

CHAPTER – 2 **ACCOUNTING PROCESS**

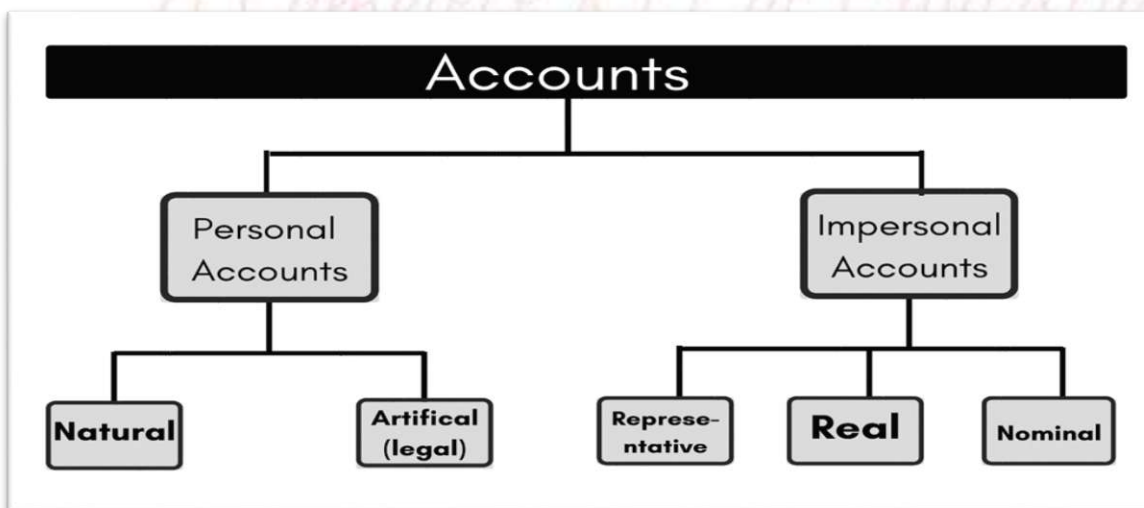


Unit 1: Basic

Accounting Procedures – Journal Entries

Source Document

All documents in books which contain financial records and act as evidence of transactions.



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Books of original entries and ledger account.	Purchase day book, cash book, sales day book & purchase return book
Trial balance	It contains the total from various ledger accounts and act as a preliminary check on accounts before producing final accounts.



Question 1

Explain the concept of Double Entry System. States its Advantages.

Answer.

Double entry system of book-keeping has emerged in the process of evolution of various accounting techniques. It is the only scientific system of accounting. According to it, every transaction has two-fold aspects-debit and credit and both the aspects are to be recorded in the books of accounts. Therefore, in every transaction at least two accounts are affected.

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Advantages of Double Entry System

This system affords the under mentioned advantages:

- By the use of this system the accuracy of the accounting work can be established, through the device of the trial balance.
- The profit earned or loss suffered during a period can be ascertained together with details.

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- The financial position of the firm or the institution concerned can be ascertained at the end of each period, through preparation of the balance sheet.
- The system permits accounts to be kept in as much details as necessary and, therefore affords significant information for the purposes of control etc.
- Result of one year may be compared with those of previous years and reasons for the change may be ascertained.

Question 2

Write a short note on classification of accounts.

Answer:

Accounts are broadly classified into assets, liabilities and capital. The basic accounting equation specifies broad categories, which are as follows:

Assets: These are resources controlled by the enterprise as a result of past events and from which future economic benefits are expected to flow to the enterprise, namely cash, stock of goods, land, buildings, machinery etc.

Liabilities: These are financial obligations of an enterprise other than owner's equity namely long-term loans, creditors, outstanding expenses etc.

Capital: It generally refer to the amounts invested in an enterprise by its owner(s), the accretion to it or a reduction in it. Since capital is affected by expenses and incomes of revenue nature, there are two more categories of accounts, namely expenses and incomes. The difference between incomes and expenses are taken into capital account.

Expenses: These represents those accounts which show the amount spent or even lost in carrying on operations.

Incomes: These represent those accounts which show the revenue amounts earned by the enterprise.

However, traditionally accounts are classified as follows:

Personal Accounts: These accounts relate to persons, institutions, debtors or creditors.

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Impersonal Accounts: These represent accounts which are not personal. These can be further subdivided as follows:

Real Accounts: These accounts relate to assets of the firm but not debt e.g. accounts relating to land, buildings, cash in hand etc

Nominal accounts: These accounts relate to expenses, losses, gains, revenues etc.

Question 3

What is Journal Entry - General Responsibility?

Answer:

The Journal Entry-General responsibility allows users to enter journal entries on-line for the following:

- Transferring costs for intramural goods and services
- Making adjustments to previous transactions for non-sponsored project (5 fund) accounts
- Making cost sharing or transfer/share cost incurred for Grants and Contracts
- Perform billing functions.

Question 4

Distinguish between Real account and nominal account.

Answer:

A real account is an account relating to properties and assets, other than personal accounts of the firm. Examples are land, buildings, machinery, cash, investments etc. Nominal accounts relate to expenses or losses, incomes and gains. Examples are: wages, salaries, rent, depreciation etc. The net result of all the nominal accounts is reflected as profit or loss which is transferred to the capital account. Nominal accounts are therefore, temporary. The real accounts are shown in the balance sheet along with personal accounts.

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Question 5**Differentiate single Entry and Double Entry system of accounting.****Answer:****Difference between cash based single entry system and accrual based double entry system**

Basis of Distinction	Single entry cash-based accounting	Double entry Accrual based accounting
Recognition of the transactions	All cash receipts and payments during the accounting period are recorded whether or not the transactions actually belong to that accounting period	All income and expenses relating to the accounting period are recorded, whether or not received or paid
Accounts	Only personal accounts and cash book are prepared.	Personal, Real & Nominal accounts are prepared.
Accuracy of results	Accuracy of transactions cannot be verified since the transactions are recorded on single entry basis and no trail balance is prepared	As all transactions are recorded based on double entry system of book keeping, a trail balance is prepared to check the arithmetical accuracy of the transactions

Question 6**States the Advantages of Journal****For more Info Visit – www.KITest.in**

Answer:

In journal, transactions recorded on the basis of double entry system, fetch following advantages:

- As transactions are recorded in chronological order, one can get complete Information About the business transactions on time basis.
- Entries recorded in the journal are supported by a note termed as narration, which is a precise explanation of the transaction for the proper understanding of the entry.
- One can know the correctness of the entry through these narrations.
- Journal forms the basis for posting the entries in the ledger.
- This eases the accountant in their work and reduces the chances of error.

Question 7

Following are the accounting transactions relating to Mr. P's business. Use the accounting equation to show their effect on his assets, liabilities and capital.

- 1. Commenced business with a Capital of 50,000**
- 2. Bought Machinery for cash 10,000**
- 3. Purchased goods for cash 15,000**
- 4. Purchased goods from A on credit 5,000**
- 5. Sold goods for cash 10,000**

Answer:

Capital + Liabilities = Assets

$$50,000 + 0 = 50,000 \text{ (Cash)}$$

Capital + Liabilities = Assets

$$50,000 + 0 = 40,000 + 10,000 \text{ (machinery)}$$

Capital + Liabilities = Assets

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50,000 + 0 = 25,000 (Cash) + 10,000 (machinery) + 15,000 (goods)

Capital + Liabilities = Assets

50,000 + 5000 (A) = 25,000 (Cash) + 10,000 (machinery) + [15000 + 5000] goods

Capital + Liabilities = Assets

50,000 + 5000 (A) = 35,000 (Cash) + 10,000 (machinery) + 10,000 goods

Question 8

Explain what is compound journal entry?

Answer:

A compound journal entry is just like other accounting entry where there is more than one debit, more than one credit, or more than one of both debits and credits. It is essentially a combination of several simple journal entries.

Question 9

What are the accounting events that are frequently involved in compound entries?

Answer:

The accounting events that are frequently involved in compound entries are;

- Record multiple line items in a supplier invoice that address to different expenses
- Record all bank deductions associated to a bank reconciliation
- Record all deduction and payments related to a payroll
- Record the account receivable and sales taxes related to a customer invoice

Question 10

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Define Source Documents.

Answer:

All documents in books which contain financial records and act as evidence of transactions.

Question 11

Mention what is the disadvantage of double entry system?

Answer:

The disadvantage of double entry system,

- If there is any compensatory errors, it is difficult to find out by this system
- This system needs more clerical labour
- It is difficult to find the errors if the errors are in the transactions recorded in the books
- It is not preferable to disclose all the information of a transaction, which is not properly recorded in the journal

Question 12

In which order are transactions recorded in the journal?

Answer:

Transactions are recorded in all of the various journals in a debit and credit format, and are recorded in order by date, with the earliest entries being recorded first. These entries are called journal entries

In simple words Transactions are recorded in the journal as they occur.

Question 13

When is a journal entry balanced?

Answer:

When the total on debit side is equal to the total on the credit side.

A Journal entry is called "balanced" when the sum of debit side amounts equals to

sum of credit side amounts

Question 14

States the different content includes in Journal.

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Answer:

- Journal entry is an entry to the journal.
- Journal entries include at least one debit entry and at least one credit entry.
- This method is called as the double entry recording system.
- Increases in debit accounts are recorded on the debit side of a journal entry.
- Decreases in debit accounts are recorded on the credit side.
- Increases in credit accounts are recorded on the credit side and decreases in credit accounts are recorded on the debit side.
- Assets and expenses are debit accounts.
- Liabilities, equity and revenues are credit accounts.
- In all journal entries, the total of debit account amounts should be equal to the total of credit account amounts.
- When the debit side total is same as the credit total, a journal entry is balanced.

Question 15

What are the components of the accounting equation?

Answer:

- The accounting equation shows that total assets should be equal to total liabilities plus owner's equity
[EQ 1 Assets = Liabilities + Equity]
- By adding revenues and expenses, EQ I can be expanded to EQ 2.
Revenues increase owner's equity and expenses decrease owner's equity.
IEQ 2 Assets = Liabilities + Equity + Revenues - Expenses
- By moving expenses to the left side of the equation, EQ 2 can be arranged as [EQ 31 Assets Expenses = Liabilities + Equity + Revenues]

Question 16

Which transactions are recorded on the debit side of a journal entry?

Answer:

1. Increases in asset accounts are recorded on the debit side.

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2. Increases in expense accounts are recorded on the debit side.
3. Decreases in liability accounts are recorded on the debit side.
4. Decreases in equity accounts are recorded on the debit side.
5. Decreases in revenue accounts are recorded on the debit side.

Question 17

Which transactions are recorded on the credit side of a journal entry?

Answer:

1. Increases in liability accounts are recorded on the credit side.
2. Increases in equity accounts are recorded on the credit side.
3. Increases in revenue accounts are recorded on the credit side.
4. Decreases in asset accounts are recorded on the credit side.
5. Decreases in expense accounts are recorded on the credit side.

Question 18

What is a nominal account in accounting?

Answer:

Nominal accounts are the accounts that report revenues, expenses, gains, and losses. **Nominal** or temporary accounts are closed at the end of each accounting year. This means that their **account** balances are transferred to a permanent **account**.

Question 19

What is the main difference between accounting and accountancy?

Answer:

Accounting: To keep the record of each and every finance activity either in the ledger or journal form is called as accounting. It also depends on nature of business so accounting has the different meaning at a time. As it comprises distinct work

Here are the things that included in Accounting

1. Record of business finance in a standard format to analyse business cash inflow and outflow status,
2. Bookkeeping records to define the lifecycle of a financial system and its resources.
3. A process which upgrade business activities in time and within budget costs.

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Accountancy: To summarize, classify and accordance of every financial activity into a system is known as accountancy. It includes:

1. It relates to reporting of accounting, bookkeeping, auditing etc.
 2. Especially consider making reports on various distinct financial systems.
- Accountancy comprises accounting and finance which plays an essential role in any firm or business.

Question 20

Explain the golden rules of Accounting.

Answer:

- Personal A/c which state the rule Debit the receiver and credit the giver.
- Real A/c the rule, Debit what comes in and Credit what goes out:
- Nominal A/c were Debit all expenses and losses and Credit all incomes and gains.

PRACTICAL

Question 21

On April 01, 2016 Anees started business with Rs. 100,000 and other transactions for the month are:

- i. Purchase Furniture for Cash Rs. 7,000.
- ii. Purchase Goods for Cash Rs. 2,000 and for Credit Rs. 1,000 from Khalid Retail Store.
- iii. Sold Goods to Khan Brothers Rs. 12,000 and Cash Sales Rs. 5,000.
- iv. Owner withdrew worth Rs. 2,000 for personal use.
- v. Paid Khalid Retail Store Rs. 500.
- vi. Received Rs. 10,000 from Khan Brothers.
- vii. Paid Salaries Expense Rs. 2,000

Solution:

Date	Particular	LF	Debit (Rs.)	Credit (Rs.)
2016				

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Aug 1	Cash A/c Dr. To Owner's Equity_Anees A/c (Started business with cash)	100,000	100,000
Aug 2	Furniture A/c Dr. To Cash A/c (Purchase Furniture from cash)	7,000	7,000
Aug 8	Purchases A/c Dr. To Cash A/c To Account payable Khalid retail store A/c (Purchase good on cash & credit)	3,000	2,000 1,000
Aug 14	Cash A/c Dr. Account receivable khan brother A/c Dr. To Sales A/c (Cash & Credit Sales Recorded)	5,000 12,000	17,000
Aug 18	Drawing A/c Dr To Cash A/c (Owner withdraw for personal use)	2,000	2,000
Aug 22	Account Payable Khalid retail store A/c Dr To Cash A/c (Paid credit to Khalid retail store)	500	500
Aug 26	Cash A/c Dr To Account receivable khan brother's A/c	10,000	10,000

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	(receive cash from credit customer)			
Aug 30	Salaries Expense A/c Dr To Cash A/c		2,000	2,000
	(Paid expenses)			
	Total		Rs.141,500	Rs.141,500

Question 22

Prepare general journal entries for the following transactions of a business called “Pose for Pics” in 2016: -

- i. Aug 1: Hashmi khan, the owner, invested Rs. 57,500 cash & Rs. 32,500 of photography equipment in the business.
- ii. Aug 4: Paid Rs. 3,000 cash for an insurance policy covering the next 24 months
- iii. Aug 7: Services are performed & clients are billed for Rs. 10,000
- iv. Aug 13: Purchase office supplies for Rs. 1,400 cash paid Rs. 400 & remaining outstanding
- v. Aug 20: Received Rs. 2,000 cash in photography fees earned previously.
- vi. Aug 24: The client immediately pays Rs. 15,000 for services to be performed at a later date.
- vii. Aug 29: The business acquires photography equipment. The purchase price is Rs. 100,000 pays Rs. 25,000 cash & signs a note for the balance

Solution:

Date	Particular	LF	Debit (Rs.)	Credit (Rs.)
2016				
Aug 1	Cash A/c Dr Photography equipment A/c Dr		57,500 32,500	90,000

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	To Owner's. Equity Hashim khan A/c (Started business with cash and equipment's)			
Aug 4	Prepaid insurance A/c Dr To Cash A/c (Being Purchase two-year insurance policy)		3,000	3,000
Aug 7	Account receivable A/c Dr To Photographic Services A/c (Being revenue earned but not received)		10,000	10,000
Aug 13	Office supplies A/c Dr To Cash A/c To Account Payable A/c (Being Cash & Credit purchases Recorded)		1,400	4,00 1,000
Aug 20	Cash A/c Dr To Account Receivable A/c (Being Account receivable are converted into cash)		2,000	2,000
Aug 24	Cash A/c Dr To Unearned photographic services A/c (Being advance payment received)		15000	15000

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Aug 29	Photography Equipment A/c Dr		100,000	
	To Cash A/c			25,000
	To Note Payable A/c			75,000
	(Being Purchase asset by cash & credit)			
Total			Rs.221,400	Rs.221,400

Question 23

Shah Sauood Marine is a boat repair yard. During August 2016, its transactions included the following:

- i. Aug 03. Loan taken from Habib bank ltd. Of Rs. 25,000 Rs. 20,000 withdrawn for business & remaining in the bank a/c.**
- ii. Aug 06. Paid rent for the month of august Rs. 4,400 and accrued rent expenses was Rs. 600.**
- iii. Aug 12. At request of kiwi insurance, Inc. made repairs on boat of jon seaways. Sent bill for Rs. 5,620 for services rendered to kiwi insurance Inc. (credit repair service revenue)**
- iv. Aug 18. Made repairs. to boat of Dennis copper and collected in full the charge of Rs. 2,830**
- v. Aug 20. Placed Advertisement in the dawn of Rs. 165, payment to be made within 30 days.**
- vi. Aug 25. Received a check for 5,620 from kiwi insurance Inc. representing collection of the receivable of august 12.**
- vii. Aug 30 Sent check to the dawn in payment of the liability incurred on august 20.**

Solution:

Date	Particular	LF	Debit (Rs.)	Credit (Rs.)
2016				

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Aug 3	Cash A/c Bank A/c To Bank Loan A/c	Dr Dr	20,000 5,000	25,000
	(Bank loan liability has been taken)			
Aug 6	Rent expenses A/c To Cash A/c To Rent Payable A/c	Dr	5,000	4,400 6,00
	(Rent expenses paid and outstanding)			
Aug 12	Account receivable kiwi insurance Inc. A/c Dr To Repair service revenue A/c		5,620	5,620
	(Sent bill to customer)			
Aug 18	Cash A/c To Repair service revenue A/c	Dr	2,830	2,830
	(Repair service received by cash)			
Aug 20	Advertisement Expenses A/c To Advertisement Payable The dawn	Dr	165	165
	(Advertisement expenses incurred but not paid)			
Aug 25	Bank A/c To Account receivable kiwi insurance Inc. A/c	Dr.	5,620	5,620
	(receivable collected by bank)			

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Aug 30	Advertisement payable A/c To Bank A/c (Paid liability by bank)	Dr.	165	165
Total			Rs.44,400	Rs.44,400

Question 24

1st January, 2017 Saeed Ahmed started business other transactions for the month of June as follows:

- i. JAN 02. Purchased from Kareem goods of list price of Rs. 6,000 subjects to 10% trade discount by cash.**
- ii. JAN 04. Sold goods to Din Muhammad Rs. 800 and cash sales of Rs. 200.**
- iii. JAN 10. Distributed goods worth Rs. 200 as free samples and goods taken away by the proprietor for personal use Rs. 100.**
- iv. JAN 12. Received discount Rs. 20 and Commission Rs. 500.**
- v. JAN 17. Goods returned by Din Muhammad Rs. 200 and payment another outstanding amount.**
- vi. JAN 24. Furniture lost by fire of worth Rs. 500.**
- vii. JAN 30. Bad Debts during the period was Rs.100.**

Solution:

Date	Particular	LF	Debit (Rs.)	Credit (Rs.)
2017				
Jun 2	Purchases A/c To Cash A/c (Cash purchases and trade discount)	Dr.	5,400	5,400
Jun 4	Account receivable Din Muhammad A/c Cash A/c To Sales A/c (Cash and credit sales)	Dr. Dr.	800 200	1000

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Jun 10	Free sample A/c	Dr.	200	300
	Drawing A/c	Dr.	100	
	To Purchases A/c			
	(Free sample and drawing through purchases)			
Jun 12	Cash A/c	Dr.	520	20 500
	To Discount A/c			
	To Commission A/c			
	(Other income in terms of discount & commission)			
Jun 17	Returned inward A/c	Dr.	200	800
	Cash A/c	Dr.	600	
	To Account receivable din Muhammad A/c			
	(Sales return & received other amount by customer)			
Jun 24	Lost by fire A/c	Dr.	500	500
	To Furniture A/c			
	(Furniture lost by fire)			
Jun 30	Bad debts A/c	Dr.	100	100
	To Account Receivable A/c			
	(Bad debts are recorded)			
Total			Rs.8,620	Rs.8,620

Question 25

From the following information, state the nature of account and state which account will be debited and which will be credited.

- i. Started business with a capital of RS. 5000000**
- ii. Wages and salaries paid RS. 50,000**
- iii. Rent received RS 2,00,000**
- iv. Purchased goods on credit RS.9,00,000**

Sold goods for RS. 8,16,000 and received payment in cheque

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Solution:

Transaction	Accounts involved	Nature	Debit or Credit	Journal entry	Amount
Started business with capital of 50,00,000	Bank account	Personal	Debit (receiver)	Bank A/c Dr.	5,00,000
	Capital account	Personal	Credit (giver)	To Capital A/c	5,00,000
Wages and salaries paid	Wages / salaries	Nominal	Debit (expense)	Wages / salaries Dr.	50,000
	Bank	Personal	Credit (giver)	To Bank A/c	50,000
Rent received	Bank	Personal	Debit (receiver)	Bank A/C Dr.	2,00,000
	Rent	Nominal	Credit (income)	To Rent A/c	2,00,000
Purchases made on credit	Purchases	Nominal	Debit (expense)	Purchase a/c Dr.	9,00,000
	Creditor	Personal	Credit (giver)	To creditor a/c	9,00,000
Goods sold and payment received in cheque	Bank	Personal	Debit (receiver)	Bank A/c Dr.	8,16,000
	Sales	Nominal	Credit (gains)	To Sales A/c	8,16,000

Question 26

Pass Journal Entries for the following transactions in the books of Gamma Bros.

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- i. Employees had taken inventory worth Rs. 10,000 (Cost price Rs. 7,500) on the eve of Deepawali and the same was deducted from their salaries in the subsequent month.
- ii. Wages paid for erection of Machinery 8,000.
- iii. Income tax liability of proprietor 1,700 was paid out of petty cash. Purchase of goods from Naveen of the list price of 2,000. He allowed 10% trade discount. 50 cash discount was also allowed for quick payment

Solution:

Journal Entries in the books of gamma bros

Particulars	Dr.	Cr.
	Amount	Amount
i) Salaries a/c Dr. To Purchase A/c (Being entry made for inventory taken by employees)	7,500	7,500
ii) Machinery A/c Dr. To Cash A/c (Being wages paid for erection of machinery)	8,000	8,000
iii) Drawings A/c Dr. To petty Cash A/c (Being the income tax of proprietor paid out of business money)	1,700	1,700
iv) Purchase A/c Dr. To Cash A/c To Discount received A/c	1,800	1,750 50
	19000	19000

Question 27

Transactions of Ramesh for April are given below. Journalize them.

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2015			
April	1	Ramesh started business with	10,000
"	2	Paid into bank	7,000
"	3	Bought goods for cash	500
"	5	Drew cash from bank for credit	100
"	13	Sold to Krishna goods on credit	150
"	20	Bought from shyam goods on credit	225
"	24	Received from Krishna	145
"		Allowed him Discount	5
"	28	Paid Shyam cash	215
"		Discount allowed	10
"	30	Cash sales for the month	800
		Paid Rent	50
		Paid Salary	100

Solution:

Date	Particular	LF	Debit (Rs.)	Credit (Rs.)
2015				
April 1	Cash A/c Dr. To Capital A/c	1 4	10,000	10,000
	(Being the amount invested by Ramesh in the business as capital)			
April 2	Bank A/c Dr. To cash A/c	5 1	7,000	7,000
	(Being the amount paid into bank)			
April 3	Purchase A/c Dr. To cash A/c	7	500	500

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	(Being goods purchased for cash)			
April 5	Cash A/c Dr. To bank A/c	1 5	100	100
	(Being cash withdrawn from bank)			
April 13	Krishna A/c Dr. To sales A/c	9 7	150	150
	(Being goods sold to Krishna on credit)			
April 20	Purchase A/c Dr. To Shyam A/c	7 10	225	225
	(Being goods bought from shyam on credit)			
April 24	Cash A/c Dr. Discount A/c Dr. To Krishna A/c	1 12 9	145 5	150
	(Being cash received from Krishna & discount allowed to him)			
April 28	Shyam A/c Dr. To Cash A/c To Discount A/c	10 1 12	225	215 10
	(Being cash paid to shyam & discount)			

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April 30	Cash A/c Dr. To sales A/c	1 7	800	800
	(Being goods sold for cash)			
April 30	Rent A/c Dr. Salaries A/c Dr. To cash A/c	15 10 1	50 100	150
	(Being the amount paid for rent & salary)			
Total			Rs.19,300	Rs.19,300
(Ledger Folio Imaginary)				

Question 28

2015		
April.		
1	R. started business with	10,000
2	He purchased furniture for	2,000
3	Paid salary to his clerk	100
4	Paid rent	50
5	Received interest	20

Solution:

2015 April	Explanation	Accounts involved	Nature of Accounts	How affected	Debit	Credit
1.	10,000 cash invested in business	Cash & R's	Asset Proprietorship	Increased Increased	10,000	10,000
2.	Purchased furniture for 2,000	Furniture & Cash	Asset Asset	Increased Decreased	2,000	2,000

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3.	Paid 100 to clerk for salary	Salary & Cash	Expense Asset	Increased Decreased	100	100
4.	Paid rent 50	Rent & Cash	Expense Asset	Increased Decreased	50	50
5.	Received interest 20	Cash & Interest	Asset Income	Increased Increased	20	20

Question 29

On March 2017, Farhan, Rahim, starts wholesaling business

Following transactions as follows:

- i. MAR 1 He started business with capital of Rs. 15,000 and land worth Rs. 10,000
- ii. MAR 8. Bought goods from Bilal and friends Rs. 1,000 & by cash from xyz co. Rs. 2,000
- iii. MAR 13. Sold goods to Rahman & sons Rs. 1,500 & sale by cash Rs. 5,000
- iv. MAR 17. Gave away charity of cash Rs. 50 & merchandising worth Rs. 30
- v. MAR 21. Paid Bilal & friends' cash Rs. 975; discount received Rs. 25
- vi. MAR 28. Received cash from Rahman & sons Rs. 1450 allowed him discount of Rs. 50.

Solution:

Journal Entries

Date	Particular	LF	Debit (Rs.)	Credit (Rs.)
2017				
March 1	Cash A/c Dr. Land A/c Dr. To Owner's Equity Farhan Rahim		15,000 10,000	25,000

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	(Owner started business by asset)			
March 8	Purchases A/c Dr. To Account payable Bilal& friends To cash A/c (Purchase by cash and by credit)		3,000	1,000 2,000
March 13	Account receivable Rahman& sons Dr. Cash A/c Dr. To Sales A/c (Purchases by cash & credit from Ahamed)		1,500 5,000	6,500
March 17	Charity A/c Dr. To Cash A/c To Purchases A/c (Charity by cash and by goods)		80	50 30
March 21	Account Payable Bilal & friends Dr. To cash A/c To Discount A/c (Discount received & liability payoff)		1000	975 25
March 28	Cash A/c Dr. Discount A/c Dr. To Account Receivable Rehman & sons		1,450 50	1,500

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	(Account receivable realized and discount allowed)		
	Total	Rs.37,080	Rs.37,080

Question 30. Show that the accounting equation is satisfied after taking into consideration each of the following transactions in the books of Mr. N

1. Started business with capital 1,00,000
2. Bought furniture 25,000
3. Bought goods for cash 20,000
4. Bought goods from ram on credit 5,000
5. Sold goods for cash for 15,000
6. Sold goods to shyam on credit 8,000
7. Paid cash to ram 4,000
8. Received cash from shyam 5,000
9. Paid cash into bank 25,000
10. Withdrawn from bank 10,000

Solution:

1. **Capital + Liabilities = Assets**

$$1,00,000 + 0 = 1,00,000 \text{ (cash)}$$

2. **Capital + Liabilities = Assets**

$$1,00,000 + 0 = 75,000 \text{ (cash)} + 25,000 \text{ (Furniture)}$$

3. **Capital + Liabilities = Assets**

$$1,00,000 + 0 = 55,000 \text{ (Cash)} + 25,000 \text{ (Furniture)} + 20,000 \text{ (Goods)}$$

4. **Capital + Liabilities = Assets**

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$$1,00,000+5000(\text{Ram})=55,000 (\text{Cash})+25,000(\text{Furniture})+25,000 (\text{Goods})$$

5. **Capital + Liabilities = Assets**

$$1,00,000+5,000 (\text{ram})=70,000 (\text{cash})+25,000 (\text{furniture})+10,000 (\text{goods})$$

6. **Capital + Liabilities = Assets**

$$1,00,000 + 5,000 (\text{Ram}) = 70,000 (\text{Cash})+25,000 (\text{Furniture})+2,000 (\text{Goods})+8,000 (\text{Shyam})$$

7. **Capital + Liabilities = Assets**

$$1,00,000+ 1,000 (\text{Ram}) = 66,000 (\text{Cash})+25,000 (\text{Furniture})+2,000 (\text{Goods}) + 8,000 (\text{Shyam})$$

8. **Capital + Liabilities = Assets**

$$1,00,000+ 1,000 (\text{Ram})=71,000 (\text{Cash})+25,000 (\text{Furniture})+2,000 (\text{Goods})+3,000 (\text{Shyam})$$

9. **Capital + Liabilities = Assets**

$$1,00,000+ 1,000 (\text{Ram}) = 46,000 (\text{Cash})+25,000 (\text{Furniture})+2,000 (\text{Goods}) + 3,000 (\text{Shyam})+25,000 (\text{Bank})$$

10. **Capital + Liabilities = Assets**

$$1,00,000 + 1,000(\text{Ram}) = 56,000 (\text{Cash})+25,000 (\text{Furniture})+2,000 (\text{Goods}) + 3,000 (\text{Shyam})+ 15,000 (\text{Bank})$$

Question 31

- i. 1 Started business with cash Rs. 2,00,000**
- ii. Purchased Goods from Amit suppliers on credit of Rs. 1,50,000**
- iii. Deposit Cash in to bank 25,000**
- iv. Sold goods to dynamic traders pvt. Ltd. Of Rs. 1,30,000**
- v. Received a cheque of 1,27,000 from dynamic traders pvt. Ltd.**
- vi. Issued a cheque of Rs. 1,00,000 as a partial payment to Amit suppliers**

Solution:**Journal Entries**

S. No.	Particulars	L.F.	Debit	Credit
1.	Cash A/c To Owner's Equity (Being Business Commenced)	Dr.	200000	200000
2.	Purchase a/c To Amit supplier (being purchase made)	Dr.	150000	150000
3.	Bank a/c. To cash a/c (Being cash deposited)	Dr.	25000	25000
4.	Dynamic Traders a/c To sales a/c (being goods sold to Dynamic traders)	Dr.	130000	130000
5.	Bank a/c To dynamic traders pvt. Ltd	Dr.	127000	127000

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	(being cheque received)			
6.	Amit's a/c To Bank a/c	Dr.	100000	100000
	(being Cheque issued)			
	Total		732000	732000

Question 32.

Enter the following transaction in to journal & post in to ledger

Jan -1 Asset are cash in hand Rs. 2200 Bank Rs. 3800 Plant & machinery Rs. 500 Furniture & Fixture Rs. 9900 & liability are Mr. Rs. 2000, Capital Rs. 10,000

Jan -2 Sold goods by cash to ram Rs. 10,000

Jan-3 Sold goods to shyam Rs. 20,000

Jan – 4 Goods return by shyam Rs.14,000

Jan 5 carriage outward paid Rs. 5000

Jan 6 carriage inward paid Rs. 10,000

Jan 7 Cheque paid to Mr. Rs. 1980 in full settlement of his account

Jan 8 Sold goods by cash Rs. 80, Paid telephone bill Rs. 500 Purchased goods from Mr. Y Rs. 20

Solution:

Date	Particular	LF	Debit (Rs.)	Credit (Rs.)

Jan 1	Cash a/c	Dr.	22,00	
	Bank a/c	Dr.	3800	
	Machinery a/c	Dr.	500	
	Furniture & fixture a/c	Dr.	9900	
	Good will a/c	Dr.	11836	
	To Capital a/c			10000
	To Mr. a/c			2000
	(being business commenced)			
Jan 2	Cash a/c	Dr.	100	
	To sales a/c			100
	(Being good sold)			
Jan 3	Shyam a/c	Dr.	200	
	To sales a/c			200
	(Being goods sold)			
Jan 4	Sales return a/c.....	Dr.	14	
	To shyam a/c			14
	(Being goods return)			
Jan 5	Carriage outward a/c.....	Dr.	50	
	To cash a/c			50
	(Being Carriage outward paid)			
Jan 6	Carriage inward a/c	Dr.	100	
	To cash a/c			100
	(Being carriage inward paid)			
Jan 7	Mr. a/c	Dr.	1980	
	Discount received a/c	Dr.	20	
	TO Bank a/c			2000

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	(Being cheque paid)			
Jan 8	Cash a/c To sales a/c	Dr.	80	80
	(Being goods sold)			
	Telephone Expenses a/c To cash a/c	Dr.	500	500
	(Being telephone expenses paid)			
	Purchase a/c To Mr. Y a/c	Dr.	20	20
	(Being goods purchased)			

Question 33**Prepare journal entries**

1. Rs.6000 was stolen from the safe of the firm.
2. Received an order from Kapil for the supply of goods worth Rs. 240000. In this connection we received Rs. 120000 as Advance.
3. Goods sold for cash Rs. 60000. Also received 7 % sales tax.
4. Given as Charity: Cash Rs. 6000, Goods Rs. 18000 & Sofa-set worth Rs. 24000.
5. Goods worth Rs. 4200 stolen by an employee.
6. Purchase two House worth Rs. 110000 for the business.
7. Goods given to proprietor daughter Rs. 1800.
8. Goods worth Rs. 6000 Destroyed by fire.
9. Goods worth Rs. 12000 distributed as sample.
10. Bricks worth Rs. 600000 purchased for the construction of building.

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11. Received cash from Rita against bad debt Rs. 22000 written off last year, Rs. 19800.

12. Place an order with Raj & Co. For connection, we paid 10 % advance the supply of goods costing Rs. 100000. In the

Solution:

	Particular	LF	Debit (Rs.)	Credit (Rs.)
1	Loss by thief a/c Dr. To cash a/c (being cash was stolen from the safe of the firm)		6000	6000
2	Cash a/c Dr. To Kapil a/c (Being Cash received in advance for the supply of goods)		1,20,000	1,20,000
3	Cash a/c Dr. To sales a/c (being goods sold for cash & received in sales tax)		64,200	64,200
4	Charity Fond a/c..... Dr. To Cash a/c To purchase a/c To furniture a/c (Being give charity fund cash goods & furniture)		48,000	6000 18,000 24,000
5	Loss by employees a/c..... Dr.		4,200	

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	To Purchase a/c			4,200
	(Being goods stolen by an employees)			
6	Houses a/c..... Dr.		1,10,000	1,10,000
	To Cash a/c			
	(Being Purchase two house for the business use)			
7	Drawing a/c Dr.		1800	1800
	To purchase a/c			
	(being goods withdrawn for personal use)			
8	Loss Due to fire a/c Dr.		6,000	6000
	To purchase a/c			
	(being goods destroyed)			
9	Sample Expense a/c Dr.		12,000	12,000
	To Purchase account a/c			
	(being goods given as sample)			
10	Bricks a/c Dr.		600000	600000
	To cash a/c			
	(being raw material purchased)			
11	Bad debt recovered a/c..... Dr.		19,800	19,800
	To Rita a/c			
	(being, bad debt recovered from Rita)			
12	Raj & Co. a/c..... Dr.		10000	10000
	To cash a/c			
	(Being advance amount paid)			

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Total	Total	Rs.10,02,000
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Question 34

Journal the following transaction in the books of Mr. X for the month of January 2013

Jan 1 X having no capital of his own started business with Rs. 10000 borrows from his friend Mr. R @12% p.a

Jan - 2 Purchased goods worth Rs. 6000 less 20% trade discount and 5% cash discount Mr. M & c. For cash and supplied then to Mr. R at least price less 10%

Jan - 3 Goods worth Rs. 200 was damaged in transit a claim was made on the railway authority for the same

Jan - 4 Under instruction from Mr. M & Co. X Supplied goods listed at Rs. 1000 to Mr. s. Received the invoice at 20% trade discount from Mr. M & Co.

Jan - 5 Received cash from railway in the full settlement of claim for damages in transit

Jan - 6 Received from travelling sales man Rs. 1400 for goods sold by him after deducting his travelling expenses Rs. 50

Solution:

Jan - 1	Cash a/c To Mr. R a/c (Being business commenced)	Dr.	10000	10000
Jan - 2	Purchased a/c To Cash a/c To Discount received a/c	Dr.	4800	4560 240

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	(being goods purchased)			
Jan - 3	Mr. R a/c To Sales a/c	Dr.	5400	5400
	(Being Goods supplied to Mr. A)			
Jan - 4	Railway Claim a/c To Purchase a/c	Dr.	200	200
	(Being Claim made)			
Jan - 5	Mr. M a/c To Sales a/c	Dr.	800	800
	(Being goods sold)			
Jan - 6	Cash a/c To Railway authority a/c	Dr.	200	200
	(Being Claim received in full settlement)			
Jan - 7	Cash a/c Travelling sales man Expenses, a/c To Sales a/c	Dr. Dr.	1400 50	1450
	(Being cash received)			

Unit – 2: Ledgers

Posting	The process of transferring the debit & credit items from journal to classified accounts in the ledger is known as posting.
Ledger	Ledger is known as principal books of accounts and it provides full information regarding all the transactions pertaining to any individual account.

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Balancing an Accountant	<p>The difference between the totals of debits and credit sides is found out as the balance. Some of these balances are transferred to the profit and loss account and some are carried forward to the next year i.e., shown in the balance sheet, depending upon the nature of the account.</p>
Rules regarding posting of entries in the ledger	<p>Separate account is opened in ledger book for each account and entries from ledger posted to respective account accordingly</p> <p>The word “TO” is used in the particular column with the accounts written on the debit side while “BY” is used with the accounts written in the particular column of the credit side</p> <p>The concerned account debited in the journal should also be debited in the ledger but reference should be of the respective credit account.</p>

Question 1.

What are the rules of posting into?

Answer:

Rules Regarding Posting of Entries in The Ledger

Separate account is opened in ledger book for each account and entries from ledger posted to respective account accordingly.

It is a practice to use words “TO” and “BY” while posting transactions in the ledger. The word “TO” is used in the particular column with the accounts written in the particular column of credit side.

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These “TO” and “BY” do not have any meanings but are used to represent the account debited and credited

The concerned account debited in the journal should also be debited in the ledger but reference should be of the respective credit account.

Question 2

What do you mean by principal of accounts?

Answer:

Ledger is known as principal books of accounts and it provides full information regarding all the transactions pertaining to any individual account. Ledger Contains all set of accounts (Viz. personal, real and nominal accounts)

Question 3

What do you know about balancing a ledger account?

Answer:

To know the net effect of all the business transactions recorded in the ledger account, the accounts need to be balanced. Thus, Balancing of Ledger Account means the balances of Debit and Credit side should be equal.

Question 4

Tell Me What Are Control Ledgers?

Answer:

In a business, sometimes it is not feasible to carry accounts of all the suppliers and customers in the main ledger. In such cases apart from general or main ledger, the control ledgers are maintained. Control ledgers records the individual accounts. In the end of the period, balance shown in the main ledger has to tally with the balance in the individual ledger accounts maintained in the control ledger.

Question 5

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Explain What Is an Accrual?

Answer:

Accrual basis of accounting means that the costs or revenues of events are recognized in the period in which they occur, though the cash flows may take place in another accounting period.

Question 6

Explain different Characteristics of Ledger

Answer:

The ledger has the following main characteristics:

1. It has two identical sides - left hand side (debit side) and right-hand side (credit side)
2. Debit aspect of all the transactions are recorded on the debit side and credit aspects of all the transactions are recorded on credit side according to date.
3. The difference of the totals of the two sides represents balance. The excess of debit side over credit side indicates debit balance, while excess of credit side over debit side indicates the credit balance. If the two sides are equal, there will be no balance.
4. Generally, the balance is drawn at the year end and recorded on the lesser side to make the two sides equal. This balance is known as closing balance.
5. The closing balance of the current year becomes the opening balance of the next year

Question 7

State the mane of types of Ledgers

Answer:

Types or Forms of Ledger Accounts:

There are two forms of ledger accounts. These are:

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1. Standard form
2. Self-balancing form

Question 8

What is the posting Procedure of ledger?

Answer:

Transferring information i.e. entries from journal to ledger accounts is called posting. The procedure of posting from journal to ledger is as follows:

1. Locate the ledger account from the first debit in the journal entry.
2. Record the date in the date column on the debit side of the account. The date is the date of transaction rather than the date of the posting.
3. Record the name of the opposite account (account credited in entry) in the particular (also known as reference column, description column etc) column
4. Record the page number of the journal in the journal reference. (J.R) column from where the entry is being posted
5. Record the amount of the debit in the "amount column"
6. Locate the ledger account for the first credit in the journal and follow the same procedure.

PRACTICAL

Question 9

The following data is given by Mr. S, the owner, with a request to compile only the two personal accounts of Mr. H and Mr. R, in his ledger, for the month of April, 2015.

Mr. S owes Mr. R 15,000;

Mr. H owes Mr. S 20,000.

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

Solution:

In the books of Mr. S

Mr. H Account

Date	Particular	Amount	Date	Particular	Amount
1.4.2015	To balance b/d	20,000	22.4.2015	By Bank A/c	20,000
5.4.2015	To sales a/c	30,000	22.4.2015	By Cash A/c (Note 2)	24,775
17.4.2015	To sales A/c	40,000	29.4.2015	By Discount allowed A/c	225
			29.4.2015	By bank a/c	40,000
			29.4.2015	By bad debts A/c	5,000
		90,000			90,000

Mr. R Account

Date	Particulars	Amount	Date	Particulars	Amount
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18.4.2015	Tn Purchase returns A/c	5,400	1.4.2015	By Balanced b/d	15,000
			4.4.2015		54,000
26.4.2015		77,600	4.4.2015	By purchase a/c	25,000
26.4.2015	To bank A/c	1,000			
30.4.2015	To Discount Received A/c	10,000		By Purchases A/c	
	To Balance C/d	94,000		By balance B/d	94,000
			1.5.2015		10,000

Working Notes:

- Sale of 10,000 on 19th April is a cash sale, therefore, It will not be recorded in the personal Account of Mr. H; and
- On 22nd April Mr. H Owes Mr. S' 90,000 amounts paid by Mr. H $\frac{1}{2}$ of 90,000 less $\frac{1}{2}$ % discount i.e, $45,000 - 225 = 44,775$. Out of this amount, 20,000 paid by cheque and the balance of 24,775 in cash

Question 10

Prepare the ledger accounts on the basis of following transactions in the books of a trader:

Debit Balances on January 1, 2015:

Cash in Hand 8,000, Cash at Bank 25,000, inventory of Goods 20,000, Building 10,000. Trade receivables: Vijay 2,000 and Madhu 2,000.

Credit Balances on January 1, 2015:

Trade payables: Anand 5,000, Capital 55,000

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Following were further transactions in the month of January, 2015:

- Jan. 1 Purchased goods worth 5,000 (payable at later date) for cash less 20% trade discount and 5% cash discount.
- Jan. 4 Received 1,980 from Vijay and allowed him 20 as discount.
- Jan. 8 purchased plant from Mukesh for 5,000 and paid 100 as cartage for
Bringing the plant to the factory and another 200 as installation charges.
- Jan. 12 sold goods to Rahim on credit 600.
- Jan. 11 Rahim became insolvent and could pay only 50 paise in a rupee,
- Jan. 18 Sold goods to Ram for cash 1,000.

Solution:

Cash Account

Date 2015	Particulars	L F	Amount	Date 2015	Particulars	L F	Amount
Jan 1	To balance B/d		8000	Jan 1	By Purchase a/c		3,800
Jan 4	To Vijay		1,980	Jan 8	By plant a/c		300
Jan 15	To Rahim		300	Jan 31	By balance c/d		7,180
Jan 18	To sales a/c		1,000				
			11,280				11,280
Feb 1	To balance b/d		7,180				

Bank Account

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Date	Particulars	LF	Amount	Date	Particular	L.F	Amount
Jan 1	To balance b/d		25000	Jan 31	By balance c/d		25000
			25000				25000
Feb 1	To balance b/d		25,000				

Inventory Account

Date	Particulars	LF	Amount	Date	Particular	L.F	Amount
Jan 1	To balance b/d		20,000	Jan 31	By balance c/d		20,000
			20,000				20,000
Feb 1	To balance b/d		20,000				

Building Account

Date	Particulars	LF	Amount	Date	Particular	L.F	Amount
Jan 1	To balance b/d		10,000	Jan 31	By balance c/d		10,000
			10,000				10,000
Feb 1	To balance b/d		10,000				

Vijay

Date	Particulars	LF	Amount	Date	Particular	L.F	Amount
Jan 1	To balance b/d		2000	Jan 31	By Cash a/c		1980
					By Discount a/c		20
			2000				2,000

Madhu

Date	Particulars	LF	Amount	Date	Particular	L.F	Amount
Jan 1	To Balance b/d		2,000	Jan 31	By balance c/d		2,000
			2,000				2,000

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Feb 1	To Balance b/d		2,000				
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Capital account

Date	Particulars	LF	Amount	Date	Particular	L.F	Amount
Jan 31	To balance c/d		55,000	Jan 1	By balance b/d		55,000
			55,000	Feb 1	By balance b/d		55,000
							55,000

Purchases Account

Date	Particulars	LF	Amount	Date	Particular	L.F	Amount
Jan 1	To Cash		3,800				
Jan 1	To cash discount		200	Jan 31	By balance c/d		4,000
			4,000				
Feb 1	To balance b/d		4,000				

Discount Account

Date	Particulars	LF	Amount	Date	Particular	L.F	Amount
Jan 4	To Vijay		20	Jan 1	By Purchase a/c		200
Jan 31	To Balance c/d		180				
			200				200

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				Feb 1	By balance b/d		180

PLANT ACCOUNT

Date	Particulars	LF	Amount	Date	Particular	L.F	Amount
Jan 8	To Mukesh		5,000	Jan 31	By balance c/d		5,300
Jan 8	To Cash a/c		300				
			5,300				5,300
Feb 1	To balance b/d		5,300				

Mukesh

Date	Particulars	LF	Amount	Date	Particular	L.F	Amount
Jan 31	To balance c/d		5,000	Jan 8	By plant A/c		5,000
			5,000				5,000
				Feb 1	By balance b/d		5,000

Sales account

Date	Particulars	LF	Amount	Date	Particular	LF	Amount
Jan 31	To balance c/d		1,600	Jan 12	By Rahim		600
				Jan 18	By cash a/c		1,000
			1,600				1,600
				Feb 1	By balance b/d		1,600

Rahim

Date	Particulars	LF	Amount	Date	Particular	L.F	Amount
Jan 12			600	Jan 15	By Cash a/c		300

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To Sales a/c		Jan 15	By Bad debts a/c	300
	600			600

BAD DEBTS ACCOUNT

Date	Particulars	LF	Amount	Date	Particular	L.F	Amount
Jan 15	To Rahim		300	Jan 31	By Balance c/d		300
			300				300
Feb 1	To balance b/d		300				

Question 12

Shah Garden Centre is retail garden supplier. Record the transactions needed to journalize, post to respective ledger of the following for October, 2011 of the current year:

- i. Oct. 2 Purchased inventory on credit terms of 1/10 net 30. FOB shipping point, for Rs. 3,000. Freight charges on the purchase were Rs. 150.
- ii. Oct. 9 Sold Garden supplies on credit terms 3/20 net 30, FOB shipping point, for Rs. 4,000. The cost of the supplies sold was Rs. 2,500.
- iii. Oct. 10 Paid the amount owed on account for the
- iv. Oct. 2 inventory purchase.
- v. Oct. 15 Received merchandise that was returned as defective, originally sold for Rs. 500 on Oct.9.

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- vi. **Oct. 9.** The original cost of the supplies returned was Rs. 275. **Oct. 25** Received payment on account for the Oct. 9 sale less the appropriate sales discount.
- vii. **Oct. 28** Inventory lost by fire of cost Rs. 350.

Solution:

Account #1			Inventory account			Page #	
Date	Description	Ref	Amount	Date	Description	Ref	Amount
Oct 2	Account Payable		3,150	Oct 9	Cost of sales		2,500
15	Cost of sales		275	28	Lost by fire		350
					Balance c/d		575
	Total		3,425		Total		3,425
Nov 1	Balance b/d		575				

Account #2			Account payable			Page #	
Date	Description	Ref	Amount	Date	Description	Ref	Amount
Oct 10	Discount		30	Oct 2	Inventory		3,150
Oct 10	Cash		3,120				
	Balance c/d		-0-				
	Total		3,150		Total		3,150

Account #3			Account receivable			Page #	
Date	Description	Ref	Amount	Date	Description	Ref	Amount
Oct 9	Sales		4,000	Oct 25	Cash		3,395
				Oct 25	Discount		105
				Oct 15	Sales return		500
					Balance c/d		-0-

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Total	4,000	Total	4,000
Total	-0-	Total	4,000

Account # 4			Sales Account			Page #	
Date	Description	Ref	Amount	Date	Description	Ref	Amount
				Oct 9	Account receivable		4,000
	Balance c/d		4,000				
Total				Total			4,000
			Nov 1	Balance b/d			4,000

Account # 5			Cost of sales account			Page #	
Date	Description	Ref	Amount	Date	Description	Ref	Amount
Oct 9	Inventory		2,500	Oct 15	Inventory		275
					Balance c/d		2,225
Total			2,500	Total			2,500
			Nov 1	Balance b/d			

Account # 6			Discount account			Page #	
Date	Description	Ref	Amount	Date	Description	Ref	Amount
Oct 25	Account receivable		105	Oct 10	Payable		30
					Balance c/d		75

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Total	105	Total	105
Nov 1 Balance b/d	75		

Account # 7			Cash account			Page #	
Date	Description	Ref	Amount	Date	Description	Ref	Amount
Oct 25	Account receivable		3,395	Oct 10	Account Payable		3,120
					Balance c/d		275
Total			3,395	Total			3,395
Nov 1 Balance b/d			275				

Account # 8			Sales return account			Page #	
Date	Description	Ref	Amount	Date	Description	Ref	Amount
Oct 15	Account receivable		500				
					Balance c/d		500
Total			500	Total			500
Nov 1 Balance b/d			500				

Account # 9			Lost by fire account			Page #	
Date	Description	Ref	Amount	Date	Description	Ref	Amount
Oct 28	Inventory		350				
					Balance c/d		350

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Total	350	Total	350
Nov 1 Balance b/d	350		

Unit 3:

Trial Balance

Trial Balance

Preparation of trial balance is third phase in the accounting process. After posting the accounts in the ledger, a statement is prepared to show separately the debit & credit balances. Such a statement is known as the trial balance. It may also be prepared by listing each and every account and entering in separate columns the total of the debit and credit sides.

Objectives of preparing the trial balance

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

Limitations of Trial Balance

- Transaction has not been entered at all in the journal
- A Wrong amount has been written in both columns of the journal
- A wrong account has been mentioned in the journal
- An entry has not at all been posted in the ledger
- Entry is posted twice in the ledger



Methods of preparation of trial Balance

Total Method

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

Balance method

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

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Total & Balance Method	Under this method, the above two explained methods are combined. Under this method statement of trial balance contains seven columns instead of five columns
Adjusted trial balance	If the trial balance does not agree after transferring the balance of all ledger accounts including cash and bank balance and also error are not located timely, then the trial balance is tallied by transferring the difference of debit and credit side to an account known as suspense account.
Rules of preparing the trial balance	<p>The balances of all</p> <ul style="list-style-type: none">(i) assets accounts(ii) expenses accounts(iii) losses(iv) drawings(v) cash and bank balances are placed in the debit column of the trial balance. <p>The balances of all</p> <ul style="list-style-type: none">(i) Liabilities account(ii) income accounts(iii) Profits(iv) Capital are placed in the credit column of the trial balance.



Question 1

State with reasons whether the following statement is true or false:

- The trial balance checks the honesty of the book – keeper.
- The balance in the cash boom shows net income.
- Purchase of office furniture has been debited to general expenses account. It is a compensating error.

Answer:

False: The trial balance helps to establish the arithmetical accuracy of ledger books.

False: The balance in the cash Book shows cash in hand

True: Recording the transactions in a fundamentally wrong manner contravention of accounting principles I an error of principle.

Question 2

True False

- **Trial Balance is prepared after preparing the Profit and Loss Alc**
- **Any type of error affects the agreement of Trial Balance.**

Answer:

(1) **False:** Trial Balance is prepared before Profit & Loss Ne because al ledger balances are put on trial to ascertain the maintenance of debit and credit equality

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(2) **False:** Any type of error does not affect the agreement of trial balance eg. Compensating errors do not affect the Trial Balance.

Question 3

True / False

Tallying of the Trial Balance only proves arithmetical accuracy

Answer:

True Trial Balance helps to establish the arithmetical accuracy of ledger books. A tallied trial balance will not reveal errors of principle and compensating errors.

Question 4

The Purchase Day Book is a part of the ledger.

Answer:

False: It is a book of original entry so it is a part of the journal.

Question 5

State with reasons whether the following statement is true or False:

- **Error of carry forward of totals of Purchase Journal affects two accounts.**
- **Purchase Book records all purchases of goods.**

Answer:

False: Error of carry-forward of totals of Purchase Journal will affect only one account i.e. Purchases A/c and finally it will result in disagreement of Trial Balance

False: It records only credit purchases of goods.

Question 6

State with reasons whether the following statement is true or False:

1. **Discount account should be balanced in the Cash Book.**
2. **Error of principle involves an incorrect allocation of expenditure or receipt between capital and revenue.**

Answer:

1. **False:** Discount account is maintained by a Double columnar or Three columnar Cash Book these columns are not balanced but are only totalled.

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2. **True:** Recording the transaction in a fundamentally incorrect manner in contravention of accounting principles is an error of principle.

Question 7

State with reasons whether the following statement is true or false: The Trial Balance ensures the arithmetical accuracy of the books.

Answer:

True: The trial balance helps to establish the arithmetical accuracy of ledger balances

Question 8.

State with reasons whether the following statement is true or false:

- **Freight and cartage expenses paid on purchases of goods is added to the amount of purchase.**
- **A tallied trial balance will not reveal compensating errors and errors on account of wrong balancing.**

Answer:

- **True:** Freight and cartage expenses paid to bring goods purchased into the business premises factory are included in the 'Cost of Purchases'.
- **Partly True & Partly False:** A tallied trial balance will not reveal compensating errors or it will agree in spite of the existence of these errors. However, in the case of errors on account of wrong balancing the Trial Balance will not tally However the statement will be true in limited cases where the errors on the account of wrong balancing get fully compensated.

Question 9

The balance in the petty cash book represents the amount spent.

Answer:

False: The balance in Petty Cash Book represents the cash balance lying with the Petty Cashier.

Question 10

If the amount is pasted in the wrong account or it is written on the wrong side of an account it is called error of omission

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Answer:

An error of original entry is when the wrong amount is posted to an account. The error posted for the wrong amount would also be reflected in any of the other accounts related to the transaction. In other words, all of the accounts involved would be in balance but for the wrong amounts.

Question 11

What are the objectives of preparing the trial balance.

Answer:

The preparation of trial balance has the following objectives:

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

Question 12

Discuss Different types of method of trial Balance.

Answer:**Total Method**

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

Balance Method

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

Total And Balance Method

Under this method, the above two explained methods are combined. Under this method statement of trial balance contains seven columns instead of five columns.

Question 13

Even if the trial balance agrees, some errors may remain. Do you agree? Explain.

Answer:

In spite of the agreement of the trial balance some errors may remain. These may be of the following types:

- Transaction has not been entered at all in the journal.
- A wrong amount has been written in both columns of the journal.
- A wrong account has been mentioned in the journal.
- An entry has not at all been posted in the ledger
- Entry is posted twice in the ledger.

Question 14

Prepare a trial balance with the following information:

S no.	Name of Account	Balance	Sr. No.	Name of Account	Balance
(i)	Capital	2,00,000	(ii)	Stock	70,000
(ii)	Cash	1,80,000	(iv)	Debtors	3,00,000
(v)	Creditors	1,00,000	(vi)	Bank loan	1,50,000

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(vii)	Sales	3,00,000	(viii)	Purchases	2,00,000
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Solution:

S no.	Heads of Accounts	Dr.	Cr.
(i)	Capital		2,00,000
(ii)	Stock	70,000	
(iii)	Cash	1,80,000	
(iv)	Debtors	3,00,000	
(v)	Creditors		1,00,000
(vi)	Bank loan		1,50,000
(vii)	Sales		3,00,000
(viii)	Purchases	2,00,000	
	Total	7,50,000	7,50,000

Question 15

Prepare the trial balance of Aniket on 31st March, 2013. He has omitted to open a capital Account.

	₹		₹
Bank overdraft	85,000	Purchases	4,45,000
Sales	8,10,000	Cash in Hand	8,500
Purchases Return	22,500	Creditors	2,15,000
Debtors	4,00,500	Sales Return	15,750
Wages	96,000	Equipment	25,000
Capital	?	Opening stock	3,00,500

Solution:

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Trial Balance as on march 31 2013

S. No.	Heads of Accounts	Dr. (₹)	Cr. (₹)
i.	Bank Overdraft		85,000
ii.	Sales		8,10,000
iii.	Purchase return		22,500
iv.	Debtors	4,00,500	
v.	Wages	96,000	
vi.	Capital (Balancing Figure)		1,58,750
vii.	Purchases	4,45,000	
viii.	Cash in hand	8,500	
ix.	Creditors		2,15,000
x.	Sales return	15,750	
xi.	Equipment	25,000	
xii.	Opening Stock	3,00,500	
	Total	12,91,250	12,91,250

Question 16

From the following ledger account balances extracted from the books of R.J Gupta Pare a trial Balance as on 31st March 2015.

	₹		₹
Purchases	1,04,000	Drawings	7,950

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Debtors	18,550	Sundry creditors	8,300
Premises	62,000	Returns Inward	5,360
Sales	1,49,000	Furniture	15,600
Returns Outward	8,900	Cash in hand	390
Rates and taxes	780	Capital	85,000
Cash at bank	1,560	Factory Wages	5,830
Carriage Inwards	650	Carriage Outwards	260
Salaries	3,900	Rent received	2,990
(Stock 1 st April, 2014)	25,000	Insurance	2,100
		Bad debts	260

Solution:

R.J Gupta

Trial Balance as on March 31, 2015

S no.	Head of Accounts	L.F.	Dr. ₹	Cr. ₹1
1	Purchases		1,04,000	
2	Sundry Debtors		18,550	
3	Premises		62,000	
4	Sales			1,49,000
5	Returns Outwards			8,900
6	Rates of Taxes		780	
7	Cash at Bank		1,560	

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8	Carriage Inwards		650	
9	Salaries		3,900	
10	Stock (1 st April 2014)		25,000	
11	Drawings		7,950	
12	Sundry Creditors			8,300
13	Returns Inwards		5,360	
14	Furniture		15,600	
15	Cash in hand		390	
16	Capital			85,000
17	Factory wages		5,830	
18	Carriage Outwards		260	
19	Rent Received			2,990
20	Insurance		2,100	
21	Bad debts		260	
	Total		2,54,190	2,54,190

Question 17

Accounts for the year ended 31st march, 2016 Till date, he himself has recorded the transactions in books of accounts. As a basis for audit, Mr. Singhania furnished you with the following statement

	Dr. Balance	Cr. Balance
Singhania's Capital		1,556
Singhania's Drawings	564	
Leasehold Premises	750	
Sales		2,750

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Due from customers		530
Purchases	1,259	
Purchases return	264	
Loan from Bank		256
Trade Payable	528	
Trade expenses	700	
Cash at Bank	226	
Bills Payable	100	
Salaries and wages	600	
Inventories		264
Rent & Rates	463	
Sales return	98	
	5,454	5,454

The closing Inventory on 31st March 2016 was valued at 574 Mr. Singhania claims that he has recorded every transaction correctly as the trial balance is tallied. Check accuracy of the above trial balance.

Solution:

Corrected trial balance of Mr. Singhania on 31st March 2016

Mr. Singhania

Trial balance

As on 31st March 2016

Particulars	Dr. Amount	Cr. Amount
Singhania's capital		1,556
Singhania's Drawings	564	

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Leasehold premises	750	
Sales		2,750
Due from customers	530	
Purchases	1,259	
Purchases return		264
Loan from bank		256
Creditor / Suppliers		528
Trade expenses	700	
Cash at bank	226	
Bills payable		100
Salaries and wages	600	
Inventory (1.4.2015)	264	
Rent and rates	463	
Sales return	98	
Total	5,454	5,454

Reasons:

Due from customers is an asset, so its balance will be a debit balance. Purchases return account always shows a credit balance because assets go out. Balance in creditors account is a liability, so its balance will be credit balance. Bills payable is a liability, so its balance will be credit balance. Sales return account always shows a debit balance because assets come in.

Question 18

An inexperienced bookkeeper has drawn up a trial balance for the year ended 30th June, 2015

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	Dr. (₹)	Cr. (₹)
Provision for Doubtful Debts	200	
Bank Overdraft	1,654	
Capital		4,591
Trade Payable		1,637
Trade receivable	2,983	
Discount Received	252	
Discount Allowed		733
Drawings	1,200	
Office Furniture	2,155	
General Expenses		829
Purchases	10,923	
Returns Inwards		330
Rent & Rates	314	
Salaries	2,520	
Sales		16,882
Inventory	2,418	
Provision for Depreciation on Furniture	364	
Total	24,983	25,002

Required:

Draw up a 'Corrected' Trial Balance, debiting or crediting any residual errors to a Suspense Account.

Solution:

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Trial Balance as on 30th June, 2015

Heads of Accounts	Dr.	Cr.
Provision for Doubtful Debts		200
Bank Overdraft		1,654
Capital		4,591
Trade Payable		1,637
Trade receivable	2,983	
Discount received		252
Discount allowed	733	
Drawings	1,200	
Office furniture	2,155	
General Expense	829	
Purchases	10,923	
Returns Inwards	330	
Rent & Rates	314	
Salaries	2,520	
Inventory	2,418	
Provision for Depreciation on Furniture		364
Sales		16,882
Suspense Account (Balancing Figure)	1,175	
Total	25,580	25,580

Question 19

Prepare a Trial Balance for shining Brothers pvt. Ltd. At march 31st, 2017

Description	Amount	Description	Amount	Description	Amount
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Bank Loans	Rs. 14,000	Insurance Expense	Rs.7,300	Equipment	Rs.40,000
Marketable Security	6,500	Owners' Investments	95,000	Maintenance Exp.	5,000
Bill payable	1,000	Rent & Rates Expense	400	Miscellaneous Expenses	4,800
Unearned revenue	3,500	Acc. Dep Equipment	14,000	Accrued Expenses	1,500
Sundry Debtors	12,000	Accrued revenue	15,000	Dep. Exp Equipment	2,000
Outstanding Salaries	2,500	Machinery	25,000	Unexpired Insurance	8,500
Prepaid rent	2,000	Drawings	3,500	Vendor's Payables	500

Solution:

Shining Brothers Pvt. Ltd.
Trial Balance
As on March 31st, 2017

S no.	Description	Ref	Amount (Rs.)	
			Dr.	Cr.
1	Bank Loan			14,000
2	Marketable Security		6,500	
3	Bill payable			1,000
4	Unearned Revenue			3,500
5	Sundry Debtors		12,000	
6	Outstanding Salaries			2,500
7	Prepaid rent		2,000	
8	Insurance Expense		7,300	
9	Owner's Investments			95,000

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10	Rent & Rates Expense		400	
11	Accumulated Dep._ Equipments			14,000
12	Accrued Revenue		15,000	
13	Machinery		25,000	
14	Drawings		3,500	
15	Equipments		40,000	
16	Maintenance Exp.		5,000	
17	Miscellaneous Expenses		4,800	
18	Accrued Expenses			1,500
19	Depreciation Exp. Equipment		2,000	
20	Unexpired Insurance		8,500	
21	Vendor's Payables			500
Total			Rs. 1,32,000	Rs. 1,32,000

Question 20

There are several Mistakes in the Umer & Brothers (Pvt.) Ltd. Trial Balance. You are requested to identify errors and make corrected Trial Balance?

S no.	Heads of Accounts	Ref	Debit	Credit
1	Umer Owner Equity			1,551
2	Umer Drawings		560	
3	Equipment		2,850	
4	Sales			2,850
5	Due from customers			530
6	Purchases		1,260	

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7	Purchase Return		364	
8	Bank loan			996
9	Creditors		528	
10	Taxes		720	
11	Cash in hand		226	
12	Note Payable		680	
13	Inventory			264
14	Repair		461	
15	Return Inward			98
	Total		Rs. 7,649	Rs. 6,969

Solution:**Umer & Brothers (Pvt.) Ltd****Trial Balance****As on March 31st, 2017**

S No.	Heads of Accounts	Ref	Debit	Credit
1	Umer Owner Equity			1,551
2	Umer Drawings		560	
3	Equipment		2,850	
4	Sales			2,850
5	Due from customers		530	
6	Purchases		1,260	
7	Purchase Return			364
8	Bank Loan			996
9	Creditors			528
10	Taxes		720	

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11	Cash in hand		226	
12	Note Payable			680
13	Inventory		264	
14	Repair		461	
15	Return Inward		98	
		Total	Rs. 6,969	Rs. 6,969

Question 21

Prepare Trial balance from the following balances of Mr. Akhtar as on 31.12.2016

Capital Rs. 4,20,000	Cash in hand Rs. 25,000	Building Rs. 1,15,000
Cash at Bank 84,700	Machinery Rs. 60,000	Sundry Creditors Rs. 68,000
Furniture Rs. 11,000	Rent Rs. 48,000	Car Rs. 68,000
Opening stock Rs. 86,000	Commission Rs. 1,400	Rates & Taxes Rs. 2,600
Purchases Rs. 94,000	Bad debts Rs. 3,200	Sales Rs. 1,96,000
Insurance Rs. 2,400	General Expenses Rs. 800	Sundry Debtors Rs. 16,200
Reserve for doubtful debts Rs. 7,300	Salaries Rs. 94,000	Closing Stock Rs. 12,000
Unearned Revenue Rs. 16,000	Interest received Rs. 5,000	

Solution:

Mr. Akhtar

Trial Balance

As on March 31st, 2016

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S no.	Description	Ref	Amount (Rs.)	
			Dr.	Cr.
1	Capital			4,20,000
2	Cash In Hand		25,000	
3	Building		1,15,000	
4	Cash at Bank		84,700	
5	Machinery		60,000	
6	Sundry creditors			68,000
7	Furniture		11,000	
8	Rent		48,000	
9	Car		68,000	
10	Opening stock		86,000	
11	Commission		1,400	
12	Rates and Taxes		2,600	
13	Purchases		94,000	
14	Bad debts		3,200	
15	Sales			1,96,000
16	Insurance		2,400	
17	General Expenses		800	
18	Sundry Debtors		16,200	
19	Reserve for doubtful debts			7,300
20	Salaries		94,000	
21	Unearned Revenue			16,000
22	Interest received			5,000
Total			Rs. 7,12,300	Rs. 7,12,300

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Note: - Closing Stock – 12000

Question 22

The following balances are extracted from the books of Ms. Maria Waseem. Prepare Trial Balance as on: 30.6.2015

Owner's Equity Rs. 4,70,200	Machinery Rs. 1,58,000	Cash in hand Rs. 6,000
Account receivable Rs. 48,000	Building Rs. 3,20,000	Repairs Rs. 5,400
Stock Rs. 33,000	Insurance Premium Rs. 3,300	Account Payable Rs. 26,000
Sales Rs. 2,90,000	Commission Rs. 750	Telephone charges Rs. 6,450
Rent & Taxes Rs. 6,300	Furniture Rs. 11,000	Purchase Rs. 1,65,000
Discount earned Rs. 1,100	Loan from Rs. 51,000	Salaries Rs. 70,600
Reserve Fund Rs. 5,900	Discount allowed Rs. 1450	Note receivable Rs. 8,600
Drawings Rs. 5,000	Bad debts Rs. 1,350	Bills Payable Rs. 6,000

Solution:

A Complete KIT of Education
Ms. Maria Waseem
Trial Balance

As on 30th June 2015

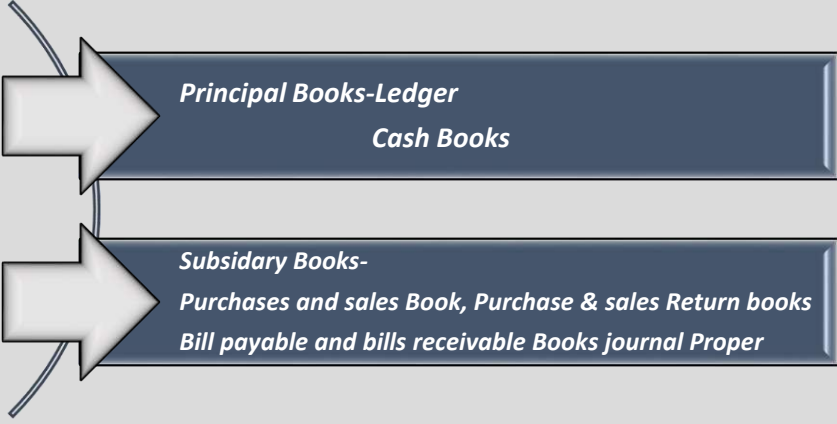
S no.	Description	Ref	Amount (Rs.)	
			Dr.	Cr.
1	Owner's Equity			4,70,200
2	Machinery		1,58,000	
3	Cash in hand		6,000	

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4	Account receivable		48,000	
5	Building		3,20,000	
6	Repairs		5,400	
7	Stock		33,000	
8	Insurance Premium		3,300	
9	Account payable			26,000
10	Sales			2,90,000
11	Commission		750	
12	Telephone Charges		6,450	
13	Rent & Taxes		6,300	
14	Furniture		11,000	
15	Purchases		1,65,000	
16	Discount earned			1,100
17	Loan from sidra			51,000
18	Salaries		70,600	
19	Reserve fund			5,900
20	Discount allowed		14s50	
21	Note receivable		8,600	
22	Drawings		5,000	
23	Bad debts		1,350	
24	Bills payable			6,000
	Total		Rs. 8,50,200	Rs. 8,50,200

Unit – 4

Subsidiary Books

Introduction	 <p><i>Principal Books-Ledger</i> <i>Cash Books</i></p> <p><i>Subsidiary Books-</i> <i>Purchases and sales Book, Purchase & sales Return books</i> <i>Bill payable and bills receivable Books journal Proper</i></p>
Purchases Book	To record the credit Purchases of goods dealt in or materials and stores used in the factory, a separate register called the purchases Book
Sales Book	The sales Book is a register specially kept to record credit sales of good dealt in by the firm, cash sales are entered in the cash book and not in the sales book
Sales Returns book or inward Book	If customers frequently return the goods sold to them, it would be convenient to record the returns in a separate book, which is named as the sales returns book or the returns inward book.

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**Purchase returns
or returns Outward
book**

Such a book conveniently records return of goods or material purchased to the suppliers if however, the returns are not frequently, it may be sufficient to record the transaction in the journal

**Question 1**

What does mean by subsidiary books.

Answer:

Subsidiary Books are the sub divisions of a journal. These books are meant for recording the transactions, the journal is sub – divided into subsidiary books to record such voluminous transactions and events in one single book. These books are also termed as “Special purpose books or special journal or book of original / Primary / Prime entry

For example, All the cash transactions can be recorded in one book, i.e cash book thus, cash book, sales book, Purchases book etc. are the examples of subsidiary books.

Questions 2

State the meaning of contra entry

Answer:

Those entries that involve both the accounts i.e Cash a/c and bank a/c are termed as contra Entries. When cash is deposited in a bank or withdrawn from the bank for office use, then both the accounts will be affected and therefore, it

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will be recorded on both sides of the cash book. In these entries, one account is credited and debited for example, if Rs. 2,000 are withdrawn from the bank for the office use, then the entry will be

Cash A/c	Dr.	2,000	
			To Bank A/c
			2,000

Question 3

State the name of different type of subsidiary books.

Answer:

The following are the subsidiary books a company will generally maintain while writing their accounts,

- Cash Book
- Purchase Book
- Purchase Return Book
- Sales Return book
- Bills receivable Book
- Bills payable Book
- Journal Proper

Question 4

We Completely eliminate journalizing when we record transactions in a subsidiary book. True or False?

Answer:

This statement is false. We record only transactions of similar types in a subsidiary book, Sales Purchase. Cash transactions etc. will find a place in subsidiary books. But say you purchase an asset. We will record this transaction in the journal.

Question 5

What is the Procedure of ledger posting from sales book.

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Answer:

Ledger Postings from sales book

Journal Entry for Credit sales is Customer A/c Dr. To sales A/c Hence rules for posting from sales books are

1. Total of the sales book will be posted to the credit side of sales A/c by writing the words “By sundries as per Sales Book”
2. Customer 's Personal A/c are debited by writing the words “To Sales A/c”

Question 6

Explain purchase return book with its format.

Solution:**Purchase Return Book**

Sometimes goods are to be returned back to the supplier, For various reasons. The most common reason being defective goods or poor quality goods. In this case, a debit note is issued.

Format:

Purchase Return Book				
Date	Particulars	Credit note no.	L.F.	Amount
	A Complete Kit of Education			

Question 7

Explain key Features of Subsidiary Books.

Answer:

Key Features of Subsidiary Books There purchase ledger. a difference between a purchase book and a

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A purchase book records only credit purchases and a purchase ledger records all the cash purchases in chronological order. The daily balance of purchase book is transferred to Financial Accounting 31 purchase ledger. Therefore, purchase ledger is a comprehensive account of all purchases. The same rule applies to sale book and sale ledgers.

- It is quite clear that maintaining a subsidiary book is facilitation to journal entries, practically it is not possible to post each and every transaction through journal entries, especially in big organizations because it makes the records bulky and unpractical.
- Maintenance of subsidiary books gives us more scientific, practical, specialized, controlled, and easy approach to work.
- It provides us facility to divide the work among different departments like sale department, purchase department, cash department, bank department, etc. It makes each department more accountable and provides an easy way to audit and detect errors.
- In modern days, the latest computer technology has set its base all over the world. More and more competent accounts professionals are offering their services. Accuracy, quick results, and compliance of law are the key factors of any organization. No one can ignore these factors in a competitive market

Question 8

What are the advantages of subsidiary books?

Answer:

Advantages of Subsidiary Books

The use of subsidiary books affords the undermentioned advantages:

- **Division of work:** Since in the place of one journal there will be so many subsidiary books, the accounting work may be divided amongst a number of clerks.

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

Question 9

Define Bills receivable & Bills Payable book.

Answer:

Bills Receivables Book

Bills are raised by creditors to debtors. The debtors accept them and subsequently return them to the creditors. Bills accepted by debtors are called as 'Bills Receivables' in the books of creditors, and 'Bills Payable in the books of debtors. We keep them in our record called 'Bills Receivable Books' and 'Bills Payable Book'.

Bills Payable Book

Bills payable issues to the supplier of goods or services for payment, and the record is maintained in this book.

Question 10

Define Sales Return Book

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Answer:

The reason of Sale return is same as for purchase return. Sometimes customers return the goods if they don't meet the quality standards promised. In such cases, a credit note is issued to the customer.

Question 11**01 JULY: Bought from Rahul Traders as per invoice no. 2004140**

- 40 Registers @₹60 each
- 80 Gel Pens @ ₹15 each
- 50 note books @ ₹20 each Trade discount 10%.

15 JULY: Bought from Global Stationers as per invoice no.1132

- 40 Ink Pads @ ₹8 each
- 50 Files @₹ 10 each
- 20 Colour Books @ ₹20 each Trade Discount 5%

23 JULY: Purchased from Lamba Furniture as per invoice no.3201

- 2 Chairs Rs@ ₹600 per chair
- 1 Table @ ₹1000 per table

25 JULY: Bought from Mumbai Traders. As per invoice no.1111

- 10 Paper Rim @ ₹100 per rim
- 400 drawing Sheets @₹ 3 each 20 Packets water colour @ 40 per packet

Solution:

In the Books of M/s Gupta Traders Purchases Book					
Date	Invoice No.	Name of the suppliers (Account to be credited)	L.F	Details ₹	Amount ₹
2014					
01 Jul	20041	Rahul Traders			

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		40 Registers @ ₹ 60 each	2,400	
		80 Gel Pens @ ₹ 15 each	1,200	
		50 Note Books @ ₹ 20 each	1,000	
			4,600	
		Less: Trade Discount 10%	[460]	4,140
15 Jul	1132	Global Stationers		
		40 Ink Pads @ ₹ 8 each	320	
		50 Files @ ₹ 10 each	500	
		20 colour books @ ₹ 20 each	400	
			1,220	
		Less: Trade discount 5%	[61]	1,159
25 Jul	1111	Mumbai Traders		
		10 Paper rims @ ₹ 100 each	1,000	
		400 Drawings Sheets @ ₹ 3 each	1,200	
		20 Packets Water Colour @ ₹ 40 per pack	800	3,000
		Purchases Account		8,299

Question 12

Enter the following transactions in sales (journal) book of M/s. Bansal electronics: September 2014

01 SEP Sold to Amit Traders as per bill no.4321

- 20 Pocket Radio @ ₹ 70 per Radio
- 2 T.V. Set, B&W. (6") @ ₹ 800 per T.V.

10 SEP Sold to Arun Electronics as per bill no.4351

- 5 T.V. sets (20") B&W @ ₹3,000 per T.V.
- 2 T.V. sets (21") Colour @ ₹ 4,800 per T.V.

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22 SEP Sold to Honda Electronics as per bill no.4399

- 10 Tape recorders.@ ₹ 600 each
- 5 Walkman @₹ 300 each

28 SEP Sold to Harish Trader as per bill no.4430

- 10 Mixer Juicer Grinder @ ₹800 each.

Solution:

**In the Books of M/s. Bansal electronics
Sales Account**

Date	Invoice No.	Name of the Customer (Account to be Debited)	L.F	Details ₹	Amount ₹
2014					
01 Sep	4321	Amit Traders			
		20 Pocket radio @ ₹ 70 per radio		1,400	
		2 T.V Set B&W (6') @ ₹ 800 per T. V		1,600	3,000
10 Sep	4351	Arun electronics			
		5 T.V sets [20'] B&W @ ₹ 3,000 per T.V		15,000	
		2 T.V sets [21'] Colour @ ₹ 4,800 per T.V		9,600	24,600
22 Sep	4399	Honda Electronics			
		10 Tape recorders @ ₹ 600 each		6,000	
		5 Walkman @ ₹ 300 each		1,500	7,500
28 Sep	4430	Harish Traders			

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		10 Mixer Juicer grinder @ ₹ 800 each		8,000	8,000
		Sales Account			43,100

Question 13

Prepare a purchases return (journal) book from the following transactions for January 2014

- 05 JAN Returned goods to M/s Karthik Traders Rs. 1,200
- 10 JAN Goods returned to Sahil Pvt. Ltd. RS. 2,500
- 17 JAN Goods returned to M/s Kohinoor Traders For list price ₹ 2,000 less 10% trade discount
- 28 JAN Return outwards to M/s Honda Traders Rs. 550

Solution:

Purchases Returns Book					
Date	Debit note No.	Name of the Supplier (Account to be Debited)	L.F	Details ₹	Amount ₹
2014					
05 Sep		M/s Kartik Traders			1,200
10 Jan		Sahil Pvt. Ltd.			2,500
17 Jan		M/s Kohinoor Traders			
		List Price		2,000	
		Less 10% Trade discount		(200)	1,800

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28 Jan		M/s Honda Traders			550
		Purchases Return Account			6,050

Jan. 31		Purchases Returns Account (Cr.)			18,000
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Question 14

The following are some of the transactions of M/s Kishore & Sons of the year 2015 as per their waste Book. Make out their sales Book,

1. Sold to M/s. Gupta & Verma on credit:

- 30 shirts @ 8 per shirt
- 20 trouser @ 10 per trouser

Less: Trade Discount @ 10%

2. sold 50 shirts of M/s Jain & Sons @ 8 per shirt.

3. Sold on credit to M/s Mathur & Jain:

100 shirts @ 7.50 per shirt

10 overcoats @ 50 per over coat

Less: Trade Discount @ 10%

Solution:**Sales Book**

Date	Particulars	Details	L.F	Amount
2015	M/s. Gupta & Verma			

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		240.00		
	30 shirts @ 8	200.00		
	20 Trousers @ 10...	440.00		
		(44.00)		
	Less: 10%			396.00
	Sales as per invoice no. dated...			
	M/s Jain & Sons			
	50 Shirts @ 8 sales as per invoice no. dated...			400.00
	M/s Mathur & Jain			
	100 shirts @ 7.50	750.00		
	100 overcoats @ 50	500.00		
		1,250.00		
	Less: 10%	(125.00)		
	<i>A Complete KIT of</i>			
	Sales as per invoice no. dated			1,125.00
		Total		1,921.00

Question 15

Record the following transactions in the books of M/s. M and Co. and also show the ledger account

Date	Details
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10 Aug	Sold A Ltd. (Invoice No. 24): 2000 Shirts @ ₹ 500 Per piece*0
16 Aug	Sold to B Ltd. (Invoice No. 26): 100 ties @ ₹ 200 per piece. Trade discount 20%
18 Aug	Sold to c Ltd. (Invoice No. 28): 50 Coats for ₹ 100000. Trade discount 10 %
21 Aug	Sold to D Ltd. (Invoice No. 30): 100 trousers @ ₹ 400 per piece. Trade discount 15%
25 Aug	Sold to E Ltd. (Invoice No. 33): 50 ties ₹ 250 per piece. Trade discount 10%

Solution:

In the Books of M/s M and Co.

Sales book

Date	Invoice No.	Name of customer	L.F	Amount
10 Aug	24	A Ltd.		1000000
		(2000 shirts @ ₹ 500 per piece)		
16 Aug	26	B Ltd.		16000
		(100 ties @ ₹ 200 per piece) = 20,000		
		Less 20% T.D = 4,000		
18 Aug	28	C Ltd.		90000
		50 Coats @ ₹ 2,000 per piece = 100000		
		Less 10% T.D = 10000		

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21 Aug	30	D Ltd.		34000
		100 trousers @ ₹ 400 per piece = 40,000		
		Less: 15% T.D = 6,000		
25 Aug	33	E Ltd.		11250
		50 ties @ ₹ 250 per piece 12,500		
		Less 10% T.D = 1,250		
31 Aug		Total		1151250

Question 16

Record the following transactions in the books of M/s. Z & Co.

Date	Details
5 Aug	Goods returned by M. Ltd. (Credit Note No. 2): 2 bags @ ₹ 500 per piece
11 Aug	Goods returned by D Ltd. (Credit Note No. 3): 10 suitcase @ ₹ 2500 per piece. Trade discount 20%
28 Aug	Goods returned by X Ltd. (Credit Note No.): 5 duffle bags for ₹ 5000. Trade discount 10%

Solution:

In the books of M/s. Z and Co.

Sales return Book

Date	Credit Note No.	Name of the customer	L.F	Amount
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5 Aug	2	M Ltd.		1000
		2 Bags @ ₹ 500 per piece.		
11 Aug	3	D Ltd.		20000
		10 suitcase @ ₹ 2500 per piece = 25000		
		Less 20% T.D =5000		
28 Aug	5	X Ltd.		4500
		5 duffle bags @ ₹ 1000 per piece = 5000		
		Less 10% T.D = 500		
31 Aug		Total		25500

Question 17

Enter the following transactions in the purchases book of rozer Electronics in Delhi

2010	Particular
Jan 3	Bought from Bharat Electric Co. Dwarka Delhi on credit (Invoice No. 1238) 100 Tube light @ ₹ 40 each 50 Table fans @ ₹415 each 30 Electric Iron – Bajaj @ ₹ 200 each Trade discount 10%

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Jan 9	Purchased from Ashoka traders, Karol bag, New Delhi on credit (Invoice No. 551) 30 Table fans – Polar @ ₹ 600 each 20 Mix grinders – Usha @ ₹ 500 each Trade discount 15%
Jan 16	Bought goods from royal Electric co. Kashmiri gate, Delhi on credit (Invoice No. 252) 20 Duson Bible @ ₹ 100 per dozen 10 Table fans @ ₹ 500 each Less: Trade discount 15%
Jan 22	Bought from Prakash Lamps, Delhi for cash (Memo No. 715) 10 Table fans – Orient @ ₹ 600 each
Jan 29	Bought from Laxmi Furniture, Rohtak on credit (Invoice No. 4312) 2 Tables @ ₹ 2000 each 10 Chairs @ ₹ 400 each

In the books of Rozer Electronics, Delhi

Purchase book or Purchases Journal

Date	Name of supplier (a/c to be credited)	Invoice No.	L · F	Detail	Amount
2010 Jan 3	Bharat Electric Co: Dwarka, Delhi	1238		₹	
	100 Tube Light @ ₹ 40 each			4,000	
	50 Table Fans @ ₹ 415 each			20,750	
	30 Electronic iron @ ₹ 200 each			6,000	
				30,750	
	Less: Trade Discount 10%			3,075	27,675

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Jan 9	Ashoka traders, Karol Bag, New Delhi	581	₹	
	30 Table fans – Polar @ 600 each		18,000	
	20 Mix grinders – Usha @ ₹ 500 each		10,000	
			<hr/>	
			28,000	
	Less: Trade discount 15%		4,200	23,800
Jan 16	Royal Electric Co. K Gate Delhi	252	₹	
	20 Dozen Bulbs @ ₹ 100 Dozen		2,000	
	10 Table Fans @ ₹ 500 each		5,000	
			<hr/>	
			7,000	
	Less: Trade discount 15%		1,050	5,950
Jan 31	Purchases A/c (Dr.)	Bal.		57,425

Unit: 5

Cash Book

**Cash Book – A
Subsidiary Book &
a Principal Book**

Cash Transactions are straightaway recorded in the Cash Book and on the basis of such a record, ledger accounts are prepared

Kinds of Cashbook

**Simple Cash
Book**

Such a cash book appears like an ordinary account, with one amount column on each side. The left – hand side records receipts of cash and the right – hand side the payments

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<p>Double – Column Cash Book</p>	<p>If along with columns for amounts to record cash receipts and cash payments another column is added on each side to record the cash discount allowed or the discount received, or a column on the debit side showing bank receipt and another column on the credit side showing payments through bank</p>
<p>Three – Column Cash Book</p>	<p>A firm normally keeps the bulk of its funds at a bank; money can be deposited and withdrawn at will if it is current account. Probably payments into and out of the bank are more numerous than strict cash transactions. Contra Entries: Often cash is withdrawn from bank for use in the office. In such a case the amount is entered in the bank column on the payments side and also in the cash column on the receipts side. The letter "C" should be written in the LF. Column, to indicate that these are contra transaction and no further posting is required for them.</p>
<p>Petty Cash - Book</p>	<p>In a business house a number of small payments, such as for telegrams, taxi fare, cartage, etc., have to be made. If all these payments are recorded in the cash book, it will become unnecessarily heavy. Also, the main cashier will be overburdened with work. Therefore, it is usual for firms to appoint a person as Petty Cashier.</p>
<p>Impress System of Petty Cash</p>	<p>It is convenient to entrust a definite sum of money to the petty cashier in the beginning of a period and to reimburse him for payments made at the end of the period and to reimburse him for payments made at the end of the period. Thus, he will have again the fixed amount in the beginning of the new period. Such a system is known as the imprest system of petty cash.</p>

Advantages of Petty cash Book

· Saving of time of the chief cashier

· Saving in labour in writing up the cash book and posting into ledger:

· Control over small payments.

Question 1

Describe Cash Book. List out its types.

Answer:

Cash book is subsidiary book which records the receipts and payment of cash. With the help of cash book cash and bank balance can be checked at my point of time.

Cash book can be of four types:

1. Simple Cash Book.
2. Two column cash Book.
3. Three column cash Book
4. Petty cash Book

Question 2

Write a Short note on petty cash book.

Answer:

A business house makes a number of small payments like telegram, textile, cartage etc. If all these transactions are recorded in cash book the cash bank may become bulky and the main cashier's work will also increase therefore usually firms appoint a petty cashier who makes these small payments and keep record of these payments in a separate cash book which is called Petty Cash book

Question 3

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Show the Advantages of Petty Cash Book.

Answer:

Advantages Of Petty Cash Book

There are mainly four advantages:

- Saving of time-Saving of time of the chief cashier.
- Saving of labour - saving in labour in writing up the cash book.
- Control - It provides control over small payments.

Question 4

State with description that Cash book is principal books of Accounting.

Answer:

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

Question 5

Which transactions are recorded in Cash Book?

Answer: *A Complete KIT of Education*

Cash Book is a book where all the receipts in terms of cash are recorded on the debit side of the Cash Book and all the payments in terms of cash are recorded on its credit side. This means: Cash Book records all transactions related to receipts and payments in terms of Cash only.

Question 6

Explain Imprest System of Petty Cash

Answer:

The imprest system is a form of financial accounting system. The most

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common imprest system is the petty cash system. The basic characteristic of an imprest system is that a fixed amount is reserved, which after a certain period of time or when circumstances require, because money was spent, it will be replenished.

Question 7

Why does cash column of cash book always show debit balance?

Answer:

Cash column of cash book will always show debit balance because cash payment can never exceed the cash in hand.

Question 8

What are the advantages of a three-column cash book?

Answer:

The advantages of three column Cash Book are that –

- The Cash Account and the bank account are prepared simultaneously, therefore the double entry is completed in cash book itself. Thus, the contra entries can be easily cross – Checked in cash column in one side and the bank column in the other side of the cash book. Also, the chances of error are reduced.
- The information regarding cash in hand and the bank balance can be obtained very easily and quickly as there is no need to prepare ledger of the bank account

Question 9

Define simple column cash book.

Answer:

Simple Cash Book: Such a cash book appears like an ordinary account, with one amount column on each side. The left – hand side records receipts of cash and the right – hand side the payments.

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

Question 10

There are three type of cash book state the reason whether the statement is true or false.

Answer:

This statement is true. The main cash book may be of the three types:

- I. Simple Cash Book:
- II. Two – column Cash Book:
- III. Three – column cash book;

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

Question 11

Prepare a petty cash book on the Imprest system from the following

2005		Rs.
March 1	Received Rs. 1000 for petty cash	
March 2	Paid bus fare	10
March 3	Paid cartage	25
March 4	Paid for postage and telegram	50
March 5	Paid for stationary	40

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March 6	Paid for postage and telegram	50
March 7	Paid for sundry exp.	40

Solution:

Recei pts	Date	v . n o .	Particulars	Tot al Rs.	Conv eyanc e	Cart age	Statio nary	Postag e telegra m	Sundrie s
	2005								
1000	Mar1	1	To Cash A/C						-
	Mar2		By conveyance	10	10	-	-	-	-
	Mar3		By cartage	25	-	25	-	-	-
	Mar4		By postage & Telegram	50	-	-	-	50	-
	Mar5		By stationary	40	-	-	-	10	-
	Mar6		By postage telegram	50	-	-	-	50	
	Mar7		By sundry exp	40				-	40
1000	March 31		By Bal c/d	215	10	25	40	100	40
				785	===	===	===	===	===
===				===					
785	April 1		To Bal b/d	215	10	25	40	100	40

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215		To Cash							
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Question 12

Enter the following transactions in a Three-column cash book. Cheques are first treated as cash receipts

2005		Rs.
Jan 1	Cash in hand	20,000
Jan 2	Paid into Bank	19,000
Jan 3	Receives cheques from Kirti and Co.	600
Jan 4	Pays into bank Kirti and Co's Cheque	600
Jan 5	He pays Ratan and Co. by Cheque and is	330
	allowed discount of Rs. 20	

Solution:**Three Column Cash Book**

Dr					Cr				
Payments					Receipts				
Date 2005	Particular	Dis .- Rs.	Cash Rs.	Bank Rs	Date 20 05	Particulars			
Jan 1	To Bal b/d	-	20,000	-	Jan 2	By Bank	-	19,000	-

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							A/ C (c)		
Jan 2	To Cash	-	-	19,000					
	A/C (c)				Jan 4	By Bank	-	600	
						A/C (C)			
Jan 3	To Kirti	-	600	-	Jan 5	By Ratan	20	-	330
	And co.					And Co. (C)			
Jan 4	To Cash	-	-		Jan 31	By Bal C.D	-	1000	18670
	A/c(C)			600					
			20,600	19,600			20	20,600	19,600

Question 13**2005****Rs****Jan 1 Cash in hand 15,000****Jan 5 Paid to Ram 3,000****Jan 5 Discount allowed by him 100****Jan 6 Purchased goods 4,000****Jan 10 Received from R. Gupta 9,800****Jan 10 Discount allowed 200****Jan 11 Sold goods 4,000****Jan 12 Paid to S. Sharma 2,950****Discount received Rs. 50 50****For more Info Visit – www.KITest.in**

Jan 13 Paid wages 500

Jan 14 Paid to Naresh in full settlement of his Account which shows a Cr. Balance of Rs. 4000

Solution:

Two Column Cash Book

Dr				Cr			
Receipts				Payments			
Date 2005	Particulars	Amt Dis. Rs	Amt Cash Rs	Date 2005	Particulars	Amt Dis.	Amt Cash
Jan 1	To Bal b/d	-	15,000	Jan 5	By Ram	100	3,000
Jan 10	To R. Gupta	200	9,800	Jan 6	Purchases	-	4,000
Jan 11	To sales	-	4,000	Jan 12	By S. Sharma	50	2,950
				Jan 13	By Wages		500
				Jan 14	By Naresh	100	3,900
				Jan 31	By Bal c/d		14,450
		<u>200</u>	<u>28,800</u>			<u>250</u>	<u>28,800</u>

Question 14

Enter the following transactions in a simple cash Book.

2006 Rs

Jan 1 Cash in hand. 12,000

Jan 5 Received from Ram 3,000

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Jan 7	Paid Rent	300
Jan 8	Sold goods	7000
Jan 10	Paid Shyam	2000

Solution:

Simple Cash Book

Dr.			Cr		
Receipts			Payments		
Date	Particulars	Amt	Date	Particulars	Amt
2006		Rs	2006		Rs
Jan 1	To Bal b/d	12,000	Jan 7	By Rent	300
Jan 5	To Ram	3,000	Jan 10	By Shyam	2,000
Jan 8	To Sales	7,000	Jan 31	By Bal C/d	17,000
		22,000			22,000

Question 15

Enter the following transactions in Cash Book with Discount and Bank Columns. Cheques are first treated as cash receipt.

2016		
Jan.1	Chandrika commences business with Cash	20,000
"3	He paid into Current A/c	19,000
"4	He received cheque from Kirti & Co. on account	600
"7	He pays in bank Kirti & Co.'s cheque	600
"10	He pays Rattan & Co. by cheque and is allowed discount ` 20	330
"12	Tripathi & Co. pays into his Bank A/c	475

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"15	He receives cheque from Warshi and allows him discount ` 35	450
"20	He receives cash `75 and cheque `100 for cash sale	
b	He pays into Bank, including cheques received on 15th and 20th	1,000
"27	He pays by cheque for cash purchase	275
"30	He pays sundry expenses in cash	50

Solution:

Date	Receipts	L. F	Di sc.	Cash	Bank	Date	Payments	L. F	Di sc.	Cash	Bank
2016						2016					
Jan 1	To capital A/c			20,000		Jan 3	By Bank A/c	c		19,000	
3	To cash	c			19,000	7	By Bank A/c	c		600	
4	To Kirti & co.			600		10	By ratan & co.		20		330
7	To Cash	c			600	25	By Bank A/c	C		1,000	
12	To Tripathi & Co.				475	27	By purchases			275	
15	To Warshi		35	450		30	By S Exp. A/c			50	
20	To sales A/c			175							
25	To Cash	C			1,000						
						31	By balance C/D			300	20,745
			35	21,225	21,075				20	21,225	21,075
Feb 1	To balance b/d			300							

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Question 16**April 2017**

- **Apr 02 Purchased Office Type-Writer for Cash Rs. 750; Cash Sales Rs. 1,315.**
- **Apr 07 Deposited Cash Rs. 500 to bank.**
- **Apr 10 Received from A. Hussain a check for Rs. 2,550 in part payment of his account (not deposited).**
- **Apr 16 Paid by check for merchandise purchased worth Rs. 1,005.**
- **Apr 20 Deposited into Bank the check received from A. Hussain.**
- **Apr 22 Received from customer a check for Rs. 775 in full settlement of his accounts (not deposited).**
- **Apr 24 Sold merchandise to sweet Bros. for Rs 1,500 who paid by check which was deposited into bank.**
- **Apr 26 Paid creditor a Salman Rs. 915 by check.**
- **Apr 28 Deposited into Bank the check of customer of worth Rs. 775 was dated 22nd April.**
- **Apr 29 Paid wages by cash Rs. 500 and salary Rs. 1,000 by bank.**
- **Apr 30 Drew from Bank for Office use Rs. 250 and Personal use Rs. 150.**

Solution:**Hassan Sajjad store****Cash Book (Double Column)****For the month ended April 2017**

Receipts					Payments				
Date	Description	Ref	Cash	Bank	date	Description	Ref	Cash	Bank
2017					2017				
April 1	Balance b/d		1,550	13,575	Apr. 2	Type – writer		750	

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	2	Sales		1,315			7	Bank (C)		500	
	7	Cash (c)			500		16	Purchases			1,005
	10	A/r A Hussain		2,550			20	Bank (c)		2,550	
	20	Cash (c)			2,550		26	A/Salman			915
	22	A/R		775			28	Bank (C)		775	
	24	Sales			1,500		29	Wages		500	
	28	Cash (C)			775		29	Salary			1,000
	30	Bank (C)		250			30	Cash (c)			250
							30	Drawing			150
								Balance c/d		1,365	15,580
		Total		6,440	18,900		Total			6,440	18,900
May	1	Balance b/d		1,365	15,580						

Question 17

From the following particulars make cash book of Ghulam Fatima Trading Co. for the month of November, 2016:

- **Nov 1 Cash balance (Cr) Rs. 2,000; Bank balance Rs. 40,000.**
- **Nov 4 Cash sales Rs. 3,700; Credit sales Rs. 1,800 would be received at near future.**
- **Nov 6 Paid Ahmed & Bros. by cash Rs. 500; Received cash by debtors Rs. 1,800.**
- **Nov 12 Paid to vendor by means of check worth Rs. 2,700.**
- **Nov 13 Paid Utility bills in cash Rs. 250; Bought goods by check Rs. 750.**
- **Nov 19 Drew from Bank for office use Rs. 160; Personal withdrawal of cash Rs. 1,000.**
- **Nov 20 Received a check from Hamid Rs. 2,700 and deposited into the bank.**

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Dec	1	Balance b/d	4,010	37,415									
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Question 18

Prepare Petty Cash Book on imprest system from the following particulars for Minha Shukat Ltd

September 2016

- SEP 1. Received for petty cash payments Rs. 1,000
- SEP 4. Paid for stationery Rs. 140
- SEP 9. Paid for postage Rs. 80
- SEP 10. Paid for printing charges Rs. 150
- SEP 11. Paid for carriage Rs. 125
- SEP 17. Paid for telegrams Rs. 25
- SEP 20. Purchased envelopes Rs. 30
- SEP 21. Paid for coffee to office staff Rs. 30
- SEP 22. Paid for office cleaning Rs. 50
- SEP 30. Paid to Faiza Munir Rs. 200

Solution:

Minha Shukat Ltd.

Petty Cash Book

For the month ended September, 2016

Amt Received	Date	Description	V N	Total Payments	Postage	Printing & Stationary	Carriage	Travelling Expenses	Misc. Expenses
	2016								
1000	Sep	1	Cash						
		4	Stationary	140		140			
		9	Postage	80	80				

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		10	Printing		150		150		
		11	Carriage		125			125	
		17	Telegram		25	25			
		20	Envelops		30	30			
		21	Coffee to staff		30				30
		22	Office cleaning		50				50
		30	Faiza Munir		200				200
			Total		830	135	290	125	0
			Balance c/d		170				
170	oct	1	Balance b/d						
830		1	Cash						

Question 19

Enter the following transactions in a single column cash book for the month of January 2008 from the following particulars:

January 2008 -

			Rs.
1	Cash in hand		2,000
2	Goods sold		18,000
4	Paid salaries to employees		10,000
6	Payment made to creditor A by cheque		5,000
8	Cash sales of Rs. 30,000 out of which Rs. 5,000 immediately deposited into bank		
9	Cash sales of Rs. 28000 out of which Rs. 10000 was deposited into bank on 12 th January		
15	Purchased goods from hari ram		6,000
18	Paid to transporter		1,000
19	Sold goods to manik chand		3,000

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28	Paid electricity bill	500
30	Paid to Mr. Sharma Rs. 140 and discount received Rs. 10	

Solution:**Cash Book (Single Column)**

Date	Particulars	V. No	L F	Amount (Rs.)	Date	Particulars	V. No.	L F	Amount (Rs.)
2008					2008				
Jan.					Jan				
1	To balance			2,000	4	By Salaries			10,000
2	b/d			18,000	12	By Bank			10,000
8	To sales			25,000	18	By Transporter			1,000
9	To sales			28,000	28	By Electricity bill			500
	To sales				30	By Mr. Sharma			140
					31	By balance c/d			51360
				73,000					73,000
2008	To Sales b/d			51,360					
Feb.									
1									

Question 20

From the following information prepare a two-column cash book.

2006		
March 1	Cash in hand	5000

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March 1	Cash at bank	6000
March 3	Cheque received from Naresh	3000
	Discount allowed	100
March 4	Cheque received from Naresh was deposited into bank	
March 6	Naresh's cheque dishonoured	
March 7	Cheque paid to Ram	4000
	Discount received	200
March 9	Cash withdrawn from bank for office use	2000
March 10	Withdrawn from bank for paying income tax	2500
March 12	Cheque received from harish and endorsed it to Shivam on 13 th march	4000
March 14	Given a cheque to amber for cash purchase of furniture for office use	3000
March 16	Cash purchase of Rs. 1500 less 10% trade discount	
March 18	Cheque received for sales of Rs. 10,000 less 10% trade discount cheque was immediately deposited into bank	
March 25	Paid commission by cheque	2000
March 27	Paid rent	3000
March 28	Received bank interest	1000
March 29	Paid bank charges	500
March 31	Paid into bank the entire balance after retaining Rs. 500 at office.	

Solution:

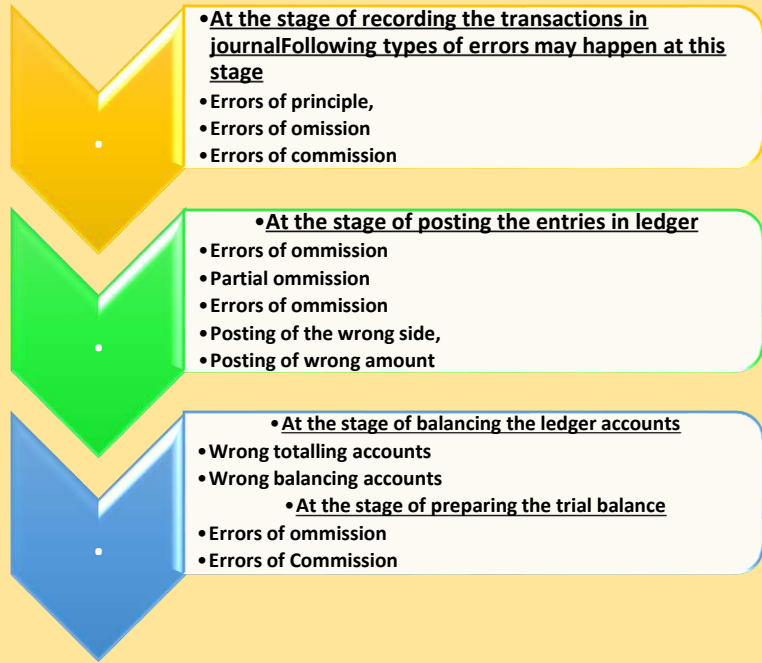
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Cash Book (Two Columns)

Date	Particular	V No	L F	Cash	Bank	Date	Particulars	V No	L F	Cash	Bank
2006						2006					
Mar 6	To Balance b/d			5000	6000	Mar 4	By Bank		C	3000	
Mar 1	To Naresh			3000		6	By Naresh				3000
3	To Cash		C		3000	7	By Ram				4000
4	To Bank		C	2000		9	By Cash		C		2000
9	To Harish			4000		10	By Drawings				2500
12	To Sales				9000	13	By Shivam			4000	
18	To bank Intrest				1000	14	By Furniture				3000
28	To cash		c		2150	16	By Purchases			1350	
31						25	By Commission				2000
						27	By Rent			3000	
						29	By Bank Charge				500
						31	By Bank			2150	
						31	By Balance c/d		C	500	4150
				14000	21150					14000	21150
Apr. 1	To Balance b/d			500	4150						

UNIT - 6**RECTIFICATION OF ERRORS**For more Info Visit – www.KITest.in

Stages of Errors



TYPES OF ERRORS

Errors of principle:

When a transaction is recorded in contravention of accounting principles, like treating the purchase of an asset as an expense,

Clerical errors:

Errors of omission: If a transaction is completely or partially omitted from the books of account, it will be a case of omission.
Examples would be: not recording a credit purchase of furniture or not posting an entry into the ledger.

Errors of commission: If an amount is posted in the wrong account. Or it is written on the wrong side or the totals are wrong or a wrong balance is struck, it will be case of “errors of commission

Compensating Errors: If the effect of errors committed cancel out. The errors will be called compensating errors



Question 1

Explain briefly Errors of Principle.

Answer:

Errors of Principle:

The error of principle arises when the transactions are recorded ignoring the difference between the capital and revenue items. In other words, it involves a wrong allocation of receipt and expenditure between the capital and revenue items. This error does not affect the Trial Balance. Any wrong allocation would disturb the final result as disclosed by the financial statement; therefore, it is necessary that the correct allocation between capital and Revenue items should be done.

Example. Furniture purchased on credit wrongly recorded in Purchase account.

Question 2

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**Briefly, explain the difference between the following:
Errors of Principle and Errors of Omission.**

Answer:

Error of Principle: It is the error which arises when transaction; are recorded ignoring the difference being the capital and revenue items. Error of Principle is involved whenever the amount paid or received is not properly allocated between revenue and capital. This error does not affect the trial balance. E.g. Furniture purchased on credit wrongly recorded in purchase Journal instead of Journal proper.

Error of Omission: It is the error which arises when a transaction is partially or completely not recorded in books of accounts. This error may or may not affect the trial balance. Egg Furniture purchased from Sohan was not recorded anywhere in the books of account.

Question 3

What is a Suspense Account? Is it necessary that Suspense Account will balance off after rectification of the errors detected by the accountant? If not, then what happens to the balance still remaining in Suspense Account?

Answer:

If the two sides of Trial Balance do not agree. It implies that there are certain one-sided errors in the books of account. If it is not possible to locate the errors, the amount of difference in the Trial Balance is put in an account known as "Suspense Account" till such time those errors are located. Thus, Suspense Account is an account in which the amount of difference in the Trial Balance is put temporarily. If the debit side of Trial Balance exceeds the credit side the difference in the Trial Balance is transferred to the credit side of the Suspense Account and vice-versa. Suspense Account is the product of one-sided errors, if all such errors are located, Suspense Account will disappear. Hence, it is not necessary that Suspense Account will balance off after rectification of the errors detected by the accountant because some of the errors may still be there. However, it is necessary that Suspense Account will balance off after the rectification of all the errors. The balance remaining in Suspense Account will be shown in the Balance Sheet. The debit balance of Suspense Account will

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appear on the assets side and credit balance will appear on the liabilities side of the Balance Sheet.

Question 4

State some Reasons of Error.

Answer:

There are some reasons due to which Error can happen they are -

Wrong Entry: Let us start from the first phase in the accounting process. Wrong entry of the value of transactions and events in the subsidiary books, Journal Proper and Cash Book may occur.

Wrong casting of subsidiary books: Subsidiary books are totalled periodically and posted to the appropriate ledger accounts. There may arise totalling errors. Totalling errors may arise due to wrong entry or simply these may be independent errors.

Wrong posting from subsidiary books: In this case, the wrong amount may be posted to the ledger account or the amount may post to the wrong side or to the wrong account for example, purchases from A may be posted to B's account.

Wrong casting of ledger balances: Likewise, Cash Book, any ledger account balance may be cast wrongly. Obviously wrong postings make the balance wrong: but that is not wrong casting of balances. Whenever there arises independent casting error as in the case of bank column in the Cash Book of example (4), that is called wrong casting of ledger balances.

Question 5

Give the name of Errors occurs while recording the transaction in journal.

Answer:

Errors may occur at any of the following stages of the accounting process:

At The Stage of Recording the Transactions in Journal

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Following types of errors may happen at this stage:

- (1) Errors of principle,
- (2) Errors of omission,
- (3) Errors of commission

Question 6

Explain Clerical Error & its Types.

Answer:

Clerical errors: These errors arise because of mistake committed in the ordinary course of the accounting work. These are of three types:

- **Errors of Omission:** If a transaction is completely or partially omitted from the books of account, it will be a case of omission. Examples would be: not recording a credit purchase of furniture or not posting an entry into the ledger.
- **Errors of Commission:** If an amount is posted in the wrong account or it is written on the wrong side or the totals are wrong or a wrong balance is struck, it will be a case of "errors of commission."
- **Compensating Errors:** If the effect of errors committed cancel out, the errors will be called compensating errors. The trial balance will agree. Suppose an amount of 10 received from A is not credited to his account and the total of the sales book is 10 in excess. The omission of credit to an account will be made up by the increased credit to the Sales Account.

Question 7

How does errors of omission differ from errors of commission?

Answer:

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(i) **Errors of Omission:** If a transaction is completely or partially omitted from the books of account, it will be a case of omission. Examples would be: not recording a credit purchase of furniture or not posting an entry into the ledger.

(ii) **Errors of Commission:** If an amount is posted in the wrong account or it is written on the wrong side or the totals are wrong or a wrong balance is struck, it will be a case of "errors of commission."

Question 8

What do mean by Rectification of Error.

Answer:

Errors should never be corrected by overwriting. If immediately after making an entry it is clear that an error has been committed, it may be corrected by neatly crossing out the wrong entry and making the correct entry. If however, the errors are located after some time, the correction should be made by making another suitable entry, called rectification entry. In fact the rectification of an error depends on at which stage it is detected. An error can be detected at any one of the following stages:

- (a) Before preparation of Trial Balance,
- (b) After Trial Balance but before the final accounts are drawn
- (c) After final accounts, i.e., in the next accounting period.

PRACTICAL

Question 9

Pass Rectification entries for the following transactions at end January, 2017:

- 1. Purchase of furniture for Rs. 615 passed through Purchase Book.**

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2. The motor car had been purchased for Rs. 3,400. Cash had been correctly credited but Motor Car account had been debited with Rs. 3,140 only.
3. Interest on deposits received Rs. 60 had been debited in cash account, but had been not credited to the interest account.
4. The balance in the Account Receivable Ali Rs. 100 had been written off as bad but no other account had been debited.
5. Rs. 7,700 paid for wages to workman for making showcases had been charged to wages account.
6. Bill Payable Book overcast by Rs. 500.
7. Goods purchased for proprietor's use for Rs. 1,000 was debited to purchase account.

Solution:

Date		Account title and explanations	Ref	Amount (Rs.)	
2017				Debit	Credit
Jan	1	Furniture Purchases (Furniture account rectify)		615	615
	2	Motor Car Suspense Account (Motor car account adjusted)		260	260
	3	Suspense Account Interest (Unrecorded amount recorded in interest received)		60	60
	4	Bad debt Suspense Account (Bad debt omission recorded)		100	100
	5	Furniture Wages (Furniture account rectified)		7,700	7,700

6	Bill payable Suspense Account (Bill payable book rectified)		500	500
7	Drawing Purchases (Paid expenses)		1,000	1,000
Total			Rs. 10,235	Rs. 10,235

Question 10

Rectify the following errors which are located in the books of Mr. Ahmed at end March, 2017:

1. Sale of old furniture for Rs. 2,000 treated as sale of goods.
2. Rs. 12,000 paid of salary to cashier Mr. Naeem, stands debited to his personal account.
3. An amount of Rs. 5,000 withdrawn by the proprietor for his personal use has been debited to trade expenses a/c.
4. Cash received from A/R Bilal Rs. 300 was credited to A/R. Baber.
5. Repairs made were debited to building account Rs. 100.
6. Rs. 1,000 received as interest was credited to commission account.
7. Rs. 5,200 paid for the purchase of typewriter was charged to office expenses account.

Solution:

S No.	Wrong Entry / Transaction	Correct Entry	Rectifying Entry
1	Cash 2,000 Sales 2,000	Cash 2,000 Furniture 2,000	Sales 2,000 Furniture 2,000
2	Mr. Nasim 12,000 Cash 12,000	Salary 12,000 Cash 12,000	Salary 12,000 Mr. Naeem 12,000
3	Trade expenses 5,000 Cash 5,000	Drawing 5,000 Cash 5,000	Drawing 5,000 Trade expenses 5,000

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4	Cash 300 A/R_baber 300	Cash 300 A/R_Bilal 300	A/R_baber 300 A/R_Bilal 300
5	Building 100 Cash 100	Repairs 100 Cash 100	Repair 100 Building 100
6	Cash 1,000 Commission 1,000	Cash 1,000 Interest 1,000	Commission 1,000 Interest 1,000
7	Office expenses 5,200 Cash 5,200	Typewriter 5,200 Cash 5,200	Typewriter 5,200 Office expense 5,200

Question 11

Make corrected Trial Balance after anticipating hidden errors for Star Ltd. Financial year for this company is July 14, 2015 to June 30th, 2016:

Errors in Trial Balance:

- i. Machinery bought Rs. 3,000 posted to as Trade Mark account.**
- ii. Credit sales of worth Rs. 1,200 was omitted to record in the book of original entry.**
- iii. Repairs to Motor Van Rs. 1,500 have been debited to Motor Van account. Unearned Sales of Rs. 15,000 was incorrectly credited to Sales Account.**

Following accounts are used for correction and adjusting the transactions. Sales; Unearned Sales, Motor Van; Sundry Debtors; Motor Van Expense; Machinery; Trade Mark.

Solution:

IN THE BOOKS OF STAR LTD

TRIAL BALANCE

AS ON 30TH JUNE, 2016

S. No.	Heads of Accounts	Ref	
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		Dr	Cr.
1	Purchases		35,000
2	Factory Overhead (Applied)		1,000
3	Octroi and Taxes		100

IN THE BOOKS OF STAR LTD

TRIAL BALANCE

AS ON 31ST DECEMBER, 2016

S. No.	Heads of Acc.	Ref	Amount	
			Dr.	Cr.
1	Purchases		35,000	
2	Factory Overhead (Applied)		1,000	
3	Octroi and Taxes		100	
4	Rebate Received			500
5	Trade Mark (5500-3000)		52,000	
6	Sales (80,000 + 1,200 – 15,000)			66,200
7	Share Capital			50,000
8	Return Outward			1,600
9	Bills owed			6,500
10	Carriage outward		3,700	
11	Inventory (1.07.2015)		10,500	
12	Motor Van (25,000 – 1,500)		23,500	
13	Claims receivable		1,500	
14	Sundry debtors (9,000+1,200)		10,200	
15	Return Inward		2,000	
16	Leasehold premises		800	
17	Discount on sales			10,000

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18	Petty cash		800	
19	Sundry Creditors			10,000
20	Motor Van repairs		1,500	
21	Machinery		3,000	
22	Unearned Sales			15,000
	Total		Rs. 1,49,800	Rs. 1,49,800

Question 12

The following errors were found in the book of ram Prasad & Sons. Give the necessary entries to correct them.

- i. 500 paid for furniture purchased has been charged to ordinary purchases Account.
- ii. Repairs made were debited to building Account for 50
- iii. An amount of 100 withdrawn by the proprietor for his personal use has been debited to Trade expenses Account.
- iv. 100 paid for rent debited to landlord's Account.
- v. Salary 125 paid to a clerk due to him has been debited to his personal account.
- vi. 100 received from shah & Co. has been wrongly entered as from shaw & Co.
- vii. 700 paid in cash for a typewriter was charged to office expenses Account.

Solution:

Journal

S No.	Particulars	L.F	Dr.	Cr.
1.	Furniture A/c To Purchases A/c (Correction of wrong debit to purchases A/c for furniture purchased)	Dr.	500	500

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2.	Repairs A/c To Building A/c (Correction of wrong debit to building A/c for repairs made)	Dr.	50	50
3.	Drawings A/c To trade Expenses A/c (Correction of wrong debit to trade expenses A/c for cash withdrawn by proprietor for his personal use)	Dr.	100	100
4.	Rent A/c To Landlord's personal A/c (Correction of wrong debit to landlord's A/c for rent paid)	Dr.	100	100
5.	Salaries A/c To Clerk's (Personal) A/c (Correction of wrong Debit to clerk's personal A/c for salaries Paid)	Dr.	125	125
6.	Shaw & Co. To Shah & Co. (Correction of wrong credit to shaw & Co. instead of Shah & Co.)	Dr.	100	100
7.	Typewriter A/c To Office Expenses A/c (Correction of wrong debit to office Expenses A/c for Purchase of typewriter)	Dr.	700	700

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Correct the following errors found in the books of Mr. Dutt+. The Trial Balance was out by 493 excess credits. The difference thus has been posted to a Suspense Account.

- I. An amount of 500 was received from D. Das on 31st December, 2015 but has been omitted to enter in the Cash Book.
- II. The total of Returns Inward Book for December has been cast 100 shorts.
- III. The purchase of an office table costing 300 has been passed through the Purchases Day Book.
- IV. 375 paid for Wages to workmen for making show-cases had been charged to "Wages Account".
- V. A purchase of 67 had been posted to the trade payables' account as 60.
- VI. Chequer 200 received from P. C. Joshi had been dishonoured and was passed to the debit of "Allowances Account".
- VII. 1,000 paid for the purchase of a motorcycle for Mr. Dutt had been charged to "Miscellaneous Expenses Account".
- VIII. Goods amounting to 100 had been returned by customer and were taken in to inventory, but no entry in respect thereof, was made into the books.
- IX. A sale of 200 to Singh & Co. was wrongly credited to their account. Entry was made correctly made in sales book.

Solution:

Journal Entries

S No.	Particulars	L.F	Dr.	Cr.
1.	Cash Account To D. Das (Being the amount received)	Dr.	500	500
2.	Returns Inward Account To Suspense Account	Dr.	100	100

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	(Being the mistake in totalling the returns inward book corrected)			
3.	Furniture Account To Purchases Account (Being the rectification of mistake, by which purchase of furniture was entered in purchases book and hence debited to purchases Account)	Dr.	300	300
4.	Furniture Account To wages Account (Being the wages paid to workmen for making show – cases which should be capitalised and not to be charged to wages account)	Dr.	375	375
5.	Suspense Account To Creditors (Personal) Account (Being the mistake in crediting the trade payable Account less by 7 now corrected)	Dr.	7	7
6.	P.C Joshi To Allowances Account (Being the Cheque of P.C Joshi dishonoured, previously debited to allowances Account)	Dr.	200	200
7.	Drawing Account To Miscellaneous Expenses (Being the motor cycle purchased for Mr. Dutt Debited to his Drawing account as previously done by mistake)	Dr.	1000	1000
8.	Returns Inward Account To Debtors (Personal) Account (Correction of the omission to record return of goods by customers)	Dr.	100	100

9.	Singh & Co. To Suspense Account	Dr.	400	400
	(Being the correction of mistake by which the account of Singh & Co. was credited by 200 instead of being debited)			

Suspense Account

Dr.					Cr.
Date	Particulars	Amount	Date	Particulars	Amount
2015		493.	2015		100.
Dec. 31	To difference in Trial Balance		Dec 31	By Returns Inwards A/c	400
	To Trade Payables A/c	7		By Singh & Co.	
" "			" "		
		500			500

Question 14

Pass journal entries the following errors

- i. A cheque for Rs 10,000 was received from Ranjan on which Rs. On which Rs. 200 Cash allowed the cheque was not honoured on due date and the amount of discount was credited to discount received Account**
- ii. Rs. 2,000 paid as wages for machinery installation was debited to wages account**
- iii. Rs. 5,000 received from Rakesh from Rakesh were credited to his personal account. The amount had been written off as bad debt earlier**
- iv. Repair bill of machinery was recorded as Rs. 100 against the bill amount of Rs. 1,000**

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Solution:**Journal**

Date	Particulars	LF	Dr.	Cr.
(i)	Discount Received A/C To Discount Allowed A/c (Being on dishonour of Ranjan's cheque, instead of crediting discount allowed account, discount received account was wrongly credited, now rectified)	Dr.	200	200
(ii)	Machinery A/c To Wages A/c (Being wages paid for installation of machinery was debited wrongly to wages account. Now rectifies)	Dr.	2,000	2,000
(iii)	Rakesh A/c To bad debts Recovered A/c (Being cash received from Rakesh was credited wrongly to Rakesh's account was previously written off as bad debt. Now rectified)	Dr.	5,000	5,000
(iv)	Repair A/c To cash A/c Being Repair bill Rs. 1,000 was recorded as Rs. 100 now rectified)	Dr.	900	900

Question 15.

How will you rectify the following error?

- **Purchases book is overcast by Rs. 10,000**
- **Purchases Return Book is overcast by Rs. 1,000**

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- Purchases Return Book's balance is carried forward in excess by Rs. 100
- Purchases Book's balance is carried forward in excess by Rs. 1,000

Note: The above errors have been detected before the preparation of Trial Balance

Solution:

JOURNAL

Date	Particulars	LF	Dr.	Cr.
(i)	Suspense A/c To Purchases A/c (Being Purchase Book was overcast by Rs. 10,000 now rectified)	Dr.	10,000	10,000
(ii)	Purchases Return A/c To suspense A/c (Being Purchase return book was overcast by Rs. 1,000 , now rectified)	Dr.	1,000	1,000
(iii)	Purchase return A/c To suspense A/c (Being Purchase return book's balance carried forward excess of Rs. 100, now rectified)	Dr.	100	100
(iv)	Suspense A/c To Purchases A/c (Being Purchase book's balance was carried forward in excess of Rs. 1,000 now rectified)	Dr.	1,000	1,000

Question 16

Give the rectifying entries of the following:

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1. Sales of Rs. 20,000 to Manoj were recorded as Rs. 2,000 in the sales book
2. An amount of Rs. 25,000 spent for the extension of machinery has been debited to the wages account.
3. Discount received from ram and Co. Rs. 350, has not been entered in the discount column of the cash book.
4. Goods of Rs. 3,000 sold to Mahesh were recorded in the purchase Book.

Solution:**Journal**

Date	Particulars	LF	Dr.	Cr.
(i)	Manoj A/c To Sales A/c (Being sales Rs. 20,000 was recorded wrongly as Rs. 2,000 now rectified)		18,000	18,000
(ii)	Machinery A/c To Wages A/c (Being amount spent on installation of machinery was debited wrongly to wages account, now rectified)		25,000	25,000
(iii)	Suspense A/c To Discount Received (Being Discount received not entered in the discount column, now rectified)		350	350
(iv)	Mahesh A/c To Sales A/c To Purchase A/c (Being goods sold to Mahesh was recorded wrongly in purchases book, now rectified)		6,000	3,000 3,000

Question 17

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There was an error in the trial balance of ram Gopal on 31st March 2013 and the difference in books was carried to the suspense account. Ongoing through the books you find that:

- 1. Rs. 540 received from M. Mehta was posted to the debt side of his account**
- 2. 1.Rs. 100 being purchases return was posted to the debt of the Purchases Account'**
- 3. Discount of Rs. 300 received was posted to the debt of the Discount Account.**
- 4. Rs. 374 paid for motor car repairs was debited to the account as Rs. 174**
- 5. Rs. 400 Paid to C das was debited to the account of G. Das.**

Pass the journal entries to rectify the above errors and state what amount was carried to the suspense account.

Solution:

Date	Particulars	LF	Dr.	Cr.
(i)	Suspense A/c To M. Mehta (Being cash received from M. Mehta was wrongly posted to the debit of his account. Now rectified)		1080	1080
(ii)	Suspense A/c TO Purchase A/c To Purchases return A/c (Being purchases return Rs. 100 was wrongly debited to purchases account, now rectified)		200	100 100
(iii)	Suspense A/c To Discount A/c (300+300) (Being discount received Rs. 300 was wrongly posted to the debit of discount account, now rectified)		600	600

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(iv)	Motor Car Repairs A/c To Motor car a/c To Suspense A/c (Being paid Rs. 374 for motor car repair was wrongly debited to motor car account as Rs. 174, now rectified)		347	174 200
(v)	C. Das A/c To G Das A/c (Being amount paid to C das was wrongly debited to G. Das, now rectified)		400	400

Suspense Account

Date	Particulars	₹	Date	Particulars	₹
(i)	To M. Mehta	1,080	(iv)	By Motor car repair A/c	200
(ii)	To Purchases A/c	100		By balance c/d	1,680
	To Purchases Return A/c	100			
(iii)	To Discount A/c	600			

Question 19

The trial Balance of S. sen did not agree and the difference in books was carried to suspense Account. Pass the enters required to rectify the following errors which accounted for the difference. Also, prepare the suspense Account

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1. A sales invoice of Rs. 1,000 for goods sold on credit to B. Basu was entered in the purchases Book but in the ledger the amount was correctly debited to the account of B. Basu
2. Goods bought on credit from Ram Lal for Rs. 1,500 were wrongly debited to his account as Rs. 5,100
3. An amount of Rs. 275 was posted as Rs. 325 to the debit side of the commission account.
4. The sales book for the month of April was undercast By Rs. 100
5. Rs. 460 Paid for building repairs was debited to the building account as Rs. 640

[Suspense Account opened with a credit of Rs. 8,930].

Solution:

Books of S. sen
Journal

Date	Particulars	LF	Dr.	Cr.
(i)	Suspense A/c To Sales A/c To Purchase A/c (Being goods sold to B Basu was entered in purchases book and debited to his account, now rectified)		2000	1000 1000
(ii)	Suspense A/c To Ram Lal (Being goods bought from ram Lal Rs. 1,500 was wrongly debited to his account as Rs. 5,100, now rectified)		6600	6600
(iii)	Suspense A/c To commission A/c (Being Commission Rs. 275 was wrongly debited a Rs. 325, now rectified)		50	50

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(iv)	Suspense A/c To sales A/c (Being sale book under cast, now rectified)		100	100
(v)	building Repair, A/c Suspense A/c To Building A/c (Being building repair Rs. 460 was debited to building account as Rs. 640, now rectified)		180	180

Suspense Account

Date	Particulars	Rs.	Date	Particulars	Rs.
1	To Sale A/c To Purchase A/c	1,000 1,000		By Balance c/d	8,930
2	To Ram Lal A/c	6,600			
3	To commission A/c	50			
4	To Sales A/c	100			
5	To Building A/c	180			
		8,930			8,930

Question 20

While trying to close his books for the year ended 31st march, 2014, Mahesh found that trial balance did not agree. He traced the following errors

- In the sales book for the month of January total page number 2 was carried forward to page no. 3 as Rs. 1,000 instead of Rs. 1,200 and total**

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of page no. 6 was carried forward to page no. 7 as Rs. 5,600 instead of Rs. 5,000

2. Goods returned to Ram Rs. 1,000 were recorded in the sales book.
 3. Bill receivable for Rs. 1,600 from Noor was dishonoured and posted to debit allowances Account.
- Rectify the above lectures.

Solution:

Date	Particulars	LF	Dr.	Cr.
(i)	Sales A/c To suspense A/c (Being sale book was undercast by Rs. 200 and over casted by Rs. 600, now rectified)	Dr.	400	400
(ii)	Sales A/c To purchase Return A/c (Being goods returned to ram recorded in sales book, now rectified)	Dr.	1,000	1,000
(iii)	Noor's A/c To Allowance A/c (Being bills receivable from Noor dishonoured and recorded to allowances account, now rectified)	Dr.	1,600	1,600

Question 21

Correct the following errors in Mohan Lar's Book

1. A sum of Rs. 1,500 written off as depreciation on furniture has not been debited to the depreciation account.
2. Returns Outward Journal has been overcast by Rs. 85
3. Basudev returned goods worth Rs. 500 his account was debited by this amount.
4. Purchase from Krishna Mohan of Rs. 2,250 has been debited to his account.

Solution:

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Journal

Date	Particulars	LF	Dr.	Cr.
(i)	Depreciation A/c To Suspense A/c (Being amount of depreciation was not debited in depreciation account, now rectified)		1,500	1,500
(ii)	Return Outward A/c To Suspense A/c (Being return outwards book was overcast, now rectified)		85	85
(iii)	Suspense A/c To Basu Dev A/c (Being goods returned by Basudev was wrongly debited to his account, now rectified)		1,000	1,000
(iv)	Suspense A/c To Krishna Mohan A/c (Being Krishna Mohan's account was wrongly debited, now rectified)		4,500	4,500

Past Examination Questions

MAY 2018

Question 1

Give journal entries (narrations not required) to rectify the following:

- i. Purchase of Furniture on credit from Nigam for Rs. 3,000 posted to Shubham account as Rs. 300
- ii. A Sales Return of Rs. 5,000 to Jyothi was not entered in financial accounts though it was duly taken in the stock book.
- iii. Investments were sold for 75,000 at a profit of Rs 15,000 and passed through sales account.
- iv. An amount of Rs. 10,000 withdrawn by the proprietor (Darshan) for his personal use has been debited to trade expenses account.

Solution:

Journal Entries

	Particulars	LF	Dr.	Cr.
(i)	Shubham A/c Furniture A/c To Nigam A/c		300 2,700	3,000
(ii)	Sales Return A/c To Jyothi A/c		5,000	5,000
(iii)	Sales A/c To P&L A/c (Gain on sale of To Investments A/c		75,000	15,000 60,000

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(iv)	Drawings A/c To Trade Expenses A/c		10,000	10,000
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Question 2

Miss daisy was unable to agree the trial balance last year and wrote off the difference to the profit and loss account of that year. On verifying the old books by a Chartered Accountant next year, the following mistakes were found.

- i. Purchase account was under cast by Rs 8,000
- ii. Sale of Goods to Mr. Rahim for Rs. 2,500 was omitted to be recorded.
Receipt of cash from Mr. Asoka was posted to the account of Mr. Anbhu 1,200
- iii. Amount of the 4,167 of sales was wrongly posted as f 4,617
- iv. Repairs of machinery was debited to machinery account rs. 1,800
- v. A credit purchase of goods from Mr. Paul fort 3,000 entered as sale:

Suggest the necessary rectification entries.

Solution:

Date	Particulars		Dr.	Cr.
(i)	Profit & Loss Adjustment A/c To Suspense A/c (Purchase Account under cast in year; error now rectified)	Dr.	8,000	8,000

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(ii)	Rahim's Account To Profit & Loss Adjustment (Sales to Rahim omitted last year; now adjusted)	Dr.	2,500	2,500
(iii)	Anbhu's Account To Asoka's Account (Amount received from Asoka wrongly posted to the account of Anbhu; now rectified)	Dr.	1,200	1,200
(iv)	Profit & Loss Adjustment A/c To Suspense A/c (Excess Posting to sales account 4,617, instead of 4,167, now adjusted)	Dr.	450	450
(v)	Profit & Loss adjustment A/c To Machinery A/c (Repairs to machinery was wrongly debited to machinery account, now rectified)	Dr.	1,800	1,800
(vi)	Profit & Loss Adjustment A/c To Mr. Paul Account Credit purchase of goods from Mr. Paul sale last year, now rectified)	Dr.	6,000	6,000
(vii)	Daisy's Capital A/c To profit and loss adjustment (Being balance in P & L Adjustment account transferred to Daisy's Capital A/c Refer W.N 1)	Dr.	13,750	13,750
(viii)	Suspense A/c To Daisy's Capital A/c (Being Balance of suspense A/c transferred of Capital A/c – Refer W.N 2)	Dr.	8,450	8,450

*Considering that the difference was posted to suspense account.

Working Notes: -

Suspense Account

To Daisy's Capital A/c (Balance)	8,450	By P&L Adj. A/c	8,450
	8,450		8,450

Profit and Loss Adjustment Account

To Suspense A/c	8,000	By Rahim's A/c	2,500
To Suspense A/c	450	By Daisy's Capital A/c	13,750
To Machinery A/c	1,800		
To Mr. Paul's A/c	6,000		
	16,250		16,250

Question 3

The following mistakes were located in the books of a concern after its books were closed and suspense Account was opened in order to get the trial balance agreed:

- i. Sales Day Book was overcast by 1,000
- ii. A sale of 5,000 to X was wrongly debited to the account of Y
- iii. General expenses Rs 180 was posted in the general ledger as Rs. 810
- iv. A Bill receivable for Rs. 1,550 was passed through Bills payable Book.
- v. The bill was given by P
- vi. Legal expenses Rs. 1,190 paid to Mrs. Neetu was debited to her Personal Account.
- vii. Cash received from Ram was debited to Shyam Rs. 1,500

viii. While carrying forward the total of one page of the purchases Book to the next, the amount of T 1,235 was written as Rs 1,325

Find out the nature and amount of the suspense Account and pass entries (including narration) for the rectification of the above errors in the subsequent year's books.

Solution:

(i)	P & L Adjustment A/c To Suspense A/c (Correction of error by which sales account was overcast last year)	Dr.	1,000	1,000
(ii)	X To Y (Correction of error by which sale of 5,000 to X was wrongly debited)	Dr.	5,000	5,000
(iii)	Suspense A/c To P & L Adjustment A/c (Correct of error by which general expenses of 180 was wrongly posted as 810)	Dr.	630	630
(iv)	Bills receivable A/c Bills Payable A/c To P (Correction of error by which bill receivable of 1,550 was wrongly passed through BP Book)	Dr.	1,550 1,550	3,100
(v)	P & L Adjustment A/c To Mrs. Neetu (Correction of error by which legal expenses Paid to Mrs. Neetu was	Dr.	1,190	1,190

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	wrongly debited to her personal account)			
(vi)	Suspense A/c To Ram To Shyam (Removal of wrong debit to shyam and giving credit to ram from whom cash was received)	Dr.	3,000	1,500 1,500
(vii)	Suspense A/c To P & L Adjustment A/c (Correction of error by which Purchase A/c was excess debited by 90/- i.e. 1,325 – 1,235)	Dr.	90	90

Suspense A/c

To P & L Adjustment	630	By P&L Adjustment A/c	1,000
To Ram to Shyam	1,500 1,500	By Difference in Trial Balance	2,720
		(Balancing figure)	
To P & L Adjustment A/c	90		
	<hr/> 3,720		<hr/> 3,720

MAY 2019

Question 4

State the reason whether True or False.

If the amount is posted in the wrong account or it is written on the wrong side of the account. it is called error of the principle.

Solution:

False: It is error of commission when amount is posted in the wrong account or it is written on the wrong side of the account. Error of principle happens when accounting principle not followed in recording the transaction.

Give journal entries (with narrations) to rectify the following errors located in the books of a trader after preparing the trial balance:

- (i) An amount of 4,500 received on account of Interest was credited to commission account.**
- (ii) A sale of 2,760 was posted from sales book to the debit of M/S Sobhay Trader at 2,670**
- (iii) 35,000 Paid for purchase of Air conditioner for the personal use of proprietor debited to machinery a/c**
- (iv) Goods returned by customer for 5,000. The same have been taken into stock but no entry passed in the books of account.**

Solution:

Date	Particulars	LF	Debit	Credit
(i)	Commission A/c To interest A/c (Being interest received credited to commission A/c, no rectified)		4,500	4,500

(ii)	Suhag Trade A/c	Dr.	90	
	To suspense A/c			90
	(Being, wrong amount debited to Sobhay trader, now rectified)			
				3500
	Drawings A/c	Dr.		
	To Machinery A/c		5000	
(Being Air Conditions purchased for personal are debited to machinery A/c now)				
				5000
	Sales return	Dr.		
	To Customer A/c			
	Or			
	Trade receivable A/c			

Nov 19

Question 5

An inexperienced book paper keeper has drawn up a Trial balance for the year ended 31st March, 2019

Particulars	Debit	Credit
Provision for doubtful Debts	250	-
Cash Credit Account	1,654	-
Capital	-	4,591
Trade payable	-	1,637
Due from customers	2,983	
Discount Received	252	
Discount Allowed	-	733
Drawings	1,200	
Office Furniture	2,155	

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Carriage Inward	-	829
Purchases	10,929	
Return Inward	-	330
Rent & rates	314	
Salaries	2,520	
Sales	-	16,882
Inventory	2,418	
Provision for Depreciation on Furniture	364	
Total	25,033	25,002

Draw up a corrected Trial Balance by debiting or crediting any residual errors to a suspense account.

Solution:

**Trial Balance
As on 31st march 2019**

Particulars	Debit	Credit
Provision for doubtful Debts	-	250
Cash Credit Account	-	1,654
Capital	-	4,591
Trade payable	-	1,637
Due from customers	2,983	-
Discount Received		-
Discount Allowed	733	-
Drawings	1,200	-
Office Furniture	2,155	-
Carriage Inward	829	-
Purchases	10,923	
Return Inward	330	
Rent & rates	314	
Salaries	2,520	16,882
Sales	-	
Inventory	2,418	364
Provision for Depreciation on Furniture	-	
Suspense Account (Balancing Figure)	1,225	-

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Total	25,630	25,630
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Question 6

Correct the following errors (i) without opening a suspense account and (ii) with opening a suspense Account:

- (1) The sales book has been totalled ₹ 2,100 short.
- (2) Goods worth ₹ 1,800 returned 1,800 returned by Gaurav & Co. have not been recorded anywhere.
- (3) Goods purchased ₹ 2,250 have been posted to the debit of the suppliers sen brothers.
- (4) Furniture purchased from Mary associates, ₹ 15,000 has been entered in the purchase Day book.
- (5) Discount received from black & white ₹ 1,200 has not been entered in the books.
- (6) Discount allowed to Radhe Mohan & co. ₹ 180 has not been entered in the discount column of the cashbook. The account of Radhe Mohan & co. has, however been correctly posted [10 marks]

Solution:

If Suspense Account is not opened

1. Since sales book has been totalled ₹ 2,100 short, the sales account has been credited short by ₹ 2,100. The rectifying entry is to credit the sales account by ₹ 2,100 as 'By wrong totalling of the sales Book ₹ 2,100 '
2. Following entry will be passes to rectify the omission:

Particulars	Debit ₹	Credit ₹
Return Inward A/c To Gaurav & Co.	1,800	1,800
(Being Goods returned by Gaurav & Co. previously omitted from the return inwards Book)		

3. Sen Brothers have been debited with ₹ 2,250 instead of being credited. This account should now be credited by ₹ 4,500 to remove the wrong debit and to give the correct credit. The entry will be on the credit side... “By errors in posting ₹ 4,500 “

4. Instead of debiting Furniture A/c. purchases A/c has been debited. The rectifying entry would be:

Date	Particulars	Debit ₹	Credit ₹
1.	Suspense A/c To Sales A/c (Being the correction arising from under casting of sales Book)	Dr. 2,100	2,100
2.	Return Inwards A/c To Gaurav & Co. (Being the recording of unrecorded items)	Dr. 1,800	1,800
3.	Suspense A/c To sen Brothers (Being the correction of the errors by which sen Brothers were debited instead of being credited by ₹ 2,250)	Dr. 4,500	4,500
4.	Furniture A/c To Purchase A/c (Being the correction of recording purchase of furniture as ordinary purchases)	Dr. 15,000	15,000
5.	Black & white To Discount A/c (Being the recording OF discount omitted to be recorded)	Dr. 1,200	1,200

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6.	Discount allowed A/c To Suspense A/c	Dr.	180	180
	(Being the correction of omission of the discount allowed from cash book customer's account already posted correctly)			

DEC 2020

Question 7

Purchase of office furniture & fixture of Rs. 2,500 has been debited to General Expenses Account. It is an error of omission.

Answer:

False: It is Errors of principal

Question 8

A Concern proposes to discontinue its business from December 2020 and decides to dispose of all its plants within a period of 3 months. The balance sheet as on 31st December, 2020 should continue to indicate the plants at its historical costs as the assets will be disposed of after the balance sheet date.

Answer:

False: Balance Sheet should indicate plant at net Realizable value and not at Historical cost

Question 9

The following are of the transaction of M/s Kamal & Sons for the year ended 31st March 2020 You are required to make out their Sales Book.

- I. Sold to M/s Ashok & Mukesh on Credit**
 - 40 Shirts @ Rs. 900 per shirt**
 - 30 Trousers @ Rs. 1,000 per trouser**
 - Less: Trade Rs. discount @ 10%**

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- II. Sold furniture to M/s XYZ & Co. on credit Rs. 8,000**
III. Sold 15 shirts to Aman @ 10%

Answer:

**In the books of M|S Kamal & Sons
Sales Books**

Date	Name of customer	Details.	L.f.	Amount
(i)	M/S Ashok & Mukesh			
	40 shirts @ Rs. 900 per shirts	36000		
	30 TROUSERS @ Rs. 1000 per trouser	30000		
		66000		
	Less: T.D. @ 10 %	(6600)		59400
	Total			<u>59400</u>

Note -> Point (ii) & (iii) is not recorded in sales book
 Point (ii) is part [art of journal proper
 Point (iii) is recorded in cash book

Question 10

- a) On 31-3-2020 Mahesh`s Cash Book Showed a Bank overdraft of Rs. 98,700. On comparison he finds the following:**
- 1. Out of the total cheques of Rs. 8,900 issued on 27th March one cheque of Rs. 7,400 was presented for payment on 4th April and the other cheque of Rs. 1,500 handed over to the customer, was returned by him and in lieu of that a new cheque of the same amount was issued to him on 1st April no entry for the return was made**
 - 2. Out of the total cash and cheques of Rs. 6,800 deposited in the Bank on 24th March one cheque of Rs. 2,600 was cleared on 3rd April and other cheque of Rs. 500 was returned dishonoured by the bank on 4th April.**
 - 3. Bank charges Rs. 35 and Bank interest Rs. 2,860 charged by the bank appearing in the passbook are not yet recorded in the cash book**

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4. A cheque deposited in another account of Rs. 1,550 wrongly credited to this account by the bank.
 5. A cheque of Rs. 800, drawn on this account, was wrongly credited to this account by the bank.
 6. A debit of Rs. 3,500 appearing in the bank statement for an unpaid cheque returned for being 'out of date' has been re-dated and deposited in the bank account again on 5th April 2020.
 7. The bank allowed interest on deposit Rs. 1,000.
 8. A customer who received a cash discount of 4% on his account of Rs. 1,00,000 paid a cheque on 20th March 2020. The cashier erroneously entered the gross amount in the bank column of the Cash Book
- Preparing Bank Reconciliation Statement as on 31-3-2020.**

Solution:

**In the books of Mahesh
Bank reconciliation statement
(For the month ended 31-3-2020)**

Particular	Plus	Minus
Overdraft balance as per cash book		98700
Add		
1. Cheque issued but not presented for payment	8900	
4. cheque drawn on this account was Wrongly created by bank in this account		
5. cheque drawn on this Account was Wrongly debited in another account By the bank	1550 800	
7. Bank allowed interest on deposit		
Less	1000	
2. Cheque deposited but not cleared		
3. Bank charges and interest charged Not recorded in cash book		3100
6. cheque returned out- date		2895
8. Discount wrongly recorded in bank Colum of cash book		3500

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Total		4000
Overdraft balance as per pass book	12250	112195
		99945

Question 11

Physical verification of stock in a business was done on 23rd February 2020. The value of

The stock was Rs. 28, 00,000. The following transactions took place from 23rd February to 29th February, 2020:

1. Out of the goods sent on consignment goods at cost worth Rs. 2,230,000 were unsold
2. Purchase of Rs. 3, 00,000 were made out of which goods worth Rs. 1,20,000 were delivered on 5th March 2020.
3. Sales were Rs. 13, 60,000 which includes goods worth Rs. 3, 20,000 sent on approval. Half of these goods were returned before 29th February 2020, but information is available regarding the remaining goods.
4. Goods are sold at cost plus 25% However goods costing Rs. 2,40,000 has been sold for Rs. 1,50,000.

Determine the value of stock on 29th February, 2020

Solution:

**Statement of valuation of stock
As on 29- Feb. - 2020**

Particular	Normal item	Abnormal item	Total
Stock (23- Feb. -2020)	2800000	-	
Add: consignment stock	230000		280000
Purchases			230000
. during the period and Received	180000		180000

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. In – transit	120000		120000
(A) Total	3330000		
Cost of goods sold			333000
sales	1360000		
(-) Returns	(160000)		
(-) sent on approval	(160000)		
(-) abnormal sale.	<u>(150000)</u>	<u>150000</u>	
	890000	150000	
(-) profit 20 % of sale	<u>(178000)</u>	+ 90000	
		(loss)	
B. cost of goods sold.	712000	240000	952000

Question 12

Suresh draws a bill for Rs. 15,000 on Anup on 15th April, 2020 for 3 months which Anup returns to Suresh after accepting the same.

Suresh gets it discounted with the bank for Rs. 14,700 on 18th April 2020 and remits one-third amount to Anup.

On the due date Suresh fails to remit the amount due to Anup but he accepts a bill of Rs. 17,500 for 3 months which Anup discount for Rs. 17,100 and remits Rs. 2,825 to Suresh before that maturity of the renewed bill Suresh become insolvent and only 50% was realized from his estate on 31st October 2020.

Pass necessary Journal entries for the above transactions in the books of suresh.

Solution:

In the Books of Suresh
Journal Entry

Date	Particular	L F.	Dr. Amt	Cr. Amt
15 – April 2020	B/ R a/c TO Anup (Being bill drawn on Anup)	DR.	15000	15000
18 – April 2020	Bank a/c Discount on bill To B/R (Being B/R discount through bank)	DR. DR.	14700 300	15000
18-april 2020	Anup To Cash To Discount (Being one third amount sent to Anup)	DR.	5000	4900 100
18 – July 2020	Anup To B/P (Being bill accepted drawn by Anup)	DR.	17500	17500
	Cash a/c Discount on bill To Anup (Being cash received from Anup)	DR. DR.	2825 300	3125
	B/P a/c TO Anup (Being bill discount)	DR.	17500	17500
	Anup To cash To Deficiency (Being Suresh become insolvent and paid 50 % of due Amt)	DR	13125	6562.5 6562.5

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Question 13

(a) M/s Applied Laboratories were unable to agree the Trial Balance as 31st March, 2020 and have raised a suspense account for the different Next year the following error were discovered

- I. Repair made during the year were wrongly debited to the building A/c – Rs. 12,500
- II. The addition of the `Freight' column in the purchase journal was short by Rs 1,500
- III. Goods to the value of Rs. 1,050 returned by a customer Rani & Co. had been posted to the debit of Rani & Co. and also sales return
- IV. Sundary items of furniture sold for Rs. 30,000 had been entered in the sale book the total of which had been posted to sales account
- V. A bill of exchange (received from Raja & Co.) for Rs. 20,000 had been returned by the bank as dishonoured and had been credited to the bank and debited to bills receivable account

You required to pass journal entries to rectify the above mistake
(CHAPTER 2)

Solution:

**In the books of M/S Applied Labourites
Journal Entry**

Date	Particular	L. F.	Dr. Amt	Cr. Amt

P/L Adjustment A/C To Building (Being repair made wrongly Debited to building account now Rectified)	DR.	12500	12500
P/L Adjustment a/c To Suspense a/c (Being rectified Entry passed)	DR.	1500	1500
Suspense a/c To Rani & co. (Being Rani & co. wrongly Debited Now rectified)	DR.	2100	2100
P/L Adjustment a/c To furniture a/c (Being furniture sold recorded in sales book)	DR.	30000	30000
Raja & co. To B/R a/c (Being Rectified Entry Passed)	DR.	20000	20000

JAN 2021

Question 14

The sales book is kept to record both the cash and credit.

Answer:

False: The sales book is kept for recording credit sale of goods only.

Question 15

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- a. Mr. Joshi's trial balance as on 31st March 2020 did not agree. The difference was put to a suspense Account During the next trading period the following errors were discovered:
- I. The total of the particulars book of one-page Rs. 5,615 carried forward to the next page as Rs. 6,551.
 - II. A sale of Rs. 281 was entered in the sale book as Rs. 821 and posted to the credit of the customer
 - III. A return to creditors Rs. 295 as entered in the returns Inward Book however the creditor's account was correctly posted
 - IV. Cash received from Senu, Rs 895 was posted to debit of sethu.
 - V. Goods worth Rs. 1,400 were dispatched to a customer before the close of the year but no invoice was made us
 - VI. Goods worth Rs. 1,600 were sent on sale or return basis to a customer and interred in the sales book at the close of the year the customer still had the option to return the goods. The gross profit margin was 20% on sales
 - VII. Rs. 600 due from Mr. Q was omitted to be taken to the trial balance
 - VIII. Sale of goods to Mr. R for Rs. 3,000 was omitted to be recorded

You are required to give journal entries to rectify the error in a way so as to show the current year's profit or loss correctly

Solution:

Books of Mr. Joshi's Journal Proper (Rectification after Final Account)

Date	Particulars	L . F .	Debit (Rs.)	Credit (Rs.)
(i)	Suspense A/c Dr. To P & l Adjustment A/c (Being the error of carries forward in purchase A/c is now rectified Rs. 6,551 – Rs. 5,815)		936	936
(ii)	P & L Adjustment A/c (Rs. 821 – Rs. 281) Dr.		540	

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	Customer A/c (Rs. 821 + Rs. 281) Dr. To Suspense A/c		1,102	1,642
	(Being wrong amount recorded in sales book is now rectified)			
(iii)	Suspense A/c (295 + 295) Dr. To P & L Adjustment A/c		590	590
	(Being the purchase returns entered in sales returns now rectified)			
(iv)	Suspense a/c Dr. To sethu A/c To Senu A/c		1,790	895 895
	(Being the wrong debit to sethu in place of Senu A/c is now rectified)			
(v)	Customer A/c Dr. To P & L Adjustment A/c		1,400	1,400
	(Being error of complete commission of creditors is now rectified)			
(vi)	P & L Adjustment A/c Dr. Inventory A/c Dr. To Customer's A/c		320 1,280	1,600
	(Being the customer's A/c Credited with Rs. 1,600 for goods not yet purchased by him cost of the goods debited to inventor and Profit debited to Profit & Loss Adjustment Account)			
(vii)	Trade receivable A/c Dr. To Suspense A/c		600	600
	(Being Rs. 600 due by Q not taken into trial balance; now rectified)			
(viii)	R's A/c Dr. To Profit & Loss Adjustment A/c		3,000	3,000

	(sales to R committed last year now adjustment)			
	Profit & Loss Adjustment A/c	Dr.	5,066	
	To capital A/c			5,066
	(Being profit on rectifications transferred to capital A/c)			

Dr.		Profit and Loss Adjustment A/c		Cr.	
Particulars	Amount Rs.	Particulars	Amount Rs.		
To suspense A/c	540	By suspense A/c	936		
To customer	320	By suspense A/c	590		
		By customer	1,400		
To capital A/c	5,066	By R's A/c	3000		
	9,926		5,926		

Question 16

I. From the following information show the journal entries in the books of ABC Limited for the year ended 31st March 20020

- 100 units of goods Rs. 500 each sent to XYZ Limited on sales of Returns Basis @ 750 per unit This transaction was however treated as actual sales in the books of accounts
- Out of the above 100 units only 60 units were accepted by XYZ Limited during the year @ Rs. 700 per unit No. information was received about acceptability of balance unit by the year end

Solution:

**Books of ABC Ltd.
Journal Entries**

Date	Particulars	LF	Debit Rs.	Credit Rs.
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	XYZ Ltd. A/c (100 units X Rs. 750) To sales A/c (Being goods sold on sale or return basis)	Dr .	75,000	75,000
2020 March 31	Sales A/c (60 units @ Rs. 50 (Rs. 750 – Rs. 700)) To XYZ Ltd. A/c (Being goods approved by XYZ Ltd. A/c @ Rs. 700 only)	Dr .	3,000	3,000
2020 March 31	Sales A/c (40 units X Rs. 750) To Trade receivables A/C (Being the cancellation of original entry for sale in respect of goods lying with customers awaiting approval)	Dr .	30,000	30,000
March 31	Inventories with customers on sale or return A/c To Trading A/c (40 units X Rs. 500) (Being the adjustment for cost of goods lying with customers awaiting approval)	Dr .	20,000	20,000

JULY 2021

Question 17

(a) State with reason, whether the following statements are true or false:

Cash book is a subsidiary book as well as principal book.

Answer:

True: Cash Book is subsidiary book as well as a principal book since the balance is taken to the Trial balance.

Question 18

Mr Ratan was unable to agree the Trial Balance last year and wrote off the difference to the

Profit and Loss Account of that year. Next year, he appointed a Chartered Accountant who

Examined the old books and found the following mistake:

1. Purchase of a scooter was debited to conveyance account ₹ 30,000. Mr Ratan charges 10% depreciation on scooter.
2. Purchase account was over cast by ₹ 1,00, 000.
3. A credit purchase of goods from Mr X for ₹ 20,000 was entered as sale.
4. Receipt of cash from Mr Anand was posted to the account of Mr Bhaskar ₹ 10,000.
5. Receipt of cash from Mr Chandu was posted to the debit of his account, ₹ 5,000.
6. ₹ 5,000 due by Mr Ramesh was omitted to be taken to the Trial Balance.
7. Sale of goods to Mr Ram for ₹ 20,000 was omitted to be recorded.
8. Amount of ₹ 23,950 of purchase was wrongly posted as ₹ 25,930.

Suggested the necessary rectification entries.

Answer:

**In the Books of 'Mr. Ratan'
Journal**

	Particulars	L · F	Debit (₹)	Credit (₹)
1)	Motor vehicles A/c Dr. To P/L Adjustment A/c (Purchase of scooter wrongly debited to conveyance account now rectified- Capitalisation of Rs.27,000, i.e. Rs.30,000 less 10% depreciation)		27,000	27,000
2)	Suspense A/c Dr. To P/L Adjustment A/c (Purchase account overcast in the previous year, error now rectified)		1,00,000	1,00,00

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3)	P/L Adjustment A/c To Mr X 's A/c (Credit purchase from Mr X Rs.20,000 entered as sales last year now rectified)	Dr.	40,000	40,000
4)	Mr Bhaskar A/c To Mr Anand A/c (Amount received from Mr Anand wrongly posted to the account of Mr Bhaskar; now rectified)	Dr.	10,000	10,000
5)	Suspense A/c To Chandu A/c (Rs. 5,000 received from Chandu wrongly debited to his account; now rectified)	Dr.	10,000	10,000
6)	Trade receivable To Suspense A/c (Rs. 5,000 due by Mr Ramesh not taken into trail balance; now rectified)	Dr.	5,000	5,000
7)	Ram A/c To P/L Adjustment A/c (Sales to Ram omitted last year; now adjusted)	Dr.	20,000	20,000
8)	Suspense A/c To P/L Adjustment A/c (Excess posting to purchase A/c last year, Rs.25,930 instead of Rs.23,950, now adjusted.)	Dr.	1,980	1,980
9)	P/L Adjustment A/c To Ratan's Capital A/c (Balance of P&L Adjustment A/c transferred to capital A/c)	Dr.	1,08,980	1,08,980
	Ratan's Capital A/c To Suspense A/c (Balance of suspense A/c transferred to the capital A/c)	Dr.	1,06,980	1,06,980

Note: Entries No. (2) and (8) may even be omitted; but this is not advocated.

Dr. Profit & Loss Adjustment A/c (Prior Period Items) Cr.

Particulars	Amount (₹)	Particulars	Amount (₹)
To Mr. X A/c	40,000	By Motor vehicles A/c	27,000

To Ratan's Capital A/c (Transfer)	1,08,980	By Suspense A/c	1,00,000
		By Ram A/c	20,000
		By Suspense A/c	1,980
	1,48,980		1,48,980
Dr.		Suspense A/c	
Cr.			
Particulars	Amount (₹)	Particulars	Amount (₹)
To Profit & Loss Adjustment A/c	1,00,000	By Trade receivable (Mr Ramesh)	5,000
To Chandu A/c	10,000	By Ratan's Capital A/c (Transfer)	1,06,980
To Profit & Loss Adjustment A/c	1,980		
	1,11,980		1,11,980

Question 19

From the following information, ascertain the Cash Book balance of Mr Bajaj as on 31st

March, 2021:

- Debit balance as per Bank Pass Book ₹ 3,500.
- A cheque amounting to ₹ 2,500 deposited on 15th March, but the same was returned by the bank on 24th March for which no entry was passed in the Cash Book.
- During March, two bills amounting to ₹ 2,500 and ₹ 500 were collected by the Bank but no entry was made in the Cash Book.
- A bill for ₹ 5,000 due from Mr Balaji previously discounted for ₹ 4,800 was dishonoured. The Bank debited the account, but no entry was passed in the Cash Book.
- A Cheque for ₹ 1,500 was debited twice in the cash book.

Answer:

Bank Reconciliation statement of Mr. Bajaj as on 31.3.2021

Particulars	Amount (₹)	Amount (₹)
Overdraft balance as per Pass book		3,500

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Add:		
Two bills amounting to ₹ 2,500 and ₹ 500 collected by the Bank not recorded in the Cash Book	3,000	3,000
		6,500
Less:		
Cheque deposited returned by the Bank not recorded in the Cash Book	2,500	
Bills Discounted dishonoured not recorded in the Cash Book	5,000	
Cheque for ₹ 1,500 debited twice in the Cash Book	1,500	9,000
Favourable balance as per Cash Book		3,500

Question 20

From the following information prepare the Purchase Book of M/s. Shyam & Company:

1. Purchased from Red & Company on credit:

- 10 pair of black shoes @ ₹ 800 per pair
- 5 pair of brown shoes @ 900 per pair

Less: Trade Discount @ 10%

2. Purchased Computer from M/s. Rahul Enterprises on credit for ₹ 40,000.

3. Purchased from Blue & Company in cash:

- 5 pair of black shoes @ ₹ 700 per pair
- 15 pair of brown shoes @ 100 per pair

Less: Trade Discount @ 15%

Answer:

**Books of M/s Shyam & Co
Purchase Book**

SI. No.	Particulars	L.F.	Inward Invoice No.	Details	Amount
(i)	Red & Company				

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	10 pair of black shoes @ ₹ 800 per pair			8,000	
	5 pair of brown shoes @ ₹ 900 per pair			4,500	
				12,500	
	Less: Trade discount @ 10%			1,250	
	Total				11,250

Note:

- a) Purchased Computer from M/s Rahul Enterprises on credit for ₹ 40,000 will be recorded in Journal Proper not in Purchase Book.
- b) Purchased from Blue & Company in Cash will be recorded in Cash Book not in Purchase Book. In Purchase Book, only credit purchases of goods are recorded.

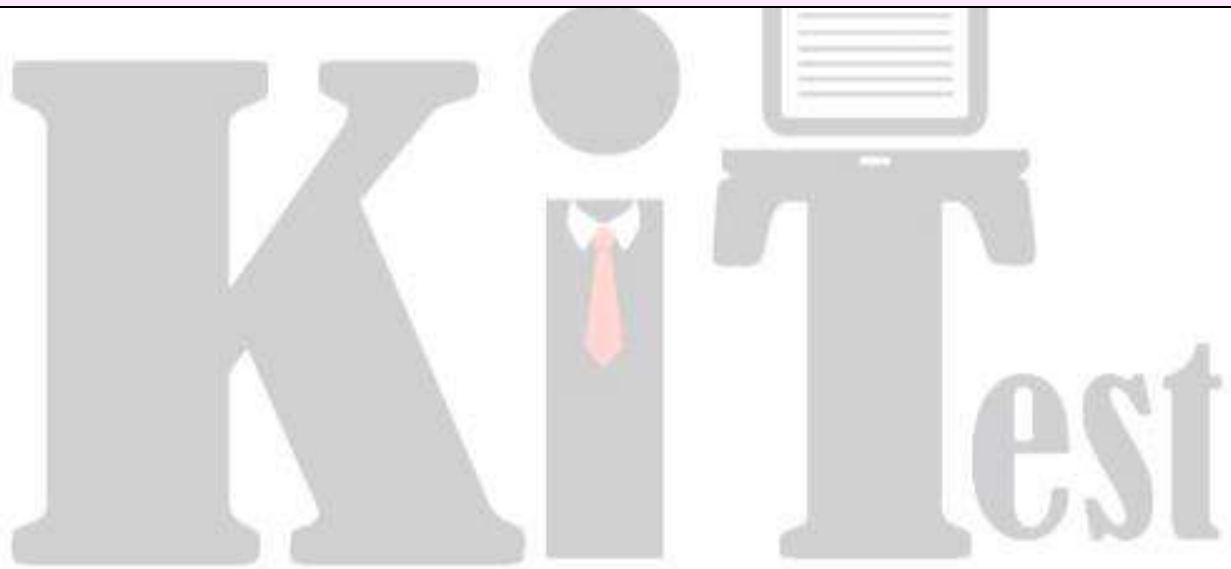
Question 21**What are the advantages of Subsidiary Books?****Answer:**

Advantages of Subsidiary Books: The use of subsidiary books affords the under mentioned advantages:

- i) **Division of work:** Since the place of one journal there will be so many subsidiary books, the accounting work may be divided amongst a number of clerks.
- ii) **Specialization and efficiency:** When the same work is allotted to a particular person over a period of time, he acquires full knowledge of it and becomes efficient in handling it. Thus, the accounting work will be done efficiency.
- iii) **Saving of the time:** Various accounting process can be undertaken simultaneously because of the use of a number of books. This will lead to the work being completed quickly.
- iv) **Availability of information:** Since a separate register or book is kept for each class of transaction, the information relating to each transaction will be available at one place.

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v) **Facility in checking:** When the trial balance does not agree, the location of the error or errors is facilitated by the existence of separate books. Even the commission of errors and frauds will be checked by the use of various subsidiary books.



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