Discount Allowed column of Rs. 304 has been carried forward as Rs. 403.

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		Rs.	Rs.
1.	Purchases A/c To Anthony & Co. (Being the omission of credit purchases, now rectified)	Dr. 8,000	8,000
2.	Ray To Roy (Being credit given to Ray's account instead of Roy's account, now rectified)	Dr. 500	500
3.	Suspense A/c To Gopal (Being excess debit given to Gopal's A/c, now rectified)	Dr. 5,400	5,400
4.	Salaries A/c To Wages A/c (Being debit to Wages A/c instead of Salaries A/c, now rectified)	Dr. 1,000	1,000
5.	Commission A/c To Interest A/c (Being credit given to Commission A/c instead of interest A/c, now rectified)	Dr. 450	450
6.	Suspense A/c To Returns Outwards A/c (Being the omission of posting total of Returns Outwards Book, now rectified)	Dr. 560	560
7.	Rakesh To Suspense A/c (Being wrong credit given to Rakesh, now rectified)	Dr. 500	500
8.	Madhu To Suspense A/c (Being short amount debited to Madhu now rectified)	Dr. 270	270

9.	Suspense A/c To Kailash (Being debit given to Kailash instead of credit, now rectified)	Dr.	800	800
10.	Suspense A/c To Discount Allowed A/c (Being excess amount carried forward in Cash Book, now rectified)	Dr.	99	99

Suspense Account

Dr.		Cr.	
	Rs.		Rs.
To Gopal	5,400	By Balance b/d (balancing figure)	6,089
To Returns Outward A/c	560	By Rakesh	500
To Kailash A/c	800	By Madhu	270
To Discount Allowed A/c	99		
	<u>6,859</u>		<u>6,859</u>

Check Your Progress E

1. The following errors were found in the books of Raghavan. The Trial Balance was out by an excess credit of Rs. 3,720. The difference has been placed to the debit of Suspense Account.
 - a) The discount column of the Cash Book on the debit side has been overcast by Rs. 25.
 - b) A credit sale of Rs. 1,525 to Rajesh has been wrongly posted to the credit of his account.
 - c) The total of the Purchases Returns Book has been overcast by Rs. 605.
 - d) A sum of Rs. 784 received from Nagesh has been posted to his account as Rs. 874.

S. No.	Account to be debited	Account to be credited
a)
b)
c)
d)

2.12 EFFECT OF RECTIFYING ENTRIES ON PROFITS

You have seen that the creation of Suspense Account helps in tallying the Trial Balance and avoiding delay in the preparation of final accounts. The errors still remain to be detected and rectified. So, the Profit and Loss Account prepared from such Trial Balance is subject to the undetected errors. The profit thus arrived at may be less or more than the actual profits. Similarly, when the errors are

detected and rectified during the next year, the rectifying entries will have their effect on the profit of the next year.

The profit is affected only if the errors involve accounts which usually appear in the Trading and Profit and Loss Account (nominal accounts) and not those which appear in the Balance Sheet (real and personal accounts).

Let us understand it with the help of an example. Suppose Rs. 24,000 paid for salaries during 2017 was posted to the Salaries Account as Rs. 20,400. This error has resulted in short debit of Rs. 3,600 to Salaries Account and so the salaries charged to Profit and Loss Account are short by Rs. 3,600. This would overstate the profits of 2017. When this error will be detected in 2018 and the rectifying entry passed, Rs. 3,600 will be added to salaries of 2018 and so the profit of 2018 will be decreased by Rs. 3,600. Thus, both the errors and the rectifying entries affect the profit. The effect of rectifying entries will be the reverse of the effect of errors.

The effect of errors and their rectification on the profits has been presented in a summarised form in Table 7.1.

Table 2.1: Effect of Errors and Rectifying Entries on Profits

Nature of Error in Nominal Accounts	Effect of Error on Profit	Effect of Rectifying Entry on Profit
Excess debit	reduces	increases
Excess credit	increases	reduces
Short debit	increases	reduces
Short credit	reduces	increases
Omission of debit	increases	reduces
Omission of credit	reduces	increases

Look at illustration 9. It shows rectifying entries and their effect on profits.

Illustration 9

A businessman finds that he could tally his Trial Balance of 2017 only by opening a Suspense Account. During 2018, he discovered the following errors:

1. The Discount Allowed column of the Cash Book was overcast by Rs. 25.
2. Sale of old machinery amounting to Rs. 550 had been credited to Sales A/c.
3. A Sale of Rs. 780 to Ahmed had been debited to his account as Rs. 870.
4. The total of Bill Payable Book amounting to Rs. 4,000 for the month of June was not posted into the ledger.

Rectify the above errors and prepare the Suspense A/c. Also explain the effect of rectifying errors on the profits of 2018.

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		Rs.	Rs.
1.	Suspense A/c To Discount Allowed A/c (Being the rectifying entry for overcasting of discount allowed column)	Dr. 25	25
2.	Sales A/c To Machinery A/c (Being the rectifying entry for sales of Machinery wrongly credited to Sales Account)	Dr. 550	550
3.	Suspense A/c To Ahmed (Being rectifying entry for excess debit to Ahmed's Account)	Dr. 90	90
4.	Suspense A/c To Bill Payable A/c (Being the rectifying entry for omission of posting of the total of Bills Payable Book)	Dr. 4,000	4,000

Suspense Account

Dr.		Cr.	
	Rs.		Rs.
To Discount Allowed A/c	25	By Balance b/d (balancing figure)	4,115
To Ahmed	90		
To Bills Payable A/c	4,000		
	<u>4,115</u>		<u>4,115</u>

Effect on Net Profit of 2018

	Rectifying Entry	Increases	Decreases
		Rs.	Rs.
1.	Credit to Discount Allowed A/c	25	—
2.	Debit to Sales A/c	—	550
3.	No nominal A/c is involved A/c	—	—
4.	No nominal account is involved	—	—
		25	550
	Net decrease in Profits		525

In the above illustration, you observed that errors were committed during 2017 and the rectifying entries were passed in the books of 2018. This unnecessarily affected the profits of 2018. In order that the profits of the year in which rectifying entries are passed is not affected, a new account called Profit and Loss Adjustment Account is opened. Now, all amounts which are to be debited or credited to nominal accounts

in the rectifying entries will be debited or credited to the Profit and Loss Adjustment Account. The balance of the Profit and Loss Adjustment Account is directly adjusted in Capital. The current year's profit will thus remain unaffected.

The rectifying entries 1 and 2 of illustration 9 which involve debit and credit to nominal accounts can now be shown as follows:

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		Rs.	Rs.
1.	Suspense A/c Dr. To Profit and Loss Adjustment A/c (Being the rectification of overcasting the discount allowed column)	25	25
2.	Profit & Loss Adjustment A/c Dr. To Machinery A/c (Being the rectification for wrong credit given to Sales Account)	550	550

The Profit and Loss Adjustment Account will be as follows:

Profit and Loss Adjustment Account

Dr.			Cr.
To Machinery A/c	Rs. 550	By Suspense A/c By Capital A/c (Transfer)	Rs. 25 525
	550		550

Check Your Progress F

1. State how the rectification of the following errors will effect the profits. Assume that a Suspense Account has been created.
 - i) The total of the discount allowed column of the Cash Book, amounting to Rs. 40, had been posted to the credit of Discount Received Account.
.....
.....
 - ii) The total of the Purchases Book has been overcast by Rs. 100.
.....
.....
 - iii) The Returns Outwards Book has been overcast by Rs. 80.
.....
.....
 - iv) Rs. 105 spent on repairs to furniture had been debited to Furniture Account.
.....
.....

- v) A cheque for Rs. 100 received from Mohinder, had been recorded in the Cash Book, but it was not posted to Mohinder’s Account.

.....

2.13 LET US SUM UP

1. It is necessary to prepare a Trial Balance before preparing the final accounts. It verifies the arithmetical accuracy of the books of account.
2. When a Trial Balance does not tally, it means that there are errors in books of account. A series of steps are taken to locate errors.
3. There are certain errors which affect the Trial Balance and there are some which do not.
4. Errors of principle, errors of complete omission, certain errors of commission in subsidiary books, and the compensating errors are not disclosed by the Trial Balance.
5. Though the Trial Balance has its limitations, it is useful in ensuring the arithmetical accuracy of the books of account.
6. When the Trial Balance does not tally it means that there are errors in the books of account. Attempts are made to locate the errors and rectify them.
7. One-sided errors which affect only one account are rectified by means of a suitable note on the relevant side in the concerned account.
8. Two-sided errors, involving two or more accounts, are rectified by means of journal entries.
9. If the Trial Balance does not tally even after the detected errors have been rectified, the difference is put against a Suspense Account to avoid delay in preparing the final accounts.
10. The Suspense Account is carried forward to the next accounting year and as and when the errors are located, they are rectified.
11. When the Suspense Account is in existence, all errors are rectified by means of journal entries.
12. When all the errors are rectified, the Suspense Account gets closed.
13. When errors are rectified during the next account year, the rectification entries involving nominal accounts affect the profits of the next year. To avoid such effect, Profit and Loss Adjustment Account can be opened and its balance is directly adjusted in capital.

2.14 KEY WORDS

Compensating Errors : A group of errors wherein the effect of an error is counter-balanced (or compensated) by the effect of one or more errors, as a result of which the agreement of Trial Balance remains unaffected.

Errors of Principle An error committed by ignoring or misapplying some principles of accounting while recording a transaction in the books of account.

Errors of Complete Omission: An error committed in completely omitting to record a transaction in the books of account.

Errors of Partial Omission : An error committed in omitting to post one aspect of an entry in the ledger.

Errors of Commission : A clerical error committed while recording or posting of a transaction.

One-sided error : An error which affects the debit or credit side of one account only.

Profit and Loss Adjustment Account : An account opened for avoiding the effect of rectifying entries in respect of previous year's errors on the profit or loss of the current year.

Suspense Account : An account opened to make the Trial Balance tally temporarily. It represents the net effect of undetected one-sided errors.

Two-sided errors : An error which involves two or more accounts and both the debit and credit aspects.

2.15 SOME USEFUL BOOKS

Frank Wood. Book-keeping and Accounts (London: Pitman, 1996)

Greweal. TS. Double Entry Book-keeping (New Delhi: Sultan Chand & Sons, 2018)

Maheshwari, S.N. Principles and Practice of Accountancy (New Delhi: Arya Book Trial **Balance** Depot, 2018)

Frank Wood, 1996. Book-keeping and Accounts, Pitman Publishing Limited: London.

Grewal, T.S. 2018. Double Entry Book-keeping, Sultan Chand & Sons: New Delhi.

Maheshwari, S.N. 2018. Principles and Practice of Accountancy, Arya Book Depot: New Delhi.

Patil, V.A., and Korlahalli, J.S. 2018. Principles and Practice of Book-keeping, R. Chand & Co.: Delhi.

2.16 ANSWERS TO CHECK YOUR PROGRESS

A 2 (a) Debit (b) Debit (c) Debit (d) Debit (e) Debit (f) Credit
(g) Credit (h) Debit (i) Debit (j) Credit (k) Debit (l) Debit
(m) Debit (n) Debit (o) Debit (p) Credit

B 1 (a) i (b) ii (c) ii (d) iii (e) i (f) ii

B 4 Errors (c), (d) and (f) would affect the Trial Balance

C 2 a) i) Purchases Account

- ii) Sales Account
 - iii) Krishna's Account
 - iv) Rahul's Account
 - v) Discount Allowed Account
 - vi) Salaries Account
- b) i) Credit Purchases Account with Rs. 500
- ii) Credit Sales Account with Rs. 600
- iii) Debit Krishna's Account
- iv) Credit Rahul's Account with Rs. 1,350
- v) Credit Discount Allowed Account with Rs. 9
- vi) Credit Salaries Account with Rs. 750
- D 1 a) i) Chetan's Account
- ii) Purchases Account
- iii) Sales Account
- b) i) Typewriter Account
- ii) Sales Account
- c) i) Drawings Account
- ii) General Expenses Account
- d) i) Zatin's Account
- ii) Sales Account
- e) i) Furniture Account
- ii) Purchases Account
- 2 a) i) Chetan's Account debited with Rs. 15,000 instead of being credited.
- ii) Purchases Account not debited with Rs. 15,000
- iii) Sales Account credited in excess with Rs. 15,000
- b) i) Typewriter Account not credited
- ii) Sales Account credited in excess
- c) i) Drawings Account not debited
- ii) General Expenses Account debited in excess
- d) i) Zatin's Account not debited
- ii) Sales Account not credited
- e) i) Furniture Account not debited
- ii) Purchases Account debited in excess

- E a) i) Debit Suspense Account
 ii) Credit Discount Allowed Account
- b) i) Debit Rajesh's Account
 ii) Credit Suspense Account
- c) i) Debit Purchases Returns Account
 ii) Credit Suspense Account
- d) i) Debit Nagesh's Account
 ii) Credit Suspense Account
- F1 i) Profit will decrease by Rs. 80 because the rectifying entry will involve debiting Rs. 40 to Discount Allowed Account and Rs. 40 to Discount Received Account.
- ii) Profit will increase by Rs. 100.
- iii) Profit will decrease by Rs. 80.
- iv) Profit will decrease by Rs. 105.
- v) No effect on profit.

The net effect will be a decrease in the Profits by Rs. 165.

2.17 TERMINAL QUESTIONS/EXERCISES

Questions

1. Why do you regard Trial Balance as a test of the arithmetical accuracy of the books of account? List the errors that will be disclosed by the Trial Balance.
2. If the Trial Balance does not tally, it means there are some errors in books of account. How are these errors located? Describe the procedure fully.
3. Is the Trial Balance a conclusive proof of the accuracy of the books of account? Discuss the errors not disclosed by the Trial Balance.
4. What are the different types of errors that are usually committed in recording transactions? Explain with examples.
5. State the advantage of preparing a Trial Balance. Also give its limitations, if any.
6. What are one-sided errors? Give five examples. Explain the method of rectifying one-sided errors.
7. What are two-sided errors? Give five examples and show how two-sided errors are corrected?
8. What is a Suspense Account? When is it opened? How do you rectify the error when a Suspense Account that has already been opened?
9. Does rectification of errors in a subsequent accounting period always affect the trading result of the current accounting period? Explain with examples.

1. On January 1, 2018 the balance of Tanali Traders stood as follows:

Cash in hand Rs. 2,000; Cash at bank Rs. 12,300; Stock in trade Rs. 51,700; Furniture Rs. 8,200; Debtors Rs. 6,600 (Shyam Rs. 3,500, Shanker Rs. 2,600, Laxman Rs. 500); Creditors Rs. 7,100 (Reddy & Co. Rs. 3,020, Kishore Rs. 4,080); Capital Rs. 73,700.

Their transactions during the month of January were as follows:

2018	Rs.
Jan. 1 Borrowed from Globe Finance Co	10,000
“ 2 Bought goods for cash	2,300
“ 2 Purchased from Reddy & Co	5,500
“ 3 Paid into bank	9,000
“ 5 Received cheque from Shyam	3,500
“ 6 Sold goods for cash	1,200
“ 7 Sold to Shanker	8,700
“ 8 Paid Kishore by cheque	2,000
Discount received	100
“ 9 Received cheque from Shanker on account	5,000
“ 9 Received credit note from Reddy & Co. for goods returned to them	380
“ 10 Sold goods to Thomas	10,000
“ 10 Drew cash from the bank	1,000
“ 12 Purchased postage stamps	300
“ 14 Bought of Bose & Sons	9,300
“ 16 Paid Globe Finance & Co. by cheque in part payment of loan	5,000
“ 17 Received cash from Laxman	500
“ 21 Paid Reddy & Co. by cheque	6,000
“ 23 Carriage paid	100
“ 24 Withdrew cash for private expenses	1,500
“ 28 Paid salaries in cash	800
“ 30 Rent due to landlord	500
“ 31 Purchased furniture on credit from Joseph	600
“ 31 Paid interest to Globe Finance Co.	100

Enter the above transactions in the appropriate books, post them into ledger and prepare a Trial Balance.

(**Answer:** Cash in hand Rs. 600, Cash at bank Rs. 15,800, Trial Balance Total Rs. 1,13,600.)

2. From the details given below prepare a Trial Balance as at March 31, 2018.

	Rs.		Rs.
Purchases	80,000	Salaries & Wages	42,500
Discount (Dr.)	6,500	Sales	1,50,000
Travelling Expenses	2,500	Carriage Outwards	225
Carriage Inwards	1,375	Repairs	1,500
Insurance	750	Miscellaneous Expenses	275
Commission Paid	1,625	Buildings	20,000
Rent and Rates	2,500	Machinery	7,500
Cash in hand	125	Horses and Carts	2,500
Cash at bank	13,625	Stock in Trade (1-4-2017)	29,500
Sundry Debtors	16,025	Capital	68,525
Sundry Creditors	10,500		

(**Answer:** Total of Trial Balance Rs. 2,29,025.)

3. From the following details, prepare a Trial Balance as on June 30, 2018.

	Rs.		Rs.
Opening Stock	40,000	Drawings	10,000
Purchases	4,10,000	Wages	7,300
Sales	4,29,000	Salaries	11,000
Purchase Returns Sales	1,250	Outstanding Expenses	1,000
Returns	2,500	Prepaid Expenses	750
Carriage Inwards	1,500	Postage	900
Carriage Outwards	2,500	Discount Received	375
Bank Overdraft	21,000	Discount Allowed	1,000
Cash	4,000	Bad Debts	750
Capital	1,27,750	Sundry Debtors	1,00,000
Sundry Creditors	37,500	Interest	3,500
Loans	41,375	Interest Received	300
Investments	10,000	Provisions for Bad Debts	1,750
Accrued Income	600	Furniture & Fixture	7,500
Machinery	47,500		

(**Answer:** Total of Trial Balance. Rs. 6,61,300.)

4. The following Trial Balance is incorrectly drawn up and shows a difference of Rs. 5,180. Rewrite it correcting the errors.

Lakshman Singh & Co.
Trial Balance as on December 31, 2018

Trial Balance

Name of Account	L.F.	Dr. Balances	Cr. Balances
		Rs.	Rs.
Bank Overdraft		600	..
Depreciation		---	330
Bank		3,300	---
Wages		---	160
Insurance		--	270
Fixtures		1,700	---
Capital		20,200	---
Stock(1-1-18)		---	550
Rates		200	---
Cash		120	---
Stock (3 1-12-18)		900	----
Sales		---	8,600
Purchases		---	5,200
Drawings		---	350
Premises		---	16,980
Insurance		300	..
Difference		5,180	..
Total		32,500	32,500

(**Answer:** Total of Trial Balance Rs. 29,460.)

(**Hint:** Stock (31-12-18) will not be shown in the Trial Balance.)

5. Owing to three obvious errors, the following Trial Balance does not agree.
 Correct the errors and prepare a Trial Balance as on March 31, 2018

	Rs.		Rs.
Stock on 1-4-2017	20,000	Loan Account	30,000
Purchases	98,000	Debtors	84,000
Wages Rent,	30,000	Capital	1,00,000
Rates & Taxes	2,000	Provision for Bad Debts	5,600
Salaries	16,000		
General Expenses	1,800		
Discount Allowed	1,000		
Plant and Machinery	30,000		
Creditors	40,000		

Accounting Process

Cash at Bank	16,000	
Furniture & Fixtures	10,000	
Sales	2,57,200	
Returns on Sales	4,000	
Cost of Lease	1,20,000	
	<u>6,46,000</u>	<u>2,19,600</u>

(**Answer:** Total of the Trial Balance Rs. 4,32,800.)

6. An inexperienced accountant provides you with the following Trial Balance. In case you find it to be incorrect, prepare it again so as to remove its defects.

Trial Balance as on June 30,2018

Name of Account	LF.	Dr. Balances	Cr. Balances
		Rs.	Rs.
Stock (opening)		10,500	
Building		31,500	
Bills Payable		1,800	
Bank Overdraft		1,500	
Capital			45,000
Furniture			12,000
Discount Allowed		90	
Sales		39,000	
Loan from Suresh		2,400	
Carriage Inwards		270	
Bills Receivable			3,000
Purchases			24,000
Salaries			3,300
Investments		3,000	
Interest on Investments			1,650
Returns Inwards		900	
Returns Outwards		300	
Insurance Premium		360	
Interest on Loan		30	
Advertisement			1,200
Drawings			1,500
		<u>91,650</u>	<u>91,650</u>

(**Answer:** Total of Trial Balance Rs. 91,650)

7. From the following transactions of Shanker, write up Journal Proper and the other subsidiary books involved. Show their postings into ledger and prepare a Trial Balance.

2018	Rs.
Mar. 1 Assets:	
Cash in hand	1,000
Cash at bank	34,000
Stock of goods	20,000
Machinery	50,000
Furniture	5,000
Sudhir owes	5,000
Naveen owes	12,500
Liabilities:	
Loan	20,000
Sum owing to Samuel	10,000
“ 2 Bought goods on credit from Naresh	5,000
“ 3 Cash sales	2,000
“ 4 Sold goods to Raman	5,000
“ 5 Received from Sudhir in settlement of his account	5,000
“ 6 Payment made to Samuel by cheque, in full settlement	9,950
“ 9 Old furniture sold for cash	500
“ 10 Cash purchases	4,000
“ 11 Naveen pays by cheque which was deposited into bank	12,500
“ 11 Paid for repairs to machinery	500
“ 13 Purchased goods from Shyam	5,000
“ 13 Paid carriage on these goods	250
“ 16 Received cheque from Raman	5,000
“ 17 Paid to Shyam by cheque	5,000
“ 18 Bank intimates that cheque of Raman has been returned unpaid	
“ 19 Cash sales	3,000
“ 21 Cash deposited into bank	2,500
“ 25 Paid municipal taxes in cash	500
“ 26 Old newspaper sold	50
“ 28 Paid for advertisements	500
“ 31 Paid rent by cheque	600

(**Answer:** Cash in hand Rs. 2,800; Cash at bank Rs. 33,450; Total of Trial Balance Rs. 1,32,600.).

Hint: Find out the opening capital before working on the problem.

8. Rectify the following errors:
 - a) Goods amounting to Rs. 3,000 sold to Pran, were correctly entered in the Sales Book, but posted to his account as 30,000.
 - b) The total of the Sales Book for the month was undercast by Rs. 5,000.
 - c) Rs. 6,000 paid for the cash purchase of furniture was not posted to the Furniture Account.
 - d) A credit purchase of Rs. 9,000 from Arjun was wrongly passed through the Sales Book.
9. Rectify the following errors:
 - a) Rs. 690, the amount of rent paid to the landlord, was debited to his personal account.
 - b) Goods purchased for the personal use of the proprietor, costing Rs. 600, was debited to the Purchases Account.
 - c) Rs. 1,080 paid as wages for construction of a room was debited to the Wages Account.
 - d) Total of Purchases Book of one page was carried forward to the next page as Rs. 876 instead of Rs. 786.
 - e) Discount allowed amounting to Rs. 25 had been credited to Discount Received Account.
 - f) Total of Sales Book of one page was carried forward to the next page as Rs. 872 instead of 782.
10. Rectify the following errors:
 - a) Rs. 700 received on account of a bad debit written off earlier, credited to customer's personal account.
 - b) Goods returned by Murari amounting to Rs. 250 has been entered in the Returns Outwards Book.
 - c) An amount of Rs. 800 withdrawn by the proprietor for his personal use has been debited to General Expenses Account.
 - d) Discount allowed to Kurien amounting to Rs. 47 has not been entered in the discount column of the Cash Book, but it has been posted to the Customer's personal account.
 - e) A cash sale to Ashok for Rs. 690 was recorded in the Cash Book and also in the Sales Book. Postings were made from both the books.
 - f) The Bank Column on the credit side of the Cash Book was overcast by Rs. 50.
11. Rectify the following errors:
 - a) A credit purchase of goods from Manoj, amounting to Rs. 1,800, has been wrongly passed through the Sales Book.
 - b) A credit sale of Rs. 600 to Anand was posted to his credit.

- c) The Returns Inwards Journal has been undercast by Rs. 1,800.
- d) Rs. 1,450 paid as commission was wrongly debited to Interest Account.
- e) Rent paid for proprietor's residence amounting to Rs. 2,000 was debited to the Rent Account.
- f) A credit sale of Rs. 1,400 to Roshan was entered in the Returns Outwards Book.

12. Correct the following errors found in the books of Rohit, whose Trial Balance was out by Rs. 1,746 (excess debit), and the difference was posted to a Suspense Account. Also show Suspense Account.

- a) The Sales Returns Book has been totalled Rs. 54 short.
- b) The Purchases Book has been totalled Rs. 150 more.
- c) Goods purchased amounting to Rs. 750 has been posted to the debit of Supplier's (Srinath) Account.
- d) The Sales Book has been totalled Rs. 150 short.

(Answer : Suspense Account gets closed).

13. On taking out a Trial Balance, a book-keeper finds an excess credit of Rs. 2,460. Being desirous of closing the books, he places the difference to a Suspense Account, which is carried forward. In the next period, he discovers the following errors. Pass the rectifying entries and prepare the Suspense Account.

- a) The total of Returns Inwards Book has been totalled Rs. 400 short.
- b) A sum of Rs. 4,800 written off as depreciation on machinery, has not been posted to the Depreciation Account.
- c) A discount of Rs. 1,000 allowed to a customer has been posted to his account as Rs. 100.
- d) The Sales Book was undercast by Rs. 4,000.
- e) Purchase of Rs. 480 was posted as Rs. 840 in the supplier's account.

(Answer : Suspense Account still shows a debit balance of Rs. 1,800)

14. A book-keeper failed to balance his Trial Balance. He places the difference to a newly opened Suspense Account which is carried forward. The following errors were subsequently discovered. Give journal entries to rectify these errors and show the Suspense Account.

- a) The total of Purchases Day Book had been undercast by Rs. 200.
- b) Purchase of a Typewriter on credit from Harnath for Rs. 9,600 was entered in the Purchases Book.
- c) Goods returned by Hari amounting to Rs. 2,000 has been entered in the Returns Outwards Book, however, the posting was done correctly to Hari's Account.
- d) A Cash sales of Rs, 2,500 to Sommnath, correctly entered in the Cash Book was posted to the credit of his personal account.

- e) A cheque received from Mahinder for Rs. 8,160 had been debited in the Cash Book, but the double entry had not been completed.

(Answer : Suspense Account was started with a credit balance of Rs. 3,960)

15. The Trial Balance prepared by Dhanraj did not tally and the difference was transferred to a Suspense Account. Subsequently, the following errors were found. Rectify the errors and show the Suspense Account. Also explain the effect of rectifying entries on the profits.

- a) A sale of Rs. 1,600 to Kamalnath was posted to Karunanath.
- b) Insurance paid amounting to Rs. 250 was posted twice.
- c) A sale of Rs. 1,500 for old machinery was passed through the Sales Book.
- d) A Purchase of Rs. 600 from Kamesh was not passed through the books.
- e) Rs. 80, the debit balance of Commission Account was omitted from the Trial Balance.
- f) The Purchases Returns Book was undercast by Rs. 700.

(Answer : Suspense Account was started with a credit balance of Rs. 870; Profit will decrease by Rs. 1,230).

Note : These questions will help you to understand the unit better. Try to write answers for them. But, do not submit your answers to the University for assessment. These are for your own practice only.