FY BBA Semester I (CBCS) Pattern 2019

Subject : BUSINESS ACCOUNTING
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Unit No-2 – Accounting Transaction and Final Accounts
Continued..

LEDGER

Journal is a daily record of all business transactions. In the journal all transactions relating to persons, expenses, assets, liabilities and incomes are recorded. Journal does not give a complete picture of the fundamental elements of book keeping i.e. properties, liabilities, proprietorship accounts and expenses and incomes at a glance and at one place. Business transactions being recurring in nature, a number of entries are made for a particular type of transactions such as sales, purchases, receipts and payments of cash, expenses etc., throughout the accounting year. The entries are therefore scattered over in the Journal. In fact, the whole Journal will have to be gone through to find out the combined effect of various transactions on a particular account.

Ledger is a principal book of accounts of the enterprise. It is rightly called as the 'King of Books'. Ledger is a set of accounts. Ledger contains the various personal, real and nominal accounts in which all business transactions of the entity are recorded. The main function of the ledger is to classify and summaries all the items appearing in Journal and other books of original entry

under appropriate head/set of accounts so that at the end of the accounting period, each account contains the complete information of all transaction relating to it. A ledger therefore is a collection of accounts and may be defined as a summary statement of all the transactions relating to a person, asset, expense or income which have taken place during a given period of time and shows their net effect.

The journal is a book of original entry where as the ledger is the main book of account.

Format of a Ledger Account

Form

Name of the Account ....

Dr. **Cr**.

Date	Particular	J.F	Amount	Date	Particular	J.F	Amount

Posting

Posting refers to the process of transferring debit and credit amounts from the Journal or subsidiary books to the respective heads of accounts in the ledger. Journal will have at a minimum of one debit and one credit for each transaction. The ledger will have either a debit or a credit for each account used in the Journal. Posting may be done daily, weekly fort nightly or monthly according to the convenience and requirements of the business, but care should be taken to complete it before the preparation of annual financial statements.

Procedure/Rules of Posting

The following rules should be followed while posting business transactions to respective accounts in the ledger from the Journal :

i) Enter the date and year of the transaction in the date column.

ii) Open separate account in the ledger for each person, asset, revenue, liability, expense, income and loss appearing in the Journal.

iii) The appropriate/relevant account debited in the Journal will be debited in the ledger, but the reference should be given of the other account which has been credited.

iv) Similarly, the account credited in the Journal should be credited in the ledger, but the reference has to be given of the other account which has been debited in the Journal.

v) The debit posting should be prefixed by the word 'To' and credit posting should be prefixed by the word 'By'.

vi) In the Journal Folio (J.F.) column the page number of the book of original entry (Journal) is entered. This is explained with the following example :

Illustration 1

Goods sold to Ravi for Rs. 1000 on credit on 1st April 2020.

Record this transaction in the journal and the ledger.

Solution :

The journal entry will be

Date	Particulars	L.F.	Dr (Rs)	Cr (Rs)
2020 April 1	Ravi's Account Dr. To Sales Account (Being Credit Sales of Goods to Ravi)		1,000	 1,000

The above journal entry will appear in the ledger in two accounts as follows. On the debit side of Ravi's Account, we will write "To Sales Account" and

on the credit side of Sales Account we will write "By Ravi's Account

Ravi's Account

Dr. Cr.

Date	Particular	J.F	Amount	Date	Particulars	J.F	Amount
2020 April 1	To Sales Account		1,000				

Sale's Account

Dr. Cr.

Date	Particular	J.F	Amount	Date	Particulars	J.F	Amount
				2020 April 1	By Ravi's Account		1,000

Posting of Compound Journal Entry

When a single entry is passed to record more than one transaction, it is known as a compound journal entry.

Illustration 2

		Rs.
2020 March 31	Purchased stationary	1,000
	Paid salary	7,000
	Paid wages	600
	Paid rent	1,200

Pass the necessary journal entry and prepare ledger accounts

Solution :

The Journal entry will be

Date	Particulars	L.F.	Dr (Rs)	Cr (Rs)
2020 March 31	Stationary Account Dr. Salary Account Dr. Wages Account Dr. Rent Account Dr. To Cash Account *(Being cash paid for the above)*		1,000 7,000 600 1,200	 9,800

Then it will be posted as under

Dr. **Stationary's Account** **Cr.**

Date	Particular	J.F	Amount	Date	Particulars	J.F	Amount
2020 Mar 31	To Cash Account		1,000				

Dr. **Salary's Account** **Cr**

Date	Particular	J.F	Amount	Date	Particulars	J.F	Amount
2020 Mar 31	To Cash Account		7,000				

Dr. Rent Account Cr.

Date	Particular	J.F	Amount	Date	Particulars	J.F	Amount
2020 Mar 31	To Cash Account		1200				

Dr. Wages Account Cr.

Date	Particular	J.F	Amount	Date	Particulars	J.F	Amount
2020 Mar 31	To Cash Account		600				

Dr. **Cash Account** **Cr.**

Date	Particular	J. F	Amount	Date	Particulars	J F	Amount
				2020 Mar 31	By Stationary A/c By Salary A/c By Rent A/c By Wages A/c		1,000 7,000 1,200 600

Balancing of an Account

After transferring the entries from Journal to the ledger, the next stage is to ascertain the net effect of all the transactions posted to relevant account.

When the posting is completed, most of the accounts may have entries on both sides of the accounts i.e. debit entries and credits entries. The process of finding out the difference between the totals of the two sides of a Ledger account is known as balancing and the difference of the total debits and the total credits of accounts is known as balance.

If the total of the credit side is bigger than the total of the debit side, the difference is known as credit balance. In the reverse case, it is called debit balance.

Steps for Balancing Ledger Account

Ledger accounts may be balanced as and when it is required. The balances of various accounts are ascertained as under :

1. Make the total of both sides of an account in a worksheet.
2. Write down the higher amount on the side obtained e.g. if the total of the debit side is 6,000 and the credit side is 5,500, the amount Rs. 6,000 is first inserted in the total on the debit side.
3. Also write down the same total on the other side of the account i.e. the total of Rs. 6,000 is written against the total on the credit side also.
4. Find out the difference between the two sides of the account. In this example debit side is more than credit side; therefore, there is a debit balance of Rs. 500.

5. This debit balance of Rs. 500 is to be shown as "By Balance c/d" in the account on the credit side.

6. Finally, the amount of the closing balance should be brought down as the opening balance at the beginning of the next day. Remember that if the opening balance is not written on the next day, the balancing is incomplete.

TRIAL BALANCE

STRUCTURE

4.0 Introduction

A Trial Balance is a two-column schedule listing the titles and balances of all the accounts in the order in which they appear in the ledger. The debit balances are listed in the left-hand column and the credit balances in the right-hand column. In the case of the General Ledger, the totals of the two columns should agree.

The fundamental principle of double entry system
of accounting where for every debit, there must be a corresponding credit. Therefore, for every debit or a series of debits given to one or several accounts, there is a corresponding credit or a series of credits of an equal amount given to some other account or accounts and vice versa. Hence, according to this

principle, the sum total of debit amounts must equal the credit amounts of the ledger at any date. If the various accounts in the ledger are balanced, then the total of all debit balances must be equal to the total of all credit balances. If the same is not true then the books of accounts are arithmetically inaccurate.

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Trial Balance and finally totaled up to see whether the total of debit balances is equal to the total of credit balances.

A Trial Balance may thus be defined as a statement of debit and credit totals or balances extracted from the various accounts in the ledger books with a view to test the arithmetical accuracy of the books.

Trial Balance reveals that both the aspects of each transaction have been recorded and that the books are arithmetically accurate. If both the sides of Trial Balance do not agree to each other, it shows that there are some errors, which must be detected and rectified if the correct final accounts are to be prepared. Thus, Trial Balance forms a connecting link between the ledger accounts and the final accounts

OBJECTIVES OF PREPARING TRIAL BALANCE

The following are the main objectives of preparing the trial balance:

(i) To check the arithmetical accuracy of books of accounts: According to the principle of double entry system of book-keeping, every business transaction has two aspects, debit and credit. So, the agreement of the trial balance is a proof of the arithmetical accuracy of the books of accounts. However, it is not a conclusive evidence of their accuracy as their may be certain errors, which the Trial Balance may not be able to disclose.

(ii) Helpful in preparing final accounts: The trial balance records the balances of all the ledger accounts at one place which helps in the preparation of final accounts, i.e.Trading and Profit and Loss Account and Balance Sheet.But, unless the trial balance agrees, the final accounts cannot be prepared. So, if the trial balance does not agree, errors are located and necessary corrections are made at the earliest, so that there may not be unnecessary delay in the preparation of the final accounts.

(iii) To serve as an aid to the management: By comparing the trial balances of different years changes in figures of certain important items such as purchases, sales, debtors etc. are ascertained and their analysis is made for taking managerial decisions. So, it serves as an aid to the management

1. Total method: In this method, the debit and credit totals of each account are shown in the two amount columns (one for the debit total and the other for the credit total).

2. Balance Method: In this method, the difference of each amount is extracted. If debit side of an account is bigger in amount than the credit side, the difference is put in the debit column of the Trial Balance and if the credit side is bigger, the difference is written in the credit column of the Trial Balance.

Rules to prepare the Trial balance

The rule to prepare the Trial balance is an equation which is as follows:

Total Debit Entries = Total Credit Entries

Debit	**Credit**
• All Assets (Cash in hand, Cash at Bank, Inventory, Land and Building, Plant and Machinery etc.,) • Sundry Debtors	• All liabilities (Bank Overdraft, Secured and unsecured loans, bills payable, Outstanding Payables or expenses,

- Expenses (Carriage Inward, Freight, Rents, rebates and rates, Salary, Commission etc.,) - Purchases - Losses (Depreciation, Return inwards, Profit and loss A/c (Dr.), Bad debts etc.,)	Loan on mortgage etc .,) - Sundry Creditors - Reserve fund, general reserve, provision for depreciation, Accumulated depreciation etc., - Sales Gains (Discount received, Return Outwards, Bad debts recovered, Profit and loss A/c (Cr) etc.,)

Steps to prepare Trial balance:

The following are the steps to prepare Trial Balance.

Step 1	Cast/ Balance all the ledger accounts in the books.
Step 2	List all the Debit balances on the debit side and sum them up.
Step 3	List all the Credit balances on the credit side and sum them up.
Ideally, the Trial Balance should Tally at Step 3.	

Specimen of Trial balance:

Specimen of the Trial Balance is given as follows:

TRIAL BALANCE OF …………… AS ON ……………..			
Serial No.	**Name of the Account**	**Dr. Balance Rs.**	**Cr. Balance Rs.**

Two methods of the trial balance preparation, the second is usually used in practice because it facilitates the preparation of the final accounts.

Illustration : The following Trial Balance has been prepared wrongly. You are asked to prepare the Trial Balance correctly.

Name of Accounts	Debit Balance (Rs.)	Credit Balance (Rs.)
Cash in hand		7,000
Purchases returns	8,000	
Wages	8,000	
Establishment expenses	12,000	
Sales returns		7,000
Capital	22,000	
Carriage outwards		2,000
Discount received	12,00	
Commission earned	8,00	
Machinery		20,000
Stock		10,000
Debtors	8,000	
Creditors		12,000
Sales		44,000
Purchases	1,28,000	
Bank overdraft		1,14,000
Manufacturing expenses	14,000	
Loan from Ashok	14,000	
Carriage inward	1,000	
Interest on investments		1,000
Total	**2,17,000**	**2,17,000**

Solution: Correct Trial Balance as on ……..

Name of Accounts	**Debit Balance (Rs.)**	**Credit Balance (Rs.)**
Cash in hand	7,000	
Purchases returns		8,000
Wages	8,000	
Establishment expenses	12,000	
Sales returns	7,000	
Capital		22,000
Carriage outwards	2,000	
Discount received		12,00
Commission earned		8,00
Machinery	20,000	
Stock	10,000	
Debtors	8,000	
Creditors		12,000
Sales		44,000
Purchases	1,28,000	
Bank overdraft		1,14,000
Manufacturing expenses	14,000	
Loan from Ashok		14,000
Carriage inward	1,000	
Interest on investments		1,000
Total	**2,17,000**	**2,17,000**

SUBSIDIARY BOOKS:

When numbers of transactions are large, it is practically impossible to record all the transactions through one journal because of the following reasons:

(a) The system of recording all transactions in a journal requires

(i) Writing down of the name of the account involved as many times as the transactions occur; and

(ii) An individual posting of each account debited and credited and hence, involves the repetitive journalizing and posting labour.

(b) Such a system does not provide the information on a prompt basis.

(c) Such a system does not facilitate the installation of an internal check system since only one person can handle the journal.

(d) The journal becomes bulky and voluminous.

To overcome the shortcomings of the use of the journal only as a book of original entry, the journal is sub-divided into special journals. It is subdivided
in such a way that a separate book is used for each category of transactions, which are repetitive in nature and are sufficiently large in number. Subsidiary books refer to the journals meant for specific transactions of similar nature.

The proforma and number of special journals vary according to the requirements of each enterprise. In any large business, the following special journals are generally used:

Name of the special journal Specific transactions to Be Recorded

I. Cash Journal

(a) Single column cash book - Cash transactions

(b) Double column cash book - Cash and discount transactions

(c) Triple column cash book - Cash, bank and discount transactions

(d) Petty cash book -Petty cash transactions

II. Goods journal

(a) Purchase book - Credit purchase of goods

(b) Sales book - Credit sales of goods

(c) Sales returns book / Return Inwards book - Goods returned by those customers to whom goods were sold on cr

(d) Purchase returns book/ Return outwards book -

Goods returned to those suppliers
from whom goods were purchased on

III. Bills journal
(a) Bills receivable book - Bills receivable drawn
(b) Bills payable book - Bills payable accepted

IV. Journal proper - Transactions not covered elsewhere

1. Purchase Book or Purchase Journal:

Purchase book is a book of original entry in which only credit purchases of goods are recorded. Cash purchases of goods are recorded in the cash book. Credit purchases of other assets are also not recorded in the purchase book; they are recorded in the journal proper.

PURCHASE BOOK

Date	Invoice No.	Name of the Supplier (Account to be credited)	L.F.	Details ₹	Total Amount ₹
		Purchase A/c Dr.			

2. Sales Book or Sales Journal:

Sales book is a book of original entry in which only credit sales of goods are recorded. Cash sales of goods are recorded in the cash book. Credit sales of other assets are also not recorded in the sales book; they are recorded in the journal proper.

SALES BOOK

Date	Invoice No.	Name of the Customers (Account to be debited)	L.F.	Details ₹	Total Amount ₹
		Sales A/c Cr.			

3. Purchases Return Book or Purchases Return Journal:

Purchases return book is a book of original entry in which transactions related to the return of purchases of goods are recorded.

There may be several reasons for returning the goods to the supplier; some of them are as under:

(a) On finding some defects in the goods.

(b) When goods sent are not as per the samples or specifications.

(c) If the quantity of goods supplied is more than the requirements.

(d) When there is a breach of agreement between the seller and the purchaser.

When the business enterprise returns the goods to the supplier, a debit note is sent to the party to whom this document is sent. Business enterprise may make a debit note against the supplier for an amount which is to be recovered from him when the business enterprise returns some goods which are defective in nature or not as per specifications.

In this document, all details about the date and amount of transaction, the name of the party whose account is debited along with reason for debiting his account shall be mentioned. It should be noted that the trade discount availed at the time of purchase shall also be adjusted at the time of returning the goods.

The format of purchases return book is as under:

PURCHASES RETURN BOOK

Date	Debit Note	Particulars	L.F.	Details ₹	Total Amount ₹
		Purchases Return A/c Cr.			

4. Sales Return Book Or Sales Return Journal:

Sales return book is a book of original entry in which transactions related to the return of sales of goods are recorded. The sales return book does not record return of goods sold on cash basis. There may be several reasons for returning the goods by the customers.

Some of them are as under:

(a) On finding some defects in the goods.

(b) When there is delay in supply of goods to the customers.

(c) When goods sent are not as per the samples or specifications.

(d) If there is an oversupply of goods.

(e) When there is a breach of agreement between the seller and the purchaser.

When a business enterprise receives back the goods sold earlier, it makes a credit note in favour of the purchaser showing that his account has been credited in the books of business enterprise. In this document, all details about the date and amount of transaction, the name of the party whose account is credited along with reason for crediting his account shall be mentioned.It should be noted that the trade discount allowed at the time of credit sale shall also be adjusted at the time of receiving goods.

SALES RETURN BOOK

Date	Credit Note No.	Particulars	L.F.	Details ₹	Total Amount ₹
		Sales Return A/c Dr.			

CASH BOOK

A cash book is a special journal, which is used for recording all cash receipts and cash payments.

Cash book-both a journal and a ledger

The cash book is a book of original entry (or prime entry) since transactions are recorded for the first time from the source documents. The cash book is a ledger in the sense that it is designed in the form of a cash
account and records cash receipts on the debit side and cash payments on the credit side. Thus, the cash book is both a journal and a ledger.

Types of cash book

The various types of cash book from the point of view of uses may be as follows:

Single column cash book (also known as **simple cash book**) is a cash book that is used to record only cash transactions of a business. It is very identical to a traditional cash account in which all cash receipts are recorded on left hand (debit) side and all cash payments are recorded on right hand (credit) side in a chronological order.

The single column cash book has only one money column on both debit and credit sides titled as “amount” which is periodically totaled and balanced like a T-account. As stated earlier, a single column cash book records only cash related transactions. The entries relating to checks issued, checks received, purchases discount, and sales discount are not recorded in single column cash book.

Format:

The specimen/format of a single column cash book is given below:

Dr. (Receipts) CASH BOOK Cr. (Payments)

Date	Description	VN	PR	Amount	Date	Description	VN	PR	Amount
2020					2020				

The purpose of five columns used on both sides of a single column cash book is briefly explained below:

- **Date:** The date column of the cash book is used to record the year, month and actual date of each cash transaction. This column ensures the chronological record of each business transaction involving receipt or payment of cash.
- **Description:** The description column is used to record the account titles to be debited or credited as a result of each cash transaction. A short explanation (also known as narration) of each cash transaction may also be written in this column. This column is sometime titled as "particulars".
- **Voucher No:** Voucher is a document that supports a business transaction. This column is used to record the serial number of a receipt voucher or payment voucher.

- **Posting reference:** This column is used to write the page number of each ledger account named in the description column of the cash book.
- **Amount:** The amount column of single column cash book is used to record the money value of each cash transaction.

Balancing a single column cash book

The single column cash book has only one money column which is totaled and balanced like a traditional T-account. At the end of each month or another appropriate period, the amount column of both sides are totaled. The difference between totals is written on the lighter side below all other entries. This difference is the closing cash balance for the current period and is usually termed as balance carried down (balance c/d). In next period, it becomes the opening cash balance and is usually termed as balance brought down (balance b/d).

Note: *The debit side (receipt side) of a single column cash book is always heavier than the credit side (payment side) because we cannot pay more cash than we receive during a period.*

Posting entries from single column cash book to ledger accounts

All entries in the cash book are periodically posted to appropriate accounts in general ledger and relevant subsidiary ledgers. The posting procedure is given below:

1. The balance b/d and balance c/d (i.e., opening and closing balances) of the cash book are not posted.
2. The entries on the debit side (or receipt side) of the cash book are posted to the credit side of relevant accounts in the ledger.
3. The entries on the credit side (or payment side) of the cash book are posted to the debit side of relevant accounts in the ledger.
4. The page numbers of the ledger accounts (i.e., account numbers) to which the entries have been posted are written in the posting reference column of the single column cash book. It makes easy to locate an account in the ledger to which an entry has been posted.

Example

The Harper Company uses a single column cash book to record all cash transactions. It engaged in the following cash transactions during the month of September 2016.

- Sep.01: Cash in hand at start of the month $4,654.
- Sep.02: Paid salaries to employees for the last month $3,000.
- Sep.05: Cash received from S & Co. for a previous credit sale $2,720.
- Sep.06: Merchandise purchased for cash $1,400.
- Sep.07: Merchandise sold for cash $4,700.
- Sep.10: Office furniture purchased for cash $3,080.
- Sep.12: Stationary purchased for cash $170.
- Sep.15: Merchandise sold for cash $9,000.
- Sep.17: Cash paid to A & Co. for a previous credit purchase $1,780.
- Sep.20: Merchandise purchased for cash $2,460.
- Sep.21: Merchandise sold for cash $4,680.
- Sep.24: Cash received from S & Co. for a previous credit sale $2,400.
- Sep.28: Cash paid for office rent $1,600.
- Sep.30: Merchandise sold for cash $7,200

Required: Record the above transactions in a single column cash book (simple cash book)

Solution

Single column cash book of Harper Company:

Dr. (Receipts) CASH BOOK Cr. (Payments)

Date	Description	VN	PR	Amount	Date	Description	VN	PR	Amount
2016					2016				
Sep.01	Balance b/d		--	4,654	Sep.02	Salaries		415	3,000
Sep.05	S & Co.		410	2,720	Sep.06	Purchases		420	1,400
Sep.07	Sales		405	4,700	Sep.10	Office furniture		425	3,080
Sep.15	Sales		405	9,000	Sep.12	Stationary		430	170
Sep.21	Sales		405	4,680	Sep.17	A & Co.		440	1,780
Sep.24	S & Co.		410	2,400	Sep.20	Purchases		420	2,460
Sep.30	Sales		405	7,200	Sep.28	Rent		435	1,600
					Sep.30	Balance c/d		--	21,864
				35,354					35,354
Oct.01	Balance b/d			21,864					

2. Two-column cash book:

The **double column cash book** (also known as **two column cash book**) has two money columns on both debit and credit sides – one to record cash transactions and one to record bank transactions. In other words, we can say that if we add a bank column to both sides of a single column cash book, it would become a double column cash book. The cash column is used to record all cash transactions and works as a cash account whereas bank column is used to record all receipts and payments made by checks and works as a bank account.

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Dr. (Receipts) **CASH BOOK** **Cr. (Payments)**

Date	Description	VN	PR	Cash	Bank	Date	Description	VN	PR	Cash	Bank

Important points to remember while making entries in a double column cash book

Recording cash transactions:

1. All cash receipts are recorded in cash column on the debit side and all cash payments are recorded in cash column on credit side of the double column cash book.
2. If cash is received from a debtor or customer and is deposited into the bank account on the same date, the entry will be made in the bank column on the debit side, not in the cash column.

Recording bank transactions:

1. When a check is received and the same is deposited into the bank account on the same date, the amount of the check is entered in the bank column on the debit side.
2. When a check is received and the same is not deposited into the bank on the same date, the amount of the check is entered in the cash column, not in the bank column.
3. When a check received from a receivable on a date subsequent to its receipt is deposited into the bank account, the entry is made in the bank column on the debit side and in the cash column on credit side. It is called a ***contra entry***.
4. When a check is issued, the amount of the check is entered in the bank column on the credit side.

Recording contra entries:

The "contra" is a Latin word which means against or opposite. The contra entry is an entry which involves a cash account and a bank account and which is recorded on both debit and credit sides of the double column cash book at the same time. This entry is not posted to any ledger account because both debit and credit aspects of transaction are handled within the cash book and the double entry work is completed. In posting reference column, the letter “C” is written to denote that the entry is a contra entry and will not be posted to any ledger account. A contra entry is made in the following circumstances:

The Edward Company uses a double column cash book to record its cash and bank related transactions. It engaged in the following transactions during the month of March 2018:

- March 01: Cash balance $1,450 (Dr.), bank balance $1,500 (Dr.).
- March 02: Paid Mark & Co. by check $120.
- March 04: Received from John & Co. a check amounting to $400.
- March 05: Deposited into bank the check received from John & Co. on March 04.
- March 08: Purchased stationary for cash, $25.
- March 12: Purchased merchandise for cash, $525.
- March 13: Sold merchandise for cash, $1,800.
- March 15: Cash deposited into bank, $850.
- March 17: Withdrew from bank for personal expenses, $40.
- March 19: Issued a check for merchandise purchased, $630.
- March 20: Drew from bank for office use, $150.
- March 22: Received a check from Peter & Co. and deposited the same into bank immediately, $880.
- March 25: Paid a check to Daniel Inc. for $270.

- March 26: Bought furniture for cash for office use, $175.
- March 28: Paid office rent by check, $120.
- March 29: Cash sales, $650.
- March 30: Withdrew from bank for office use, $145.
- March 31: Paid salary to employees by check, $300.

Required: Record the above transactions in a double column cash book

Dr. (Receipts) CASH BOOK Cr. (Payments)

Date	Description	VN	PR	Cash	Bank	Date	Description	VN	PR	Cash	Bank
2018						2018					
Mar.01	Balance b/d		-	1,450	1,500	Mar.02	Mark & Co.		60		120
Mar.04	John & Co.		25	400		Mar.05	Bank		C	400	
Mar.05	Cash		C		400	Mar.08	Stationary		440	25	
Mar.13	Sales		405	1,800		Mar.12	Purchases		420	525	
Mar.15	Cash		C		850	Mar.15	Bank		C	850	
Mar.20	Bank		C	150		Mar.17	Drawings		445		40
Mar.22	Peter & Co		30		880	Mar.19	Purchases		420		630
Mar.29	Sales		405	650		Mar.20	Cash		C		150
Mar.30	Bank		C	145		Mar.25	Daniel Inc.		65		270
						Mar.26	Furniture		425	175	
						Mar.28	Rent		435		120
						Mar.30	Cash		C		145
						Mar.31	Salaries		415		300
						Mar.31	Balance c/d		-	2,620	1,855
				4,595	3,630					4,595	3,630
Apr.01	Balance b/d			2,620	1,855						

The **triple column cash book** (also referred to as **three column cash book**) is the most exhaustive form of cash book which has three money columns on both receipt (Dr) and payment (Cr) sides to record transactions involving cash, bank and discounts. A triple column cash book is usually maintained by large firms which make and receive payments in cash as well as by bank and which frequently receive and allow cash discounts. The **triple column cash book** (also referred to as **three column cash book**) is the most exhaustive form of cash book which has three money columns on both receipt (Dr) and payment (Cr) sides to record transactions involving cash, bank and discounts. A triple column cash book is usually maintained by large firms which make and receive payments in cash as

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Dr. (Receipts) CASH BOOK Cr. (Payments)

Date	Description	VN	PR	Disc	Cash	Bank	Date	Description	VN	PR	Disc	Cash	Bank

Example

The P&G LLC records its cash and bank transactions in a triple column cash book. The following transactions were performed by the company during the month of June 2018.

- Jun 01: Cash in hand $800 (debit balance), Cash at bank $3,365 (debit balance).

- Jun 03: Paid James & Co. by check $1,175, discount received from him $25.
- Jun 05: Received from David & Co. a check amounting to $990, discount allowed to him $10.
- Jun 07: Deposited into bank the check received from David & Co.
- Jun 10: Purchased stationary for cash, $170.
- Jun 15: Purchased merchandise for cash, $1,280.
- Jun 15: Cash sales for the first half of the month, $2,450.
- Jun 16: Deposited into bank $1,250.
- Jun 18: Withdrawn from bank for personal expenses $100.
- Jun 19: Issued a check amounting to $1,630 to James & Co. and discount received from him $20.
- Jun 21: Drew from bank for office use, $420.
- Jun 24: Received a check amounting to $1,435 from Henry & Co. and allowed him a discount of $15. The Henry's check was deposited into bank immediately.
- Jun 25: Paid a check to Jacob Inc. amounting to $385 and received a discount of $15.
- Jun 27: Bought furniture for cash for office use, $380.
- Jun 29: Paid office rent by check, $350.
- Jun 30: Cash sales for the second half of the month $4,550.
- Jun 30: Paid salaries by check $760.
- Jun 30: Withdrew from bank for office use $470.

Required:

1. Record the above transactions in a triple/three column cash book

Dr. (Receipts) CASH BOOK Cr. (Payments)

Date	Description	VN	PR	Disc	Cash	Bank	Date	Description	VN	PR	Disc	Cash	Bank
2018							2018						
Jun.01	Balance b/d				800	3,365	Jun.03	James & Co.		60	25		1,175
Jun.05	[1]David & Co.		25	10	990		Jun.07	Bank		C		990	
Jun.07	Cash		C			990	Jun.10	Stationery		440		170	
Jun.15	Sales		405		2,450		Jun.15	Purchases		420		1,280	
Jun.16	Cash		C			1,250	Jun.16	Bank		C		1,250	
Jun.21	Bank		C		420		Jun.18	Drawings		445			100
Jun.24	Henry & Co.		30	15		1,435	Jun.19	James & Co.		60	20		1,630
Jun.30	Sales		405		4,550		Jun.21	Cash		C			420
Jun.30	Bank		C		470		Jun.25	Jacob Inc.		65	15		385
							Jun.27	Furniture		425		380	
							Jun.29	Rent exp.		435			350
							Jun.30	Salaries exp.		415			760
							Jun.30	Cash		C			470
							Jun.30	Balance c/d				5,610	1,750
				25	9,680	7,040					60	9,680	7,040
				[2](450)							[3](455)		
Jul.01	Balance b/d				5,610	1,750							

FY BBA Semester I (CBCS) Pattern 2019

Subject : BUSINESS ACCOUNTING

Updated by: Mrs. Laxmi Karanjikar

Course Code : Code No. 103 GC ,Credit – 3

Unit No-3. Bank Reconciliation Statements

Meaning, importance and preparation of Bank Reconciliation Statement:

What is Bank Reconciliation?

A bank reconciliation statement is a document that matches the cash balance on a company's balance sheet to the corresponding amount on its bank statement. Reconciling the two accounts helps determine if accounting changes are needed. Bank reconciliations are completed at regular intervals to ensure that the company's cash records are correct. They also help detect fraud and any cash manipulations.

Reasons for Difference Between Bank Statement and Company's Accounting Record:

When banks send companies a bank statement that contains the company's beginning cash balance, transactions during the period, and ending cash balance, almost always the bank's ending cash balance and the company's ending cash balance are not the same. Some reasons for the difference are:

- Deposits in transit: Cash and checks that have been received and recorded by the company but have not yet been recorded on the bank statement.

- Outstanding checks: Checks that have been issued by the company to creditors but the payments have not yet been processed.

- Bank service fees: Banks deduct charges for services they provide to customers but these amounts are usually relatively small.

- Interest income: Banks pay interest on some bank accounts.

- Not sufficient funds (NSF) checks: When a customer deposits a check into an account but the account of the issuer of the check has an insufficient amount to pay the check, the bank deducts from the customer's account the check that was previously credited. The check is then returned to the depositor as an NSF check.

Nowadays, many companies use specialized accounting software in bank reconciliation to reduce the amount of work and adjustments required and to enable real-time updates.

Importance of Bank Reconciliation

- Preparation of bank reconciliation helps in the identification of errors in the accounting records of the company or the bank.

- Cash is the most vulnerable asset of an entity. Bank reconciliations provide the necessary control mechanism to help protect the valuable resource through uncovering irregularities such as unauthorized bank withdrawals. However, in order for the control process to work effectively, it is necessary to segregate the duties of persons responsible for accounting and authorizing of bank transactions and those responsible for preparing and monitoring bank reconciliation statements.

- If the bank balance appearing in the accounting records can be confirmed to be correct by comparing it with the bank statement balance, it provides added comfort that the bank transactions have been recorded correctly in the company records.
- Monthly preparation of bank reconciliation assists in the regular monitoring of cash flows of a business.

Steps in preparing a bank reconciliation statement

The following steps are to be taken in preparing a bank reconciliation statement:

1. Deposits mentioned in the bank statement and deposits are shown in the depositor's books of account are to be compared. Any deposit not recorded in the bank account would be treated as the deposit in transit and it should be added to the **balance shown on the bank statement**.
2. The encashed cheques should be arranged chronologically and each of them is to be compared with the cash disbursement journal. Cheques issued but not paid by the bank termed as outstanding cheques should be listed and the amount of these cheques should be deducted from the balance shown on the bank statement.

3. A credit memo issued by the bank, if not recorded in the books of the depositor, should be added to the depositor's cash balance. For example, collection note receivable 2,500 shown in the bank account. Bank sends a credit memo for this to the depositor. In this case, the amount mentioned in the credit memo 2,500 he added to the cash balance of depositor's account.

4. The debit memo issued by the bank, if not recorded in the depositor's book, should be deducted from the cash balance shown in the depositor's account.

5. Bank statement and depositor's account are to be adjusted properly for rectification of errors if any.

6. It is to be ensured that the adjusted cash balance of the bank statement and an adjusted cash balance of the depositor's ledger account are equal.

7. Adjusting journal entries are to be passed for those items which are added to and deducted from the cash balance of depositor's ledger account in the bank reconciliation statement.

<u>Methods of Preparing Bank Reconciliation statement</u>

Method 1: Bank reconciliation statement by Debit balance of Bank Column of Cash Book

Debit Balance as per Cash Book

Bank Reconciliation Statement

as on ________

	Details	Total
Debit Balance as per Cash Book		
Add		
Cheques issued or drawn but not yet presented for payment		
Interest allowed by bank not recorded in Cash Book		
amount directly deposited by the customer in Bank Account		
Interest and dividends collected by bank		
Cheques paid into bank but omitted to be entered in Cash book		
Any wrong credit given by bank in the Bank Statement		
Less		
Cheques paid into bank for collections but dishonored by the bank		
Standing instructions given to bank e.g. payment of insurance premium		
Bank Charges		
Cheques issued but omitted to be recorded in Cash Book		
Any wrong debit given by bank in the Bank Statement		
Credit Balance as per Bank Statement		

Note: While preparing Bank Reconciliation Statement starting with Debit Balance as per Cash Book, the same treatment will be given to various items as was done when the Bank Reconciliation Statement was started with a Debit Balance as per Bank Statement

Method 2: Bank reconciliation statement by Credit balance as Cash Book (Overdraft).

Credit Balance as per Cash Book (Overdraft)

Bank Reconciliation Statement

as on __________

	Details	Total
Credit Balance as per Cash Book		
Add		
Cheques paid into bank for collections but dishonored by the bank		
Standing instructions given to bank e.g. payment of insurance premium		
Bank Charges		
Cheques issued but omitted to be recorded in Cash Book		
Any wrong debit given by bank in the Bank Statement		
Less		
Cheques issued or drawn but not yet presented for payment		
Interest allowed by bank not recorded in Cash Book		
amount directly deposited by the customer in Bank Account		
Interest and dividends collected by bank		
Cheques paid into bank but omitted to be entered in Cash book		
Any wrong credit given by bank in the Bank Statement		
Debit Balance as per Bank Statement		

Note: While preparing Bank Reconciliation Statement starting with ***Credit*** Balance as per Cash Book***(Overdraft)***, the same treatment will be given to various items as was done when the Bank Reconciliation Statement was started with a ***Credit*** Balance as per Bank Statement

Method 3: Bank reconciliation statement by Credit balance as per Bank Statement

Credit Balance as per Bank Statement

Bank Reconciliation Statement

as on __________

	Details	Total
Credit Balance as per Bank Statement		
Add		
Cheques paid into bank for collections but dishonored by the bank		
Standing instructions given to bank e.g. payment of insurance premium		
Bank Charges		
Cheques issued but omitted to be recorded in Cash Book		
Any wrong debit given by bank in the Bank Statement		
Less		
Cheques issued or drawn but not yet presented for payment		
Interest allowed by bank not recorded in Cash Book		
amount directly deposited by the customer in Bank Account		
Interest and dividends collected by bank		
Cheques paid into bank but omitted to be entered in Cash book		
Any wrong credit given by bank in the Bank Statement		
Debit Balance as per Cash Book		

Note: While preparing Bank Reconciliation Statement starting with ***Credit*** Balance as per ***Bank Statement***, the same treatment will be given to various items as was done when the Bank Reconciliation Statement was started with a ***Credit*** Balance as per ***Cash Book***

Method 4: Bank reconciliation statement

Debit Balance as per Bank Statement (Overdraft)

Bank Reconciliation Statement

as on __________

	Details	Total
Debit Balance as per Bank Statement		
Add		
Cheques issued or drawn but not yet presented for payment		
Interest allowed by bank not recorded in Cash Book		
amount directly deposited by the customer in Bank Account		
Interest and dividends collected by bank		
Cheques paid into bank but omitted to be entered in Cash book		
Any wrong credit given by bank in the Bank Statement		
Less		
Cheques paid into bank for collections but dishonored by the bank		
Standing instructions given to bank e.g. payment of insurance premium		
Bank Charges		
Cheques issued but omitted to be recorded in Cash Book		
Any wrong debit given by bank in the Bank Statement		
Credit Balance as per Cash Book		

Note: While preparing Bank Reconciliation Statement starting with Debit Balance as per ***Bank Statement (Overdraft)***, the same treatment will be given to various items as was done when the Bank Reconciliation Statement was started with a Debit Balance as per ***Cash Book***.

BBA Semester I (CBCS) Pattern 2019

Subject : BUSINESS ACCOUNTING

Updated by: Mrs Laxmi Karanjikar

Course Code : Code No. 103 GC ,Credit – 3

Unit No-4 - Computerized Accounting

- **Role of computers and Financial application**
- **Accounting Software packages**

Role of Computers in Accounting:

The manual system of recording accounting transactions requires maintaining books of accounts such as journal, cash book, special purpose books, and ledger and so on. From these books summary of transactions and financial statements are prepared manually.

The advanced technology involves various machines, which can perform different accounting functions, With substantial increase in the number of transactions, a new machine was developed to store and process accounting data with greater speed and accuracy. A computer, to which it was connected, operated this machine.

As a result, the maintenance of accounting data on a real-time basis became almost essential. Now maintaining accounting records become more convenient with the computerized accounting.

Objects of Introduction of Computers in Accounting:

Labor Saving:

Labor saving is the main aim of introduction of computers in accounting. It refers to annual savings in labor cost or increase in the volume of work handled by the existing staff.

Time Saving:

Savings in time is another object of computerization. Computers should be used whenever it is important to save time. It is important that jobs should be completed in a specified time such as the preparation of pay rolls and statement of accounts. Time so saved by using computers may be used for other jobs.

Accuracy:

Accuracy in accounting statements and books of accounts is the most important in business. This can be done without any errors or mistakes with the help of computers. It also helps to locate the errors and frauds very easily.

Minimization of Frauds:

Computer is mainly installed to minimize the chances of frauds committed by the employees, especially in maintaining the books of accounts and handling cash.

Effect on Personnel:
Computer relieves the manual drudgery, reduces the hardness of work and fatigue, and to that extent improves the morale of the employees.

Meaning of Computer Accounting:

In recent times, computers are being used to maintain the accounting records and for the preparation, analysis, and interpretation of accounting statements. Hence, the system operated through computers is called as computerized accounting or simply, accounting in computerized environment.

The difference between manual and computerized accounting.

Manual Accounting:
1. The identification of transactions is done manually.

2. Transactions are recorded and retrieved through books of original entry

3. Transactions are recorded first in the books of original entry, then they are to be posted into ledger accounts. Thus, they are recorded twice.

4. After the preparation of ledger accounts, balances of various accounts are known and hence a trial balance is prepared in order to summaries the data.

5. Financial statements are prepared on the basis of trial balance.

6. Adjustments are made in order to balance the expenses incurred and the revenue generated in the accounting period. Hence, entries are passed for errors and rectification.

7. Books are closed at the end of accounting period by posting of closing and reversing journal entries

Computerized Accounting:

1. The transactions are identified on the bases of well designed programmes.

2. Transactions are recorded and stored in well designed databases.

3. The stored data is processed automatically in classified ledger accounts.

4. Need not generate ledger accounts to produce trial balance. The data in each transaction is processed to show the balance report automatically.

5. The generation of financial statements is independent of trial balance because such statements are directly processed using the originally stored data.

6. Need not pass manual entries for errors and rectification. Computerized vouchers are prepared and stored that follow the principle of cost matching revenue.

7. Opening and closing account balances are stored in databases.

Computerized Accounting System: Features, Advantages and Other Details:

Need for Computerized Accounting:
The need for computerized accounting arises from advantages of speed, accuracy and lower cost of handling the business transactions.

Numerous Transactions:
The computerized accounting system is capable of large number of transactions with speed and accuracy.

Instant Reporting:
It is capable of offering quick and quality reporting because of its speed and accuracy.

Reduction in Paper Work:
Manual accounting system requires large storage space to keep accounting records/books, and vouchers/documents. The

requirement of books and stationery and books of accounts along with vouchers and documents is directly dependent on the volume of transactions beyond certain point.

There is a dire need to reduce the paper work and dispense with large volume of books of account. This can be achieved with the help of computerized accounting system.

Flexible Reporting:

The reporting is flexible in computerized accounting system. It is capable of generating reports of any balance as when required and for any duration which is within the accounting period.

Accounting Queries:

There are accounting queries, which are based on some external parameters. For example, a query relating to overdue customers' accounts can be easily answered by using the structured query language [SQL] support of database technology in the computerized accounting system. Such an exercise would be quite difficult and expensive in manual accounting system.

Online Facility:

Computerized accounting system offers online facility to store and process transaction data so as to retrieve information to generate and view financial reports.

Accuracy:

The information and reports generated are accurate and quite reliable for decision-making. In manual accounting system, as many people do the job and the volume of transactions is quite large, such information and reports are likely to be distorted and unreliable and inaccurate.

Security:
This system is highly secured and the data and information can be kept confidential, when compared to manual accounting system.

Scalability:
The system can cope easily with the increase in the volume of business. It requires only additional data operators for storing additional vouchers.

Features of Computerized Accounting System:

1. It leads to quick preparation of accounts and makes available the accounting statements and records on time.

2. It ensures control over accounting work and records.

3. Errors and mistakes would be at minimum in computerized accounting.

4. Maintenance of uniform accounting statements and records is possible.

5. Easy access and reference of accounting information is possible.

6. Flexibility in maintaining accounts is possible.

7. It involves less clerical work and is very neat and more accurate.

8. It adapts to the current and future needs of the business.

9. It generates real-time comprehensive MIS reports and ensures access to complete and critical information instantly.

Advantages of Computerized Accounting:

1. Better Quality Work:

The accounts prepared with the use of computers are usually uniform, neat, accurate, and more legible than manual job.

2. Lower Operating Costs:

Computer is a labor and time saving devise. Hence, the volume of job handled with the help of computers results in economy and lower operating costs.

3. Improved Efficiency:

Computer brings speed and accuracy in preparing the records and accounts and thus, increases the efficiency of employees.

4. Facilitates Better Control:

From the management point of view, greater control is possible and more information may be available with the use of computer in accounting. It ensures efficient performance in accounting work.

5. Greater Accuracy:
Computerized accounting ensures accuracy in accounting records and statements. It prevents clerical errors and omissions.

6. Relieve Monotony:
Computerized accounting reduces the monotony of doing repetitive accounting jobs, which are tiresome and time consuming.

7. Facilitates Standardization:
Computerized accounting facilitates standardization of accounting routines and procedures. Therefore, standardization in accounting is ensured.

8. Minimizing Mathematical Errors:
While doing mathematics with computers, errors are virtually eliminated unless the data is entered improperly in the first instance.