

# Accounting Primer

For UNICEF Implementing Partners

Organized in collaboration



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Part I  
Introduction to Accounting





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## **INTRODUCTION**

Organizations can be broadly classified into for – profit and non-profit organizations. While the main purpose of the for - profit organization is to earn profit and generate wealth for its shareholders, non profit organizations have objectives other than generating profits

Any increase in net assets arising from the activities of a not for profit organisation are applied to improving the community services rendered by the specific organisation.

These organizations are usually funded by grants from state or authorities, donations or membership fees and unlike that of for-profit organizations the funds to non-profit organizations do not confer any right on the organization to the contributor. Because of the typical characteristics of non-profit organisations, the primary aim of accounting reporting should be to provide control over sources by means of accounting responsibility.

Certainly, proper accounting is very essential for non-profit organization. These concerns maintain, generally, a cash book and later they prepare a summary of cash transactions appearing in the cash book. This summary takes the form of an account known as receipts and payments account.

Such concerns also prepare ‘income and expenditure account’ (which is more or less on the lines of profit and loss account) and the Balance Sheet.

The day-to-day accounting consists of maintaining.

- (i) Cash book for recording receipts and payments, and
- (ii) Ledger for classification of transactions under proper heads.

## **WHAT IS ACCOUNTING**

An organization undertakes number of transactions, both monetary and non-monetary, depending upon the size and nature of its functions. All monetary transactions have an impact on the financial position of the organization. For example, when an organization receives funds for implementing a programme, the receipt of amount increases the funds position of the organization. Similarly, if the organization makes a payment, the funds of the organization reduce.

In its normal course of functioning, an organization makes number of monetary transactions and it is humanly impossible to remember all these transactions in every respect. It is, therefore, necessary that the transactions are recorded in a detailed and systematic manner for reference. This recording and analysis of transactions is called accounting. While book keeping is used synonymously with accounting, these two are different in their approaches as explained below.

## **DIFFERENCE BETWEEN BOOK-KEEPING AND ACCOUNTING**

### **BOOK-KEEPING**

Book-keeping tells us how to keep a record of business transactions. It is often routine and clerical in nature. It is important to note that only those transactions related to organization which can be expressed in terms of money are recorded. The activities of book-keeping include recording in the journal, posting to the ledger and balancing of accounts.

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## **Accounting**

When one has to make a judgment regarding the financial position of the organization, the information contained in these books of accounts has to be analyzed and interpreted. It is with the purpose of giving such information that accounting came into being.

Accounting is a system which collects and processes financial information of a organization. This information is reported to the users to enable them to make appropriate decisions.

## **Accounting Systems**

There are two systems of accounting in practice

### **Cash based accounting system**

A transaction is recorded only when actual cash has been received or spent. Thus, it can be said that only the movement of cash can constitute a transaction. Under this basis of accounting, funds are recognized as receipts for the period if these are actually received within the period. Similarly, expenses actually paid are recognized as expenses for the period.

### **Accrual Based accounting System**

In accrual based accounting system, revenues and related assets are recognized when earned rather than when received, while expenses are recognized when incurred rather than when paid. There is recognition of receivables and payables built up within a specific period. At the end of the year, two financial statements are drawn, income and expenditure statement showing the financial performance and assets and liabilities statement (Balance sheet) indicating the financial status of the organization.

## **DOUBLE ENTRY SYSTEM**

Every transaction, when closely analysed, reveals two aspects – the debit and the credit aspect. While debit aspect pertains to ‘receiving’, ‘incoming’ and ‘expenses/losses’ credit aspect pertains to ‘giving’, ‘outgoing’ and ‘incomes/gains’. Depending upon the type of account, discussed next, the accounts are either debited or credited.

These two viz ‘Debit’ and ‘Credit’ form the basis for Double Entry System. The basic principle of this system is that, for every debit, there must be a corresponding credit of equal amount and for every credit there must be a corresponding debit of equal amount. In fact, the double entry system is so named since it records both the aspects of a transaction

## **ACCOUNT**

An account is a summary of financial transactions of a particular person or thing. It is used to maintain separate records and to accumulate data for each of the individual items. An account has two sides called debit side and credit side

### **Head of Accounts**

Every implementing partner when preparing the budget proposals for different projects/programmes prepares a detailed budget with break-up for each activity. Each activity is further broken into components that will be called as the budget head. For example, consider the project, Social Mobilization. Under the project there would be various activities like training, promotion and propaganda, etc. Under the activity of training there would be various components like honorarium, conveyance, training kits, etc. Each

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component is a budget head. Some common heads of accounts have been identified below. This is not an exhaustive list of heads of accounts since each organization will have different activities and each activity will have different components. Each component becomes one head of account.

### **List of Head of Accounts**

#### **Receipts**

- Amount received from UNICEF
- Amount contributed by
  - NGOs Association
  - Govt Organization
  - Others
- Loan borrowed from
  - NGOs Association
  - Govt Organization
  - Others
- Miscellaneous receipt
- Bank interest
- Sale of old news papers, etc
- Others (if any)

#### **Payments**

- Salaries to Staff
- Salaries of Supervisor
- Salaries to Data entry Operator
- Accommodation Charges
- Traveling allowances
- Postage/courier charges
- Telephone, fax, internet
- Videos and Photo charges
- Banner charges
- Printing, Stationery and consumables
- Material Purchased
- Gift article Purchased
- Xerox charges
- Vehicle expenses
- Meeting expenses
- Water and electricity charges
- Rents, rates and taxes
- Petrol, oil and lubricants
- Security Services
- House keeping charges
- Consultancy charges
- Legal charges
- Audit expenses
- Bank charges

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## Guidelines

The below mentioned are the guidelines that are to be strictly followed by the staff of the Implementing Partners for their internal accounting process. The guidelines are to be followed by the agencies transacting with the Implementing Partners of UNICEF.

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## Bills

- i. Any person/organization claiming payment from the implementing partners of UNICEF has to present a bill in a proper form.
- ii. Where a claimant presents a bill in a form different from the form provided for it, a separate bill in the proper form has to be prepared by the officer incurring the expenditure and the claimant's bill has to be attached thereto as a sub-voucher (i.e, supporting document).
- iii. The claimant has to duly date and sign the same, and stamp the bill wherever necessary.
- iv. All supporting bills and invoices should be stamped "Debited to UNICEF"
- v. Payments shall be made only after the bills are passed by the project director or by some person duly authorized by him in this behalf.
- vi. Totals of the bills should tally with the expenditure statement.
- vii. In case of training claims, the total amount should tally with the list of participants,
- viii. In case of travel claims, the bill should be accompanied with the travel approval copy and the tickets and other bills evidencing the travel.
- ix. Large payments should be made by crossed cheque.
- x. When payments are made by cheques, the person preparing the cheque and the person signing the cheque must be different.

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## Voucher

A bill after it is passed for payment is called a "voucher"

- i. No payment shall be made without a bill duly passed for payment.
- ii. Pre-printed bills/vouchers/cash memos should be made available and the bills should be preferred in the given format only.
- iv. The amount of each voucher has to be entered in figures as well as in words on the voucher without leaving any space for any alteration of a fraudulent nature.
- v. Beneath the pass order of each voucher the Head of Account to which the expenditure is to be booked should be noted.
- vi. All corrections and alterations in vouchers have to be attested by the initials of the officer or person signing the bill.
- vii. No document shall bear any corrections and documents bearing correction should not be passed without proper initials of the officer concerned.
- viii. Each voucher shall be charged against one budget head only except in the case of recoupment of advance
- ix. While payments are being made to illiterates, the voucher shall be signed by at least two witnesses.

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- x. All vouchers (type-wise) are to be filed in separate Box Files or bundles as per serial numbers for record, reference and audit purpose.
  - xi. All vouchers must be accompanied by requisite supporting documents. In case, supporting documents are not available for some transactions, mostly payment transaction, the officer concerned should certify the authenticity of the payment before giving the pass order.

## **Accounting**

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- i. It is mandatory that the implementing partners of UNICEF maintain the required books of accounts.
- ii. The books of accounts shall be updated regularly and statements of accounts are drawn periodically.
- iii. BRS shall be prepared every month as part of the reconciliation procedure.
- iv. The stores and stock purchased for various activities undertaken by the implementing partner shall be duly entered in the stock register.

## **Cash book**

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- i. The voucher shall be entered in the Cash book on Debit side by giving a serial number starting from the first day of the financial year.
- ii. All entries relating to receipts will be made on the left side, while those relating to expenditure will be made on the right side.
- iii. The cash book is to be closed everyday.
- iv. Sufficient pages may be left blank at the end of each month for making monthly totals and other reconciliation work.
- v. Each of the pages in the Cash Book for a Month shall be totalled and a page-wise Abstract prepared at the end of the month in respect of Receipts and Payments.
- vi. The petty cash drawn for the purposes of day-to-day administration of the organization shall be entered in the Petty Cash Register.
- vii. At any given point of time, the petty cash held by the organization should not exceed Rs.5000.
- viii. Petty cash should not be used for purposes other than the day-to-day administration of the organization.
- ix. Maximum of Rs.5000 should be drawn as petty cash at one drawal.
- x. While drawing petty cash, the accountant and the officer concerned should duly sign the Petty Cash Register and the request for petty cash.

Part II  
Accounting Process



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## UNDERSTANDING THE ACCOUNTING PROCESS

**Step -1** A transaction arises when the organization either receives money or makes a payment. The first stage of accounting is the preparation of the voucher that documents the transaction

**Step -2.** The next stage of accounting is to identify and classify the accounts that need to be debited and the accounts to be credited in the transaction.

**Step -3** Record the transaction in the cash book or journal proper as the case may be under the appropriate account head. Cash book contains the transactions that involve all cash and bank transactions. Transactions that do not involve any cash/bank are recorded in the journal proper.

**Step -4** Transactions noted in the cash book or journal proper are then posted in the ledger. A ledger is opened for each account and the transactions are posted in the ledger

**Step -5** The next stage of accounting is the balancing of the accounts

**Step -6** At the end of the accounting period, the balances from the ledgers are taken to prepare the trial balance. A trial balance is the first step for the preparation of the final statements. All the credit balances from the accounts are recorded in the right column and all debit balances are recorded in the left column. Both columns of the trial balance should tally. Any discrepancy shows that there is some error or omission in the accounting of the transactions.

**Step 7 -** The final step in the accounting process is the preparation of the financial statements. On the basis of the trial balance, the income and expenditure account and balance sheet is prepared.



*At the end of the lesson, you will learn,*

- *The concept of Source document and Voucher*
- *The different types of vouchers and their use in recording the transaction*

## **INTRODUCTION**

Accounting process starts with identifying the transactions to be recorded in the books of accounts. Accounting recognizes only those transaction and events which involve money. In the Accounting process, the first step is the recording of transaction in the books of accounts. The origin of a transaction is derived from the source document.

To learn how to prepare voucher it is necessary to first understand the concept of “Source Document”. While voucher is the documentary evidence of the transaction taking place, the source documents are primaface evidence of the transaction

## **SOURCE DOCUMENTS**

Source documents are the primary documentary evidence of the transaction taking place. They provide information about the nature of the transaction, the date, the amount and the parties involved in it. For example, an organization procures goods from its suppliers and makes payment to them. Along with the goods the supplier prepares the bill or invoice that contains all the details of the transaction namely, the particulars of items procured, the amount, name and addresses of the buyer and seller. The bill is the source document that establishes the occurrence of the transaction taking place. The following are the most common source documents.

### **Cash Memo**

When a trader sells goods for cash, he gives a cash memo to the buyer on receiving cash. Details regarding the items, quantity, rate and the price are mentioned in the cash memo.

### **Invoice or Bill**

When a trader sells goods on credit, he prepares a sale invoice. It contains full details relating to the amount, the terms of payment and the name and address of the seller and buyer. The original copy of the sale invoice is sent to the purchaser and its duplicate copy is kept for making records in the books of accounts. The difference between invoice and cash memo is that the former is raised when the goods are sold either for cash or credit while the latter is given only on cash sales.

### **Receipt**

When an entity receives cash from a person/Organization, the entity issues a receipt containing the date, the amount and the name of the person/organization. The original copy is handed over to the person/organization and the duplicate copy is kept for record.

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### **Pay-in-slip**

This source document relates to bank transactions and is used to deposit money into a bank account. It gives details regarding date, account number, amount deposited (in cash or cheque) and name of the account holder. The pay-in-slip has a counterfoil which is returned to the depositor duly sealed and signed by the bank official.

### **Cheque**

A cheque is a document drawn upon a specified banker to pay a specified sum to the bearer or the person named in it and payable on demand. The cheque book has a counterfoil in which details of the cheques issued are filled. The counterfoil remains with the account holder for his future reference. The counterfoil forms the source document for entries to be made in the books of accounts.

### **VOUCHER**

It is a written document that “vouches” the occurrence of a transaction. Vouchers should be pre-printed and should be sequentially numbered as an internal control measure. The accountant prepares the voucher which is then counter signed by an authorized person of the organization.

It is necessary that vouchers are filed according to their serial numbers so that the auditors may easily verify them as these vouchers are documentary evidence of the transaction taking place. Vouchers should be supported by bills/claims, proceedings and other relevant papers. A voucher is not complete until all the requisite support documents are attached.

### **Characteristics of voucher**

Vouchers are serially numbered and the numbering begins afresh from the beginning of every financial year. Each type of voucher will have a unique series of numbers prefixed by words/ letters representing the type of transaction (Receipt, Payment, Journal or Contra). In case of bank vouchers (receipts or payments), the bank name is prefixed to the numerical serial number for each bank separately.

### **Types of vouchers**

There are four types of vouchers.

- Receipt Voucher
- Payment Voucher
- Contra Voucher
- Journal Voucher

## Receipt Voucher

When an organization receives funds or any money, the accountant prepares the receipt vouchers that contains the details of transaction - from whom the money has been received, how much has been received and what has been the mode of receiving the money. This voucher is generated for the following purposes.

- Receipt of funds
- Receipt of borrowings
- Miscellaneous receipts
- Recovery of advance etc.,

<b>Receipt Voucher</b>		<b>M/s Zed Association</b> 22, Ram Nagar, Hyderabad	
Voucher No :	Date: - -20		
<b>Received with thanks from</b>			
<sup>2</sup> Name	.....		
<sup>2</sup> Address	..... .....		
Budget Activity	.....		
<sup>3</sup> Head of Account	.....		
Amount	Rs.	Ps.	
		-	
Amount in words	.....		
Reference No.	.....		
(wherever applicable)			
Details of transaction	..... .....		
Mode of Transaction	Cash	Cheque	Bank
Cheque No. ....	Ch Date	- - 20	
Bank particulars	.....		
<sup>4</sup> Cash Book Folio No.	.....		
Signatures			
Received by			Verified by

### Notes

- 1.Name and address** Name and Address of the Organisation is always printed.
- 2.Name and address** Here the name and address of the party giving the payment is written in full
- 3.Head of Account** - Account to be credited on receipt of money is entered here.
- 4. Cash Book Folio No** - The folio (Page no.) of the cash book in which the transaction is entered.

## Payment Voucher

Whenever an organization makes a payment to an external party, a payment voucher is prepared that contains all the details of the amount being paid, to whom the amount is being paid and the mode of payment. This voucher is generated for the following transactions

- Payment of expenditure
- Repayment of borrowings
- Payment of advance

<b>Payment Voucher</b>		<b><sup>1</sup>M/s Zed Association</b> 22, Ram Nagar, Hyderabad	
Voucher No :		Date:	- -20
<b>Amount paid to</b>			
<sup>2</sup> Name	.....		
<sup>2</sup> Address	..... .....		
Budget Activity	.....		
<sup>3</sup> Head of Account	.....		
Amount	Rs.	Ps.	
		-	
Amount in words	.....		
Reference No.	.....		
(wherever applicable)	.....		
Details of transaction	..... .....		
Mode of Transaction	Cash	Cheque	Bank
Cheque No. ....		Ch Date	- - 20
Bank particulars	.....		
<sup>4</sup> Cash Book Folio No.	.....		
Signatures			
Prepared by	Verified by	Passed by	

### Notes

- 1.Name and address** Name and Address of the Organisation is always printed.
- 2.Name and address** Here the name and address of the party is written in full
- 3.Head of Account** - Account to be debited on payment of money is entered here.
- 4. Cash Book Folio No** - The folio (Page no.) of the cash book in which the transaction is entered.

## Contra Entry/Contra Voucher

Contra entries mean transactions relating to cash deposits into bank account, cash withdrawals from bank account and transfer of funds from one bank account to another bank account. Contra entries have to be entered in the respective heads of account in which a transaction takes place.

As discussed above, recording of contra entry arises in three situations

- 1) *Cash deposit in bank account* – The entry would be made in the cash book as debit / receipt side in bank column and credit / payment side in cash column
- 2) *Cash withdrawal from bank account* – The entry would be made in the cash book as debit / receipt side in cash column and credit / payment side in bank column
- 3) *Transfer of funds from one bank to another* – There are entries in two Bank accounts. In the Cash Book from which funds are transferred, payment entry to the other bank need be entered; and in the Cash Book to which funds are transferred, receipt entry of funds from other bank need be entered

<b>Contra Voucher</b>		<b>M/s Zed Association</b> 22, Ram Nagar, Hyderabad	
Voucher No :	Date:    -    -20		
<b>Head of Account</b>			
Transfer from	Cash / Bank* .....		
Transfer To	Cash / Bank* .....		
Amount	Rs.                      Ps.		-
Amount in words	.....		
Purpose	..... .....		
Cheque No. ....	Date:    -    -20		
Bank particulars	.....		
<sup>2</sup> Cash Book Folio No.	.....		
Signatures			
_____ Verified by	_____ Authorized by		

### Notes

1. **Name and address** Name and Address of the Organisation is always printed.
2. **Cash Book Folio No** - The folio (Page no.) of the cash book in which the transaction is entered.



## Examples

1. Prepare receipt voucher for the following transaction during 28th June, 2009 in the books of Zed Association.

Reference No : Pv Ref No: XX1  
 Name : UNICEF, Himayathnagar, Hyderabad.  
 Amount Received: : Rs 9,00,000  
 Cheque No : 688760  
 Dated : 26th June, 2009  
 Purpose : Towards 50% advance payment for training on complementary feeding practice

Receipt Voucher		M/s Zed Association 22, Ram Nagar, Hyderabad	
Voucher No : <b>R001</b>	Date: <b>28-06-2009</b>		
<b>Received with thanks from</b>			
<sup>2</sup> Name	United Nations Children's fund		
<sup>2</sup> Address	Himayath Nagar		
	HYDERABAD		
Budget Activity	Complementary Feeding Practice		
<sup>3</sup> Head of Account	Transfer - in Account		
Amount	Rs.	Ps.	
	9,00,000	-	
Amount in words	Nine Lakhs only		
Reference No.	PV Ref No: XX1		
(wherever applicable) Details of transaction	50% advance payment- training on complementary feeding practice		
Mode of Transaction	Cash	Cheque <input checked="" type="checkbox"/>	Bank
Cheque No.	688760	Ch Date	26-06-2009
Bank particulars	SBI Acc. No: 126589		
<sup>4</sup> Cash Book Folio No.	1X		
Signatures			
Received by	Verified by		
<i>prw 28/6</i>	<i>Anil 28/6</i>		

2. Prepare payment voucher for the following transaction during 18th July, 2009 in the books of Zed Association.

Reference No : Lr No: XX5  
 Name : M/s X , NGOs Association. Medak  
 Amount Remitted : Rs 2,50,000  
 Cheque No : 12356  
 Dated : 15th July, 2009  
 Purpose : Towards advance payment for Field  
 Level training on complementary feeding practice

Payment Voucher		M/s Zed Association 22, Ram Nagar, Hyderabad	
Voucher No : <b>R001</b>		Date: <b>18-07-2009</b>	
<b>Amount paid to</b>			
<sup>2</sup> Name	<u>M/s X Association</u>		
<sup>2</sup> Address	<u>NGOs Organization</u>		
	<u>MEDAK</u>		
Budget Activity	<u>Complementary Feeding Practice</u>		
<sup>3</sup> Head of Account	<u>Advance to M/s X Account</u>		
Amount	Rs.	Ps.	
	<b>2,50,000</b>	<b>-</b>	
Amount in words	<u>Two Lakhs fifty Thousand only</u>		
Reference No.	<u>Lr No: XX5</u>		
(wherever applicable) Details of transaction	<u>50% advance payment- training on complementary feeding practice</u>		
Mode of Transaction	Cash	Cheque <input checked="" type="checkbox"/>	Bank
Cheque No. <b>12356</b>	Ch Date <b>15-07-2009</b>		
Bank particulars	<u>SBI Acc. No: 126589</u>		
<sup>4</sup> Cash Book Folio No.	<u>1X</u>		
Signatures			
Prepared by <u>prw 15/7</u>	Verified by <u>filed 15/7</u>	Passed by <u>Anil 15/7</u>	



3. Prepare Contra voucher for the following transaction during 21st August, 2009 in the books of Zed Association.

Amount Remitted : Rs 50,000  
 Cheque No : 12357  
 Dated : 21th Aug, 2009  
 Name of the Bank : SBI Acc No: 126589  
 Purpose : Cash withdrawn for office use

Contra Voucher		M/s Zed Association 22, Ram Nagar, Hyderabad	
Voucher No :	C001	Date:	21-08-2009
<b>Head of Account</b>			
Transfer from	Cash / Bank*	SBI Acc. No: 126589	
Transfer To	Cash / Bank*	CASH	
	Rs.	Ps.	
Amount	50,000	-	
Amount in words	Fifty Thousand only		
Purpose	Office Purpose -		
Cheque No.	12357	Date:	21-08-2009
Bank particulars	SBI Acc. No: 126589		
<sup>2</sup> Cash Book Folio No.	.....		
Signatures			
Verified by	Authorized by		
<i>fjhd</i> 20/8	<i>Anil</i> 20/8		



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## Step -2 Analysis of Transaction and classification of Accounts

*At the end of the lesson, you will learn*

- *To identify different types of transaction.*
- *How to classify the accounts, and*
- *Explain the rules of accounting*

### **INTRODUCTION**

*One of the most important aspects of the accounting is the identification of the rules of debit and credit. Based on the transaction, the accounts that need to be debited and accounts that need to be credited are identified and the rules of accounting applied to them. This process of identification of accounts and application of rules of debit and credit is called as classification of accounts.*

### **TRANSACTION**

Transactions involve transfer of money or goods or services between two persons or two accounts. *For example*, purchase of stationery, borrowing from banks, honorarium paid, interest received from bank, etc. Transactions are of two types, namely, cash and credit transaction

Cash Transaction is one where cash receipt or payment is involved in the transaction. For example, when Mr X buys stationary from Mr. Z paying the price immediately by cash, it is a cash transaction.

Credit Transaction is one where cash is not involved immediately but would be paid or received later. In the above example, if Mr X does not pay cash immediately but promises to pay later, it is a credit transaction.

### **CLASSIFICATION OF ACCOUNTS**

To understand the concept of classification of accounts, we need to understand the types of transactions that take place and that need to be recorded. Transactions can be divided into three categories.

- Transactions relating to individuals and firms
- Transactions relating to properties, goods or cash
- Transactions relating to expenses or losses and incomes or gains

Based on the types of transactions, accounts are classified into Personal, Real and Nominal.

**a. Personal Accounts:** The accounts which relate to persons. These accounts record the transactions that any individual or representative persons will undertake.

Personal accounts include the following.

**Natural Persons:** Accounts which relate to individuals. For example, Mr. Gopal A/c, Ms Saritha A/c etc.

**Artificial persons:** Accounts which relate to a group of persons or firms or institutions. For example, Fund received from M/s X Association A/c, APSACS A/c, MEDVAN A/c, State Bank of India A/c etc

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**Representative Persons:** Accounts which represent a particular person or group of persons. For example, outstanding salary account, prepaid rent account, etc.

*The proprietor being an individual his capital account and his drawings account are also personal accounts.*

**b. Impersonal Accounts:** All those accounts which are not personal accounts. This is further divided into two types viz. Real and Nominal accounts.

**Real Accounts:** Accounts relating to properties and assets which are owned by the organization. Real accounts include tangible and intangible accounts. For example, Computers A/c, Furniture A/c, Electronic equipments A/c etc.

**Nominal Accounts:** These accounts do not have any existence, form or shape. They relate to incomes and expenses and gains and losses of an organization. For example, Accommodation Charges A/c, Honorarium A/c, Rent A/c, Hire charges A/c, Xerox Charges A/c, Stationery Charges A/c etc.

## RULES OF ACCOUNTING

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Name of Account	Debit Aspect	Credit Aspect
Personal	The receiver	The giver
Real	What comes in	What goes out
Nominal	All expenses and losses	All incomes and gains

### Points to Remember



- 1 Determine the two accounts which are involved in the transaction.
- 2 Classify the above two accounts under Personal, Real or Nominal.
- 3 Find out the rules of debit and credit for the above two accounts.

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## Examples

1. (Receipt of Fund ) On January 1 2009- Amount received from M/s Rao & Co., Rs.20,00,000/- through cheque for implementation of V.L. Programme

Analysis of Transaction		
Determine the two accounts involved in the transaction	Bank account	Transfer-in (M/s Rao & Co.,)
Classify the account under personal, real, nominal	Personal account	Nominal account
Find out the rules of debit and credit	Debit the Receiver	Credit all incomes and gains

Therefore, Bank account is debited and Transfer in (M/s Rao & Co.) account is Credited

2. (Receipt of Corpus Fund) On January 1 2009- Amount contributed for Rs.5,00,000/- towards corpus fund through cheque.

Analysis of Transaction		
Determine the two accounts involved in the transaction	Bank account	Corpus Fund
Classify the account under personal, real, nominal	Personal account	Personal account
Find out the rules of debit and credit	Debit the Receiver	Credit the giver

Therefore, Bank account is debited and corpus fund account is credited

3. (Receipt of Bank interest) January 5, 2009- Bank interest of Rs.500 credited by the banker in the pass book.

Analysis of Transaction		
Determine the two accounts involved in the transaction	Bank account	Bank interest account
Classify the account under personal, real, nominal	Personal account	Nominal account
Find out the rules of debit and credit	Debit the receiver	Credit all incomes and gains

Therefore, Bank account is debited and Bank interest account is credited

**4. (Payment of Advance through Cheque) January 10, 2009- Advance Rs. 3,20,000 paid through cheque to Mr.N for implementation of the Programme.**

Analysis of Transaction		
Determine the two accounts involved in the transaction	Mr N account	Bank account
Classify the account under personal, real, nominal	Personal account	Personal account
Find out the rules of debit and credit	Debit the receiver	Credit the giver

Therefore, Mr N account is debited and Bank account is credited

**5. (Payment of Advance through Cash) January 12, 2009- Advance Rs.2,50,000 paid by cash to M/s.S for implementation of the Programme.**

Analysis of Transaction		
Determine the two accounts involved in the transaction	Mr. S account	Cash account
Classify the account under personal, real, nominal	Personal account	Real account
Find out the rules of debit and credit	Debit the receiver	Credit what goes out

Therefore, Mr S account is debited and Cash account is credited

**6. (Payment of Expenses by Cheque) January 15, 2009 Purchase stationary for Rs.5,000 through cheque (cheque No:005)**

Analysis of Transaction		
Determine the two accounts involved in the transaction	Stationary account	Bank account
Classify the account under personal, real, nominal	Nominal account	Personal account
Find out the rules of debit and credit	Debit all expenses or losses	Credit the giver

Therefore, Stationary account is debited and Bank account is credited

7. (Payment of Expenses by Cash) January 18, 2009 - Xerox charges for Rs.120.

Analysis of Transaction		
Determine the two accounts involved in the transaction	Xerox Charges account	Cash account
Classify the account under personal, real, nominal	Nominal account	Real account
Find out the rules of debit and credit	Debit all expenses or losses	Credit what goes out

Therefore, Xerox Charges account is debited and Cash account is credited

8. (Cash withdrawal) January 20, 2009 Cash withdrawn from bank for office use Rs.10,000

Analysis of Transaction		
Determine the two accounts involved in the transaction	Cash account	Bank account
Classify the account under personal, real, nominal	Real account	Personal aAccount
Find out the rules of debit and credit	Debit what comes in	Credit the giver

Therefore, Cash account is debited and Bank account is credited

9. (Cash deposit) January 22, 2009 Cash deposit into bank for Rs.3000

Analysis of Transaction		
Determine the two accounts involved in the transaction	Bank account	Cash account
Classify the account under personal, real, nominal	Personal account	Real account
Find out the rules of debit and credit	Debit the receiver	Credit what goes out

Therefore, Bank account is debited and Cash account is credited

### Compound Journal Entry

When two or more transaction of similar nature take place on the same date, such transactions can be entered in the journal by means of a combined journal entry which is called Compound Journal Entry. The only precaution to be taken is that the total debits should be equal to the total credits.

10. (Advance amount fully utilized) On January 25, 2009 Utilization certificate received from the Mr. N with the following details of expenditure.

Particulars	Amount (Rs.)
Facilitators honorarium	270000
Materials	20000
Display boards	15000
Hiring of drums	10000
Other miscellaneous exp	5000
<b>TOTAL</b>	<b>320000</b>

Analysis of Transaction		
Determine the two accounts involved in the transaction	Facilitators honorarium a/c Materials a/c Display boards a/c Hiring of drums a/c Other misc. exp a/c	Mr N account
Classify the account under personal, real, nominal	Nominal Account	Personal account
Find out the rules of debit and credit	Debit all expenses or losses	Credit the giver

11. ( Advance amount partly utilized) On January 25, 2009 Utilization certificate received from the Mr. S with the following details of expenditure.

Particulars	Amount (Rs.)
Facilitators honorarium	150000
Materials	10000
Display boards	5000
Hiring of drums	3000
Other miscellaneous exp	2000
<b>TOTAL</b>	<b>170000</b>

An amount of Rs.30,000 refunded by Mr S



### For Adjustment of Advance

Analysis of Transaction		
Determine the two accounts involved in the transaction	Facilitators honorarium a/c Materials a/c Display boards a/c Hiring of drums a/c Other misc. exp a/c	Mr S account
Classify the account under personal, real, nominal	Nominal Account	Personal account
Find out the rules of debit and credit	Debit all expenses or losses	Credit the giver

### For amount refund

Analysis of Transaction		
Determine the two accounts involved in the transaction	Cash account	M/s S account
Classify the account under personal, real, nominal	Real account	Personal account
Find out the rules of debit and credit	Debit whats comes in	Credit the giver

12. (Reimbursement of over expenditure - in excess to advance) On January 25, 2009 Utilization certificate received from the Mr. S with the following details of expenditure.

Particulars	Amount (Rs.)
Facilitators honorarium	150000
Materials	10000
Display boards	5000
Hiring of drums	3000
Other miscellaneous exp	2000
<b>TOTAL</b>	<b>170000</b>

An amount of Rs.20,000 refunded to M/s S

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### For Adjustment of Advance

Analysis of Transaction		
Determine the two accounts involved in the transaction	Facilitators a/c honorarium a/c Materials account Display boards a/c Hiring of drums a/c Other misc. exp a/c	Mr S account
Classify the account under personal, real, nominal	Nominal Account	Personal account
Find out the rules of debit and credit	Debit all expenses or losses	Credit the giver

### Reimbursement of Expenditure

Analysis of Transaction		
Determine the two accounts involved in the transaction	M/s S account	Cash account
Classify the account under personal, real, nominal	Personal account	Real account
Find out the rules of debit and credit	Debit the receiver	Credit what goes out

## Step -3

## Preparation of Cash Book and Journal Proper

*At the end of the lesson, you will learn,*

- *To enter cash and bank transactions in the cash book*
- *What is journal proper and how are transactions recorded in journal proper*

### INTRODUCTION

The books into which transactions are first entered from the source documents are called as books of original entry or prime entry. Journal and cash books are books of original entry in which transactions are originally recorded as soon as they occur. While all cash and bank transactions are entered in the cash book, all those non-cash and non-bank transactions are entered in the journal.

### CASH BOOK

A cash book is a special journal which is used to record all cash and bank transactions. As can be seen in the format given below, the cash book contains cash and bank columns both on the receipts and payments side to record the bank transactions.

The cash book is also 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.

Dr.		CASH BOOK						Cr.	
Date	Receipts	LF	Cash Rs.	Bank Rs.	Date	Payments	LF	Cash Rs.	Bank Rs.

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### ***Steps in preparing cash book***

- 1: Determine the nature of the transaction i.e, Receipt or Payment
- 2: Identify weather it is a Bank transaction or cash transaction
  - 3a: In case of Receipt and Cash Transaction - Record the transaction on the debit side of the cash column
  - 3b: In case of Receipt and Bank transaction- Record the transaction on the debit side the bank column
  - 3c: In case of Payment and Cash transaction- Record the transaction on the credit side of the cash column
  - 3d: In case of payment and Bank transaction- Record the transaction on the credit side of the bank column.
- 4: When an entry affects both cash and bank accounts it is called a contra entry. In contra entries both the debit and credit aspects of a transaction are recorded in the cash book itself.
- 4a: If Cash paid into bank – it will affect the both cash and bank column i.,e Bank balance will increase and cash balance will decrease  
On the debit side ‘To Cash A/c’ will be entered in the particulars column and the amount will be entered in the bank column.  
On the credit side ‘By Bank A/c’ will be entered in the particulars column and the amount will be entered in the cash column.
- 4b: Cash withdrawn from bank - it will also affect both cash and bank column i.,e Cash balance will increase and Bank balance will decrease  
On the debit side ‘To Bank A/c’ will be entered in the particulars column and the amount will be entered in the Cash column. In the credit side ‘By Cash A/c’ will be entered in the particulars column and the amount will be entered in the Bank column.

*Note: Such contra entries are denoted by writing the letter ‘C’ in the L.F. column, on both sides of the cash book. They indicate that no posting in respect thereof is necessary in the ledger.*

### Example

On January 1 2009- Amount transfer from M/s AB Charitable Trust Rs.20,00,000/- through cheque towards implementation of V.L. Programme

On January 5, 2009- Bank interest of Rs.500 credited by the banker in the pass book.

On January 10, 2009- Advance Rs. 3,20,000 paid through cheque to Mr.Sharma for implementation of VL Programme.

On January 12, 2009- Advance Rs.2,50,000 paid by cash to M/s.Ravi & co., for implementation of VL Programme.

On January 15, 2009 Purchase stationary for Rs.5,000 through cheque (cheque No:005)

On January 18, 2009 - Xerox charges for Rs.120.

On January 20, 2009 Cash withdrawn from bank for office use Rs.10,000

On January 22, 2009 Cash deposit into bank for Rs.3000

On January 30, 2009 An amount of Rs.30,000 received from M/s Ravi & Co.,

### Solution

Dr.					Cr.				
Cash Book of M/s. Zed for the period from ..... to .....									
Date	Receipts	LF	Cash	Bank	Date	Payments	LF	Cash	Bank
Jan, 09					Jan,09				
1	To Transfer In AB Charitable Trust			2000000	10	By Mr.Sharma(Advance)			320000
5	To Bank interest			500	12	By M/s Ravi&Co., (Advance)		250000	
20	To Bank	(c)	10000		15	By Stationery			5000
22	To Cash	(c)		3000	18	By Xerox Charges		120	
30	To M/s Ravi & Co., (Advance)		30000		20	By Cash	(c)		10000
					22	By Bank	(c)	3000	

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## JOURNAL

Journal is a date-wise record of all the transactions with details of the accounts debited and credited and the amount of each transaction.

### Format for Journal

Date	Particulars	L.F	Debit	Credit
			Rs.	Rs.

#### Explanation:

**Date:** In the first column, the date of the transaction is entered. The year and the month is written only once, till they change. The sequence of the dates and months should be strictly maintained.

**Particulars:** Each transaction affects two accounts, out of which one account is debited and the other account is credited. The name of the account to be debited is written first, very near to the line of particulars column and the word Dr. is also written at the end of the particulars column. In the second line, the name of the account to be credited is written, starts with the word 'To', a few spaces away from the margin in the particulars column to make it distinct from the debit account.

**Narration:** After each entry, a brief explanation of the transaction together with necessary details is given in the particulars column with in brackets called narration.

**Ledger Folio (L.F):** All entries from the journal are later posted into the ledger accounts. The page number or folio number of the Ledger, where the posting has been made from the Journal is recorded in the L.F column of the Journal. Till such time, this column remains blank.

**Debit :** In this column, the amount of the account being debited is written.

**Credit:** In this column, the amount of the account being credited is written.

#### *Steps in recording a transaction in the journal*

1 Record the date of transaction in the date column. The year and month is written once, till they change. The sequence of the dates and months should be strictly maintained.

2. Enter the name of the account to be debited in the particulars column very close to the left hand side of the particulars column followed by the abbreviation Dr. in the same line. Against this, the amount to be debited is written in the debit amount column in the same line.

3. Write the name of the account to be credited in the second line starts with the word 'To' a few space away from the margin in the particulars column. Against this, the amount to be credited is written in the credit amount column in the same line.

4. Write the narration within brackets in the next line in the particulars column.

5. Draw a line across the entire particulars column to separate one journal entry from the other.

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**Example**

Mr Ram submitted the following bills against advance:

Particulars	Amount(Rs.)
Honorarium	25,000
Accommodation charges	10,000
Travelling allowance	5,000
Printing and Stationery exp	10,000
<b>TOTAL</b>	<b>50,000</b>

**Journal**

Date	Particulars		Debit Rs.	Credit Rs.
1st Jan, 2009	Honorarium a/c	Dr	25,000	
	Accommodation a/c	Dr	10,000	
	Travelling allowance a/c	Dr	5,000	
	Printing & Stationary a/c	Dr	10,000	
	To Mr Ram a/c			50,000
	( Being full settlement of Advance amount)			

*At the end of the lesson, you will learn,*

- *What is Ledger, and*
- *How is Ledger posted*

## INTRODUCTION

*Individual transactions are noted in the journal as they occur . However, if one wants to find the overall effect of each type of transaction it is necessary to bring all transactions of that account together. The ledger is a group of all accounts that accumulate the transactions that take place over a period of time. The Ledger the first step to prepare the trial balance and other final statements.*

## LEDGER

In the Journal, each transaction is entered separately as and when the event occurs. Therefore, it is not possible to know at a glance, the net result of all transactions. In order to ascertain the net effect, all the transactions that taken place in a particular account are accumulated together in a Ledger. It is a book which contains all the accounts whether personal, real or nominal, that have been entered in journal or special purpose books (i.e. cash book and journal).

The ledger is normally a bound note book with sequentially numbered pages and is preserved for a long time. Each account in the ledger is generally opened on a separate page. If one page is completed, the account is continued in the next or some other page.

Ledger is a principal or main book which contains all the accounts in which the transactions recorded in the books of original entry are transferred. Ledger is also called the '**Book of Final Entry**' or '**Book of Secondary Entry**', because the transactions are finally incorporated in the Ledger

### Format for Ledger

Dr.				Name of the Account				Cr.			
Date	Particulars	J.F	Amount	Date	Particulars	J.F	Amount				



### Explanation:

1. The name of the account is mentioned in the top (middle) of the account.
2. Each ledger account is divided into two parts. The left hand side is known as the debit side and the right hand side is known as the credit side. The words 'Dr.' and 'Cr.' are used to denote Debit and Credit.
3. The date of the transaction is recorded in the date column.
4. The word 'To' is used before the accounts which appear on the debit side of an account in the particulars column. Similarly, the word 'By' is used before the accounts which appear on the credit side of an account in the particulars column.
5. The name of the other account which is affected by the transaction is written either in the debit side or credit side in the particulars column.
6. The page number of the Cash Book or Journal from where that particular entry is transferred is entered in the Journal Folio (J.F) column.
7. The amount pertaining to this account is entered in the amount column.

### POSTING

The process of transferring the entries recorded in the journal or cash books to the respective accounts opened in the ledger is called Posting. In other words, "posting" means grouping of all the transactions relating to a particular account. Posting helps in evaluating the net effect of various transactions during a given period on a particular account.

#### Procedure of posting

The procedure of posting is given as follows:

I. Procedure of posting for an Account which has been debited in cash column in the Cash Book.

1. Locate in the ledger the page that contains the account to be credited and enter the date of the transaction in the date column on the credit side.
2. Record the name of the account e.g. "By Cash"
3. Record the page number of the cash book in the J.F column on the credit side and in the Cash Book, write the page number of the ledger on which a particular account appears in the L.F. column.
4. Enter the relevant amount in the amount column on the credit side.

Dr.		Cash Book						Cr.	
Date	Receipts	LF	Cash	Bank	Date	Payments	LF	Cash	Bank
Jan, 09 1	To Sadana		₹ 30000						

Dr.		Sadana Account					Cr.	
Date	Particulars	J.F	Amount	Date	Particulars	J.F	Amount	
				Jan, 09 1	By Cash		₹ 30000	

**II. Procedure of posting for an Account which has been debited in Bank column in the Cash Book**

*Step 1* Locate in the ledger the page that contains the account to be credited and enter the date of the transaction in the date column on the credit side.

*Step 2* Record the name of the account as “By Bank”

*Step 3* Record the page number of the cash book in the J.F column on the credit side and in the Cash Book, write the page number of the ledger on which a particular account appears in the L.F. column.

*Step 4* Enter the relevant amount in the amount column on the credit side.

<b>Cash Book</b>									
Dr.					Cr.				
Date	Receipts	LF	Cash	Bank	Date	Payments	LF	Cash	Bank
Jan, 09 30	To Transfer-in a/c			2000000					

<b>Transfer-in account</b>							
Dr.				Cr.			
Date	Particulars	J.F	Amount	Date	Particulars	J.F	Amount
				Jan, 09 30	By Bank		2000000

**III. Procedure of posting for an Account which has been credited in cash column in the Cash Book**

*Step 1* Locate in the ledger the page that contains the account to be debited and enter the date of the transaction in the date column on the debit side.

*Step 2* Record the name of the account as “To Cash”

*Step 3* Record the page number of the cash book in the J.F column on the debit side and in the Cash Book, write the page number of the ledger on which a particular account appears in the L.F. column.

*Step 4* Enter the relevant amount in the amount column on the debit side.

<b>Cash Book</b>									
Dr.					Cr.				
Date	Receipts	LF	Cash	Bank	Date	Payments	LF	Cash	Bank
					Jan, 09 12	By M/s. S account		250000	

<b>M/s S account</b>							
Dr.				Cr.			
Date	Particulars	J.F	Amount	Date	Particulars	J.F	Amount
Jan, 09 1	To Cash		250000				

**IV. Procedure of posting for an Account which has been credited in Bank column in the Cash Book**

*Step 1* Locate in the ledger the page that contains the account to be debited and enter the date of the transaction in the date column on the debit side.

*Step 2* Record the name of the account as “To Bank”

*Step 3* Record the page number of the cash book in the J.F column on the debit side and in the Cash Book, write the page number of the ledger on which a particular account appears in the L.F. column.

*Step 4* Enter the relevant amount in the amount column on the debit side.

Dr.					Cr.				
<b>Cash Book</b>									
Date	Receipts	LF	Cash	Bank	Date	Payments	LF	Cash	Bank
					Jan, 09 15	By Stationery a/c			5000

Dr.				Cr.			
<b>Stationery Account</b>							
Date	Particulars	J.F	Amount	Date	Particulars	J.F	Amount
Jan, 09 15	To Bank		5000				

**V. Procedure of posting for an Account which has been debited in the journal entry.**

*Step 1* Locate in the ledger the account to be debited and enter the date of the transaction in the date column on the debit side.

*Step 2* Record the name of the account credited in the Journal in the particulars column on the credit side as “By..... (Name of the account credited)”

*Step 3* Record the page number of the Journal in the J.F column on the debit side and in the Journal, write the page number of the ledger on which a particular account appears in the L.F. column.

*Step 4* Enter the relevant amount in the amount column on the debit side.

**VI. Procedure of posting for an Account which has been credited in the journal entry.**

*Step 1* Locate in the ledger the account to be credited and enter the date of the transaction in the date column on the credit side.

*Step 2* Record the name of the account debited in the Journal in the particulars column on the credit side as “By..... (name of the account debited)”

*Step 3* Record the page number of the Journal in the J.F column on the credit side and in the Journal, write the page number of the ledger on which a particular account appears in the L.F. column.

*Step 4* Enter the relevant amount in the amount column on the credit side.

## Posting of Compound Journal Entries

Compound or Combined Journal Entry is one where more than one transaction is recorded by passing only one journal entry instead of passing several journal entries. Since every debit must have the corresponding credit of equal amount, special care must be taken in posting the compound journal entry, where there may be only one debit aspect but many corresponding credit aspects of equal value or vice versa

### Journal

Date	Particulars		Debit Rs.	Credit Rs.
1st Jan, 2009	Honorarium a/c	Dr	270000	
	Materials a/c	Dr	20000	
	Display boards a/c	Dr	15000	
	Hiring of drums a/c	Dr	10000	
	Other miscellaneous exp a/c	Dr	5000	
	To Mr. N Account ( Advance adjustment)			320000

Dr.				Mr N account				Cr.			
Date	Particulars	J.F	Amount	Date	Particulars	J.F	Amount	Date	Particulars	J.F	Amount
				Jan, 09 1	By Honorarium a/c		2700000				
					By Materials a/c		20000				
					By Display boards a/c		15000				
					By Hiring of drums a/c		10000				
					By Other mis. exp a/c		5000				

Dr.				Honorarium account				Cr.			
Date	Particulars	J.F	Amount	Date	Particulars	J.F	Amount	Date	Particulars	J.F	Amount
Jan, 09 1	To Mr. N Account		2700000								

Dr.				Material account				Cr.			
Date	Particulars	J.F	Amount	Date	Particulars	J.F	Amount	Date	Particulars	J.F	Amount
Jan, 09 1	To Mr. N Account		20000								

Dr.				Display Board account				Cr.			
Date	Particulars	J.F	Amount	Date	Particulars	J.F	Amount	Date	Particulars	J.F	Amount
Jan, 09 1	To Mr. N Account		15000								

<b>Dr.</b>				<b>Hiring of Drums account</b>				<b>Cr.</b>			
Date	Particulars	J.F	Amount	Date	Particulars	J.F	Amount				
Jan, 09 1	To Mr. N Account		10000								

<b>Dr.</b>				<b>Miscellaneous Expenditure account</b>				<b>Cr.</b>			
Date	Particulars	J.F	Amount	Date	Particulars	J.F	Amount				
Jan, 09 1	To Mr. N Account		5000								

*At the end of the lesson, you will learn,*

- *Need for balancing for accounts, and*
- *How to balance the accounts*

## **INTRODUCTION**

While the ledger accumulates all the transactions that occurs in an account during the period of time, to know the overall balance of the account, it is necessary that the debit and credit balances of the account are calculated. This is called as balancing of accounts. Balancing gives the accurate position of an account at any given point of time.

## **BALANCING OF ACCOUNTS**

Balance is the difference between the total debits and the total credits of an account. When posting is done, there would be debit entries as well as credit entries for an account. The net result of such debits and credits in an account is the balance.

Balancing means the writing of the difference between the amount columns of the two sides in the lighter (smaller total) side, so that the grand totals of the two sides become equal.

## **SIGNIFICANCE OF BALANCING**

There are three possibilities while balancing an account during a given period. It may be a debit balance or a credit balance or a nil balance depending upon the debit total and the credit total.

**i. Debit Balance:** The excess of debit total over the credit total is called the debit balance. When there are only debit entries in an account, the amount itself is the balance of that account, i.e., the debit balance. It is first recorded on the credit side, above the total. Then it is entered on the debit side, below the total, as the first item for the next period.

**ii. Credit Balance:** The excess of credit total over the debit total is called the credit balance. When there are only credit entries in an account, the amount itself is the balance of that account i.e., the credit balance. It is first written on the debit side, just above the total. Then it is recorded on the credit side, below the total, as the first item for the next period.

**iii. Nil Balance:** When the total of debits and credits are equal, it is closed by merely writing the total on both the sides. It indicates the equality of benefits received and given by that account.

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## BALANCING OF DIFFERENT ACCOUNTS

Balancing is done periodically, i.e., weekly, monthly, quarterly, half yearly or yearly, depending on the requirements.

**1. Personal Accounts:** These accounts are generally balanced regularly to know the amounts due to the persons (creditors) or due from the persons (debtors).

**2. Real Accounts:** These accounts are generally balanced at the end of the financial year, when final accounts are being prepared. However, cash account is frequently balanced to know the cash on hand. A debit balance in an asset account indicates the value of the asset owned by the business. Assets accounts always show debit balances.

**3. Nominal Accounts:** These accounts are in fact, not to be balanced as they are to be closed by transfer to final accounts. A debit balance in a nominal account indicates that it is an expense or loss. A credit balance in a nominal account indicates that it is an income or gain.

All such balances in personal and real accounts are shown in the Balance Sheet and the balances in nominal accounts are taken to the Profit and Loss Account.

## PROCEDURE FOR BALANCING

While balancing an account, the following steps are involved:

**1.** Total the amount of the debit side and the credit side separately and then ascertain the difference of both the columns.

**2.** If the debit side total exceeds the credit side total, put such difference on the amount column of the credit side, write the date on which balancing is being done in the date column and the words “By Balance c/d” (c/d means carried down) in the particulars column.

OR

If the credit side total exceeds the debit side total, put such difference on the amount column of the debit side, write the date on which balancing is being done in the date column and the words “To Balance c/d” in the particulars column.

**3.** Again, sum the respective totals in the amount columns on both sides and write the totals at the end of the columns. Draw a line above and a line below the totals.

**4.** Enter the date of the beginning of the next period in the date column and bring down the debit balance on the debit side along with the words “To Balance b/d” (b/d means brought down) in the particulars column and the credit balance on the credit side along with the words “By balance b/d” in the particulars column.

**Note:** In the place of c/d and b/d, the words c/f or c/o (carried forward or carried over) and b/f or b/o (brought forward or brought over) may also be used. When the balance is carried down in the same page, the words c/d and b/d are used, while balance is carried over to the next page, the term c/o and b/o are used. When balance is carried forward to some other page either in same book or some other book, the abbreviations c/f (carried forward) and b/f (brought forward) are used.

## Examples

### 1. Debit Balance

Dr.				Cr.			
Stationery Account							
Date	Particulars	J.F	Amount	Date	Particulars	J.F	Amount
Jan, 09 15	To Bank		5000		By Balance c/d		5000
			<b>5000</b>				<b>5000</b>
	To Balance b/d		5000				

### 2. Debit Balance

Dr.				Cr.			
Transfer -in Account							
Date	Particulars	J.F	Amount	Date	Particulars	J.F	Amount
	To Balance c/d		2000000	Jan, 09 30	By Bank		2000000
			<b>2000000</b>				<b>2000000</b>
					By Balance b/d		2000000

### 2. NIL Balance

Dr.				Cr.			
Mr N account							
Date	Particulars	J.F	Amount	Date	Particulars	J.F	Amount
Jan, 09 10	To Bank		320000	Feb, 09 1	By Honorarium a/c		2700000
					By Materials a/c		20000
					By Display boards a/c		15000
					By Hiring of drums a/c		10000
					By Other mis. exp a/c		5000
			<b>320000</b>				<b>320000</b>



*At the end of the lesson, you will learn,*

- *The need for preparing Trial Balance, and*
- *How to prepare the Trial Balance*

## INTRODUCTION

*The balancing of accounts gives the picture of the position of each account. To understand the comprehensive position of all accounts it is necessary to prepare the trial balance which is a summarised statement of the ledger balances.*

*The trial balance gives the arithmetical accuracy of the accounts and forms the basis of preparing the final accounts.*

## TRIAL BALANCE

A basic rule to double entry accounting is that for every credit there must be an equal debit amount. This means that the sum of all debits must equal the sum of credits in the accounting year. In case, the debits do not equal the credits, then it is evident that an error has been made. The Trial balance is a tool for detecting such errors.

The trial balance is calculated by summing the balances of General ledger accounts and cash book. It summarizes the net effects of all of the debit and credit in an account and generates the basic summary of accounts to facilitate preparation of financial statement. Trial Balance is reported in the following format:

Particulars	L.F	Debit	Credit
		Rs	Rs

### Note:

Date on which trial balance is prepared should be mentioned at the top.

Name of Account column contains the list of all ledger accounts.

Ledger folio of the respective account is entered in the next column.

In the debit column, debit balance of the respective account is entered.

Credit balance of the respective account is written in the credit column.

The last two columns are totalled at the end.

*At the end of the lesson, you will learn,*

- *The Financial statements to be prepared for non-profit organisation.*
- *How to prepare the Financial Statements*

**INTRODUCTION**

*The final accounts of an organization generally include two parts. The first part is Income and Expenditure Account. This is prepared to find out the Surplus or deficit of business. The second part is Balance Sheet which is prepared to know the financial position of the organization.*

**INCOME AND EXPENDITURE**

In order to ascertain the true surplus or deficit made by an entity in an accounting period, it is necessary that all expenses and income are considered. The Income and Expenditure account considers all expenses and revenues and shows the surplus made or deficit suffered by an entity during a particular accounting period.

**Income and Expenditure for the period from ... to..**

Particulars	Current Year	Previous Year
<b>INCOME</b>		
Transfer-in account		
Contributed from NGOs Association		
Contributed from Govt Organization		
Contributed from Others		
Loan borrowed from NGOs Association		
Loan borrowed from Govt Organization		
Loan borrowed from Others		
Miscellaneous receipt		

Particulars	Current Year	Previous Year
<b>Cont..</b>		
Miscellaneous receipt		
Bank interest		
Sale of old news papers etc		
Others (if any)		
<b>TOTAL INCOME</b>		
<b>EXPENDITURE</b>		
Salaries to Staff		
Salaries of Supervisor		
Salaries to Data entry Operator		
Accommodation Charges		
Traveling allowances		
Postage/courier charges		
Telephone, fax, internet		
Videos and Photo charges		
Banner charges		
Printing, Stationery and consumable		
Material Purchased		
Gift article Purchased		
Xerox charges		
Vehicle expenses		
Meeting expenses		
Water and electricity charges		
Rents, rates and taxes		
Patrol, oil and lubricants		
Security Services		
House keeping charges		
Constancy charges		
Legal charges		
Audit expenses		
Bank charges		
Miscellaneous expenses ( if any)		
<b>TOTAL EXPENDITURE</b>		
<b>SURPLUS / DEFICIT</b>		

## BALANCE SHEET

This forms the second part of the final accounts. It is a statement showing the financial position of a business. Balance sheet is prepared by considering all personal accounts and real accounts (assets and properties) together with the net result obtained from Income and Expenditure account. On the left hand side of the statement, the liabilities and capital are shown. On the right hand side, all the assets are shown. Balance sheet is not an account but it is a statement prepared from the ledger balances. So we should not prefix the accounts with the words 'To' and 'By'.

**Balance sheet** is defined as 'a statement which sets out the assets and liabilities of a organizations and which serves to ascertain the financial position of the same on any particular date'.

### Format

The Balance sheet of an organization can be presented in the following two forms

Horizontal form or the Account form

Vertical form or Report form

### Horizontal form of Balance Sheet

Also called as the T-form, the horizontal form of balance sheet has two columns. The right hand side of the balance sheet is asset side and the left hand side is liabilities side. All accounts having debit balance will appear in the asset side and all those having credit balance will appear in the liability side.

**Balance sheet of .....as on .....**

<b>Liabilities</b>	<b>C. Y</b>	<b>P. Y</b>	<b>Assets</b>	<b>C. Y</b>	<b>P. Y</b>
<b>Capital, Reserves and surplus</b>			<b>Fixed Assets</b>		
Fund Balance			Furniture & Fitting		
Add: Surplus			Land & Building		
<b>Total Fund</b>			Plant & Machinery		
			Other Assets		
Reserves			<b>Total Fixed Assets</b>		
<b>Long term Liabilities</b>			<b>Current Assets</b>		
Mortgage loan			Cash in hand		
<b>Current Liabilities</b>			Cash at bank		
Creditors			Sundry Debtors		
Outstanding Exp			<b>Total Current Assets</b>		
Bank Overdraft			<b>Investments</b>		
			<b>Prepaid-expenses</b>		

### Vertical form of Balance Sheet

The liabilities and assets are entered in a single column with liabilities entered first followed by assets. The advantage of this form of balance sheet is that the comparison of the assets and liabilities between the current year and the previous is easier and clear.

Particulars	Current Year	Previous Year
<b>LIABILITIES</b>		
<b>Capital, Reserves and surplus</b>		
Fund Balance		
Add: Surplus		
<b>Total Fund</b>		
Reserves		
<b>Total Capital Employed</b>		
<b>Long term Liabilities</b>		
Mortgage loan		
<b>TOTAL LIABILITIES</b>		
<b>ASSETS</b>		
<b>Fixed Assets</b>		
Furniture & Fitting		
Land & Building		
Plant & Machinery		
Other Assets		
<b>Total Fixed Assets</b>		
Investments		
<b>Current Assets</b>		
Cash in hand		
Cash at bank		
Sundry Debtors		
<b>Total Current Assets</b>		
<b>Less: Current Liabilities</b>		
Creditors		
Outstanding Expenses		
Bank Overdraft		
<b>Total Current Liabilities</b>		
<b>Net Current Assets</b>		
<b>Prepaid-expenses</b>		
<b>TOTAL ASSETS</b>		

## RECEIPTS AND PAYMENTS ACCOUNT

The receipts and payments account shows the sources of funds and application of funds during the accounting period. The following steps are involved in the preparation of the statement.

- The opening and closing cash and bank balances as per Cash Book should be ascertained and entered.
- Income accounted on actual receipt basis.
- Expenditure accounted on actual payment basis.
- Receipts and payment entries need be classified under respective head.
- Entries with reference to entries in the Journal register are not recognized.

The statement shall be prepared in the following format:

### Receipts and Charges Account of .....for the year ended.....

Receipts	C. Y	P. Y	Payments	C. Y	P. Y
<b>To Opening Balance</b> Cash in hand Cash at bank  <b>To Summary of Receipts</b>			<b>By Summary of Expenditure</b>     <b>By Closing Balance</b> Cash in hand Cash at bank		

Part III  
Special Topics





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## Topic -1 Bank Reconciliation Statement

The balance of the bank column in the cash book represents the cash balance at bank. It should be the same as shown by the bank pass book on any particular day. For every entry made in the cash book if there is a corresponding entry in the pass book (maintained by the banker) or vice versa, the bank balance will be the same in both the books.

However, it must be noted that since the cash book and the pass book are maintained by two different parties and there is bound to be some time lag between the actual transaction taking place and the bank completing the transaction, it is not certain that entry in one book will always have a corresponding entry in the other. While it is necessary that entries in the cash book should tally (agree) with those in the pass book and the balances shown by both the books should be the same, in practice, however, the balances differ. In case of disagreement in the balance of the cash book and the pass book, the need for preparing Bank Reconciliation Statement arises.

### **Causes of disagreement between the balance shown by the cash book and the balance shown by the pass book**

1. Cheques paid into bank but not yet collected
2. Cheques issued but not yet presented for payment
3. Amount credited by the banker in the pass book without the immediate knowledge of the customer
4. Amounts debited by the banker in the pass book without the immediate knowledge of the customer.

After tracing the various items of differences, a Bank reconciliation statement is prepared by starting with the balance shown by any of the two books. But in actual practice, a Bank reconciliation statement is prepared by starting with the balance as per cash book and will ensure that the balance as per pass book is arrived at.

### **Bank Overdraft**

Bank overdraft is an amount drawn over and above the actual balance kept in the bank account. This facility is available only to the current account holders. Interest will be charged for the amount overdrawn i.e., overdraft. The Cash book will show a credit balance i.e., unfavourable balance. The pass book will show a debit balance.

**Favorable Balance** means the cash book will have a debit balance and the pass book will have a credit balance

**Bank overdraft** or **unfavorable balance** means cash book will have a credit balance and pass book will have debit balance.

## Bank Pass Book

Bank Pass book (statement of account) is merely a copy of the customer's account in the books of a bank. It shows all the deposits, withdrawals and the balances available in the customers account.

### Format

Date	Particulars	Dr. Withdrawals	Cr. Deposits	Balance Dr/Cr	Initials
		Rs.	Rs.	Rs.	

A summary of the transactions and the reconciliation procedure is given in the table below

Sl. No	Transactions	Entries by Accountant in the Cash Book (Bank Column)	Entries by Bank in the Pass Book	Effect	Procedure to ascertain the balance as per pass book from cash book	
					Favorable balance	Unfavorable balance
	When cash is deposited	Accountant Enters in the debit side	Bank enters in the credit column	CB = PB	-	-
	When cash is withdrawn	Accountant enters in the credit side	Bank enters in debit column	CB = PB	-	-
	Issue of cheque	Accountant enters in the credit side immediately	Bank enters in the debit column only on the date when presented for payment	CB < PB	Add	Less
	Cheque received and entered in cash book and sent to bank for collection	Accountant debits cash book	Only after collection, the amount will be entered in the credit column of the pass book because the process takes some time	CB > PB	Less	Add
	Bank Charges for services rendered by bank	No entry can be found in cash book till the pass book is verified	Entered in the debit column of passbook immediately	CB > PB	Less	Add
	Interest, other income collected by bank on behalf of customer	No entry can be found in cash book till the pass book is verified	These are entered in the credit column of the pass book immediately after receiving the amount	CB < PB	Add	Less

Sl. No	Transactions	Entries by Accountant in the Cash Book (Bank Column)	Entries by Bank in the Pass Book	Effect	Procedure to ascertain the balance as per pass book from cash book	
					Favorable balance	Unfavorable balance
	Amount directly remitted into bank	No entry is found in cash book till the pass book is verified	Entered in the credit column of the pass book on the same day of receipt	CB < PB	Add	Less
	Subscription, premium etc., paid by the bankers as per the standing instruction of the customer	No entry is found in cash book till the pass book is verified	Entered in the debit column of the pass book on the same day of payment	CB > PB	Less	Add
	Dishonor of cheques	No entry in the cash book till the intimated by the banker	Entered in the debit column of the pass book immediately	CB > PB	Less	Add
	Dishonored of cheques issued	No entry in the cash book till intimated by the banker	Entered in the credit of the pass book immediately	CB < PB	Add	Less
	Wrong credit in the pass book	No entry is found in cash book unless it is verified with the pass book	Entered (wrongly) in the credit column in the pass book	CB < PB	Add	Less
	Wrong debit in the pass book	No entry is found in cash book unless it is verified	Entered (wrongly) in the debit column in the pass book	CB > PB	Less	Add

**Note:** CB Stands for Cash Book and PB stands for Pass Book

## Format for BRS

The format of Bank Reconciliation statement when bank balance (favorable balance) as per cash book is taken as the starting point.

### Bank Reconciliation Statement as on .....

Particulars	Amount Rs.	Amount Rs.
<b>A. Balance as per cash book</b>		<b>XXX</b>
<b>B. ADD:</b>		
Cheques issued but not presented for payment	XXX	
Interest credited by bank but not recorded in cash book	XXX	
Debtors directly paid into bank but not recorded in cash book	XXX	
Wrong credit by banker	XXX	
Collections by bankers as per customer standing instruction	XXX	
Total (B)		<b>XXX</b>
<b>C. TOTAL (A+B)</b>		<b>XXX</b>
<b>D. LESS:</b>		
Cheques deposited but not credited by the banker	XXX	
Dishonored cheques appeared in the pass book but not entered in the cash book	XXX	
Bank Charges as per pass book	XXX	
Wrong debit by banker	XXX	
Payment as per standing instructions	XXX	
Total (D)		<b>XXX</b>
<b>E. Balance as per pass book (C-D)</b>		<b>XXXX</b>

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## **PERIODIC RECONCILIATION OF ACCOUNTS**

Any accounting system can be made error-free, if certain precautions are taken periodically. The periodicity is daily, monthly, quarterly and annually. Important events of reconciliation cover the following.

### **Reconciliation on daily basis:**

- Balancing of cash book – the cash book shall be totaled and balanced daily, the posting of the day's transactions shall be made in respective ledger accounts, the closing cash and bank balance of the day shall be carried forward to the next day as opening balance for that day.
- Deposit of collections (both cash and cheques) in the bank – the cash and cheques collected shall be deposited in the bank on the same day or the following working day.

### **Reconciliation on monthly basis:**

- Cash Book (with bank column) shall be reconciled with bank pass books/statements
- Verification of expenditure under Register of Petty Cash
- Remittance of statutory deductions to the concerned govt. agencies
- Checking the Ledger accounts with the entries in the Cash Book and Journal Register

### **Reconciliation on quarterly basis:**

- Reconciliation of Advances
- Reconciliation of Deposits
- Reconciliation of Borrowings

### **Reconciliation at the end of the year:**

- Verification of fixed assets / assets
- Verification of inventory / stock
- Reconciliation of Advances
- Reconciliation of Deposits
- Reconciliation of Borrowings
- Reconciliation of Investments
- Closing of Ledger accounts

### Receipt of funds from UNICEF

#### Transfer-in of funds

UNICEF funds would flow to Government or Non-Government implementing partners as per the budget proposals made by them in advance. The funds received would be considered as ‘Transfer In’ of funds. The funds received are recorded in the receipt side of cash book duly making a receipt voucher. The funds are received in the form of bank transfer or through issue of cheque in favor of the implementing agency/partner. The receipt voucher should be submitted to UNICEF without fail.

#### **Advance Payments by the Government or Non-Government implementing partners**

The implementing partners takes up various activities like training, implementation of schemes, etc. for which they advance amounts to the field level functionaries. This payment should be considered as advance in favor of the functionaries and the functionaries have to account for the advance after the activity is complete. On completion of the activity should furnish the detailed statement of expenditure and get the advance adjusted.

Advances may takes place in the following situation:

- The funds paid by a district unit, to various NGOs / Govt. Institutions in the district for implementing the programmes
- The funds paid by district unit to various functionaries for implementing the programmes or for personal requirements like tour advance.

The register of advance contains the following details of payments and adjustments:

**Register of Advance**

Payments					Adjustment /Refund			
Date of advance	Amount of advance (in rupees)	To whom advance is paid	Details of voucher no/ cheque number	Purpose for which advance paid	Date of adjustment	Amount of adjustment (in rupees)	Adjustment particulars	Details of voucher number (of adjustment)

When the advance is adjusted through a bill or refunded by cash, it is recorded against the original entry. whatever advances are made to the functionaries these are recorded under the account head “Advances”. At the time adjustments these advances are charged to relevant expenditure head.

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### Stages and Process relating to advance include

1	Payment of advance	Release of advance to the claimant.
2	Submission of bill	Submission of expenditure bills against the advance taken by the recipient
3	Recovery of advance	Recovery of amount when no expenditure bills are submitted; or recovery of amount when expenditure bills submitted is less than the advance taken by the recipient.
4	Settlement of excess bills	Payment of amount (to recipient), when expenditure bills submitted are more than the advance paid.

#### **Submission of bills against advance:**

Submission of bills means providing details of utilization of advances supported with valid bills and documents. The expenditure bills submitted are to be classified under relevant head of account as per Budget provision. Since no cash or bank transaction is involved in the process (adjustment against advancement), the transaction has to be dealt through Journal Voucher.

#### **Recovery of advance:**

Advance given is to be recovered, when a) the recipient does not submit any expenditure bills; or b) when the expenditure bills submitted are less than the advance taken c) when there is unspent balance. While dealing with advance recovery, it should be ensured that:

- The amount recovered is against the outstanding advance (full or part)
- Amount recovered should not be more than the outstanding advance
- The recovery may be either in cash or by cheque;

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## 2. Settlement of excess bills or reimbursement of expenses

Settlement of excess bill refers to payment of amount (to the recipient), when expenditure bills submitted are more than the advance paid. In other words, it refers to a situation where advance drawn or given to a person is less than the expenditure incurred and bills submitted by the claimant. For example: When the amount of bills submitted against an advance is in excess of the amount advanced, the excess bill has to be paid. For example, say, an advance of Rs.5,000/- is sanctioned to Mr. X and the bills submitted by him are Rs.6,000/- Then, the excess bill amount of Rs.1,000/- should be paid to Mr. X. This transaction requires payment by way of reimbursement.

In settling the advances, the bills are debited to the respective head of expenditure, and adjustment of advance is credited to the respective advance head. While settlement of excess bills, it should be ensured that

- The excess bills relate to the outstanding advance
- Other outstanding advances against the same individual are verified
- Whether the transaction needs payment or adjustment
- There should be appropriate authority for settlement of excess bills
- If the transaction requires payment, whether there is sufficient balance in the bank account
- Preparation of payment voucher referring adjustment of advance and payment of balance amount
- Classification of appropriate heads of account.
- Preparation of cheque.

### Recording of transaction

If the transaction needs adjustment only and no payment in the form of refund or reimbursement needs to be made then a journal voucher needs to be prepared and is to be entered in Journal Register. If the transaction needs payment, payment voucher has to be prepared together with advance adjustment particulars; and the transaction should be recorded in the cash book from which cheque is issued for payment.



### Example

An advance amount of Rs.50,000 paid to M/s excel for implementation of child reports programme.

M/s Excel submitted the following bills against advance:

Particulars	Case 1	Case 2	Case 3
Food charges	20,000	20,000	20,000
Accommodation charges	15,000	15,000	15,000
Video and photos	5,000	5,000	5,000
Printing and Stationery exp	10,000	5,000	15,000
<b>TOTAL</b>	<b>50,000</b>	<b>50,000</b>	<b>50,000</b>

**Case -1:** Settlement of advance

**Case -2:** The balance of un-utilized amount of Rs.5, 000 recovered from M/s Excel.

**Case-3:** Excess amount of Rs.5,000 reimbursed to M/s Excel.

**Case -1:** Settlement of advance

### Journal

Date	Particulars		Debit Rs.	Credit Rs.
1st Jan, 2009	Food Charges a/c	Dr	20,000	
	Accommodation a/c	Dr	15,000	
	Video & Photo a/c	Dr	5,000	
	Printing & Stationary a/c	Dr	10,000	
	To M/s Excel a/c			50,000
	( Being full settlement of Advance amount)			

**Case -2:** The balance of un-utilized amount of Rs.5, 000 recovered from M/s Excel.

### Journal

Date	Particulars		Debit Rs.	Credit Rs.
1st Jan, 2009	Food Charges a/c	Dr	20,000	
	Accommodation a/c	Dr	15,000	
	Video & Photo a/c	Dr	5,000	
	Printing & Stationary a/c	Dr	5,000	
	To M/s Excel a/c			45,000
	( Being full settlement of Advance amount)			

Dr.					Cash Book					Cr.	
Date	Receipts	LF	Cash	Bank	Date	Payments	LF	Cash	Bank		
					Jan, 09 30	By M/s Excel			**5,000		

\*\* Recovery of Advance

### Case-3

### Journal

Date	Particulars		Debit Rs.	Credit Rs.
1st Jan, 2009	Food Charges a/c	Dr	20,000	
	Accommodation a/c	Dr	15,000	
	Video & Photo a/c	Dr	5,000	
	Printing & Stationary a/c	Dr	15,000	
	To M/s Excel a/c			55,000
	( Being full settlement of Advance amount)			

Dr.					Cash Book					Cr.	
Date	Receipts	LF	Cash	Bank	Date	Payments	LF	Cash	Bank		
Jan, 09 30	To M/s Excel			# 5,000							

# Recovery of Advance

**BUDGET**

Budget generally refers to a list of all planned expenses and revenues. The purpose of budgeting is to provide a forecast of revenues and expenditures and enable the actual financial operation of the organization to be measured against the forecast.

*Budget is therefore, a tool for optimal deployment of limited resources for the best possible utility and achievement of its felt needs.* It communicates financial objectives and resources requirement to staff, administrators, and the public in order to secure their support for planned allocation of resources and for performance objectives.

**BUDGET WATCH REGISTER**

The Budget Watch Register monitors actual expenditure as and when bills are admitted against the sanctioned proposals. It shall be maintained by the Accountant in the implementing partner organizations

As and when a work is taken up or whenever a payment is to be made, the Budget provision shall be verified. If the expenditure is within the budgetary allocation, the bill will be admitted, after duly making an entry in the Budget Watch Register.

At any point of time, the Budget Watch Register will indicate the budgetary allocation, the cumulative payments made till that date under the relevant Budget head and the balance available under the relevant Budget head etc

**The format for Budget Watch Register is as follows -**



**INVENTORY/STOCK REGISTER**

This register records various articles purchased and used as and when required. It contains the receipts, issues and balances of various items of inventory, like stationery, computer peripherals etc. These items are not of a permanent nature. Separate pages will be set apart for various articles. All articles purchased will be accounted at the appropriate page. The receipt of the articles has to be entered in the appropriate column, and voucher number wherein payment is made has also to be entered. Similarly, the page number of the Stock Register will be entered in the bill through which the article is purchased and it would be enclosed to the payment voucher

Whenever issues are made, they will be entered at appropriate places and the balances struck. The acknowledgment of the persons who received the articles has to be obtained. The balances have to be verified periodically.

The register should contain the following details

SL. No	Date	Bill No. & date	Name of Supplier	Vr.No & Date in which payment is made	Quantity of items			Issued to	Purpose	Signature of receipt
					Received	Issued	Balance			

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## PETTY CASH REGISTER

This register records the sums withdrawn from bank by means of cheque drawn in favor of Accounts Officer or any other authorized officer and to make payments towards petty contingent expenses incurred for the office. The register contains receipt and disbursement columns. On receipt side, all sums withdrawn from bank by means of cheque will be entered and on disbursement side, payments made shall be entered. All entries shall be made in chronological order. The objectives for maintenance of the register are

- to meet cash payments in the office
- where payments are petty in nature and small in size
- where payments do not wait till formal payment vouchers are drawn and paid

All payments from the Petty Cash should be supported by bill, voucher (in the form of sub vouchers) and sanction from competent authority.

When the petty cash is exhausted and likely to exhaust, it may be recouped to the extent of payments made through sub vouchers. Petty Cash is sanctioned as 'advance' initially. The recoupment is through one payment voucher, containing various sub vouchers which are classified according to the head of account to which the payment relates.

Each page of the Register of Petty Cash shall be serially numbered and attested by the Accounts Officer or other authorized officer before it is put to use. The register will contain the following details.

RECEIPT				DISBURSEMENT					
Date of receipt	Voucher number	Cheque No	Amount (in Rs.)	Date of Payment	Sl. No	Purpose	Amount Paid (in Rs.)	Cumulative Total (in Rs.)	Balance (in Rs.)

Part IV  
Appendices

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## Comprehensive Illustration

M/s. Zed, NGOs association (district unit) sent the budget proposal to State headquarters for approval.

### BUDGET PROPOSAL

<b>A.</b>	<b>Training on Improvement of soft skills (cost per batch)</b>	
	No of participants	10Nos
	Duration	2 day
	Stay of the participants @ 50 per person for 2 days	Rs. 1000
	Food @100 per person for 2 days for 15 persons	Rs. 3000
	Travelling allowance @25 per person	Rs. 250
	Resource material @ 200 per person * 15	Rs. 3000
	Rentals of the venue for 2 days	Rs. 2000
	Honorarium of the resource persons	Rs. 1500
	Postage/Communication/stationary * other misc exp	Rs. 1250
	<b>Total cost per batch</b>	<b>Rs.12000</b>
<b>B.</b>	<b>Total proposed batches</b>	<b>5 Nos</b>
<b>C.</b>	<b>Total Budget cost for training of improvement of soft skills (A*B)</b>	<b>Rs.60000</b>

- The above proposal approved by the State headquarters and an amount of Rs.50000 received from state headquarters from implementation of training program through cheque ( Ch.No: 236545)
- M/s Zed – Cash withdrawn from bank for office use Rs.15,000
- M/s. Zed, NGOs association sent the following amount to NGOs association for implementation of training program on improvement of soft skills

Particulars	Name of the NGOs association		
	M/s A	M/s B	M/s C
No of Batches	2 (two)	1(one)	1(one)
Duration per batch	2 days	2 days	2 days
Stay of the participants	2000	1000	1000
Food expenses	6000	3000	3000
Travelling allowance to participants	500	250	250
Rentals of the venue	4000	2000	2000
Honorarium of Resource person	3000	1500	1500
Miscellaneous exp	1500	750	750
<b>Total amount paid as advance</b>	<b>17000</b>	<b>8500</b>	<b>8500</b>
Paid by	Bank transfer	Cheque	Cash

- M/s. Zed, NGOs association itself will conduct the remaining one batch.

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6. Details of expenses in regards to each association is as follows –

**M/s C**

Total **8** (EIGHT) participants attended for the training program - expenses are as follows

- i. Stay of participants Rs.800
- ii. Food charges of Rs.2400 from Sri.Krishna hotel.
- iii. Travelling allowance to participants Rs.180
- iv. Rental of the venue is Rs.1000
- v. Honorarium to Mr X ( resource person) Rs.1500
- vi. Stationery charges is Rs.240
- vii. TV and VCS hiring charges Rs.300
- viii. Purchase of Moser bear CDs for Rs.80
- ix. Total Expenses Rs.6500

Balance of Rs. 2000 unspent amount remitted by cash to M/s Zed

**M/s B**

Total **10** (TEN) participants attended for the training program

Details of expenses are as follows

- i. Stay of participants Rs.1000
- ii. Fooding charges of Rs.3000 from Sri.Doondi hotel.
- iii. Travelling allowance to participants Rs.250
- iv. Rental of the venue is Rs.1800
- v. Honorarium to Mr. Y (Resource person) Rs.1500
- vi. Stationery charges is Rs.250
- vii. Photo charges of Rs.300 from Balaji Studio
- viii. Pens, registers etc purchased from Sri. Gopal Stationery for Rs.200
- ix. Total expenses Rs.8300

**M/s A**

Details of expenses are as follows

- i. Stay of participants Rs.2000
- ii. Fooding charges of Rs.6000 from M/s Manohar Hotel.
- iii. Travelling allowance to participants Rs.500
- iv. Rental of the venue is Rs.4000
- v. Honorarium of Resource person Rs.3000
- vi. Photo charges of Rs.300 from Balaji Studio
- vii. Tent material hiring charges of Rs.500 from Sri Bhavani Tent House
- viii. Purchase of 4GB pen Drive from Ram Computers for Rs.700
- ix. Total expenses Rs.17000

**M/s Zed**

Details of expenses are as follows

- i. Stay of participants Rs. 900
- ii. Fooding charges of Rs.2800 from Babai hotel.

- iii. Travelling allowance to participants Rs.200
- iv. Rental of the venue is Rs.1600
- v. Honorarium of Resource person Rs. 2000 paid by cheque
- vi. Stationery charges Rs.230
- vii. Material printing charges Rs. 13250 paid by cheque
- viii. Data entry operator Salary Rs.1500 paid by cheque
- ix. Gift expenses Rs.300
- x. Purchase of bags Rs.1200 paid by cheque
- xi. Payment to anand arts towards painting Rs.1500 paid by cheque

8. An amount of rs. 10,000 received from State Headquarters to implementation of softskill training

9. An amount of Rs.5,000, repayment of Loan to ICICI Bank

10. An amount of Rs.2000 deposited into bank.

\*\*\*\*

Dr.					Cr.				
Cash Book of M/s. Zed for the period from .... to .....									
Date	Receipts	LF	Cash	Bank	Date	Payments	LF	Cash	Bank
2	To Soft Skills Training (Transfer In)			50000	3	By Cash	(c)		15000
3	To Bank	(c)	15000		4	By Advance to M/s A			17000
6	To Loan from ICICI			8000		M/s B			8500
7 (i)	To Advance to M/s C		2000		7 (iii)	By Accommodation		900	
8	To Soft Skills Training (Transfer In)			10000		By Food Charges		2800	
10	To Cash	(c)		2000		By Traveling Allow		200	
						By Rent		1600	
						By Honorarium			2000
						By Stationary		230	
						By Material			13250
						By Salary to DEO			1500
						By Stationary		300	
						By Bags			1200
						By Printing			1500
						By ICIC Loan			5000
						By Bank	(c)	2000	
						By Balance C/d		470	5050
			<b>17000</b>	<b>70000</b>				<b>17000</b>	<b>7000</b>
	To Balance b/d		470	5050					

## Journal entries in the books of M/s Zed

Date	Particulars	Debit Rs.	Credit Rs
7 (i)	Accommodation Charges A/c Dr	800	
	Food Charges A/c Dr	2400	
	Traveling Allowance A/c Dr	180	
	Rent A/c Dr	1000	
	Stationary A/c (240 + 80) Dr	320	
	Hire Charges A/c Dr	300	
	Honorarium A/c Dr	1500	
	To Advance to M/s C		6500
	[Being Utilisation Certificate record from M/s C]		
7 (ii)	Accommodation Charges A/c Dr	1000	
	Food Charges A/c Dr	3000	
	Traveling Allowance A/c Dr	250	
	Rent A/c Dr	1800	
	Stationary A/c (250 + 200) Dr	450	
	Photo Charges A/c Dr	300	
	Honorarium A/c Dr	1500	
	To Advance to M/s B		8300
	[Being Utilisation Certificate record from M/s B]		
7 (iii)	Accommodation Charges A/c Dr	2000	
	Food Charges A/c Dr	6000	
	Traveling Allowance A/c Dr	500	
	Rent A/c Dr	4000	
	Stationary A/c Dr	700	
	Photo Charges A/c Dr	300	
	Honorarium A/c Dr	3000	
	Hiring Charges A/c Dr	500	
To Advance to M/s A		17000	
	[Being Utilisation Certificate record from M/s A]		

Dr.				Soft Skills Training (Transfer In) A/c				Cr.	
Date	Particulars	J.F	Amount	Date	Particulars	J.F	Amount		
	To Balance c/d		60000		By Bank		50000		
			<b>60000</b>		By Bank		10000		
							<b>60000</b>		
					By Balance b/d		60000		

Dr.				M/s A (Advance) A/c				Cr.	
Date	Particulars	J.F	Amount	Date	Particulars	J.F	Amount		
	To Bank		17000		By Accommodation Charges a/c		2000		
					By Food Charges		6000		
					By Traveling Allow		500		
					By Rent a/c		4000		
					By Stationary a/c		700		
					By Honorarium a/c		3000		
					By Hire Charges a/c		500		
					By Photo Exp a/c		300		
			<b>17000</b>				<b>17000</b>		

Dr.				M/s B (Advance) A/c				Cr.	
Date	Particulars	J.F	Amount	Date	Particulars	J.F	Amount		
	To Bank		8500		By Accommodation Charges a/c		1000		
					By Food Charges		3000		
					By Traveling Allow		250		
					By Rent a/c		1800		
					By Stationary a/c		450		
					By Honorarium a/c		1500		
					By Photo Exp a/c		300		
					By Balance c/d		200		
			<b>8500</b>				<b>8500</b>		
	By Balance b/d		200						

Dr.				M/s C (Advance) a/c				Cr.			
Date	Particulars	J.F	Amount	Date	Particulars	J.F	Amount				
	To Cash		8500		By Accommodation Charges a/c		800				
					By Food Charges		2400				
					By Traveling Allow		180				
					By Rent A/c		1000				
					By Stationary a/c		320				
					By Honorarium a/c		1500				
					By Hire Charges		300				
					By Cash		2000				
			<b>8500</b>				<b>8500</b>				

Dr.				Loan from ICICI A/c				Cr.			
Date	Particulars	J.F	Amount	Date	Particulars	J.F	Amount				
	To Bank		5000		By Bank		8000				
	To Balance c/d		3000								
			<b>8000</b>				<b>8000</b>				
					By Balance b/d		3000				

Dr.				Accommodation Charges A/c				Cr.			
Date	Particulars	J.F	Amount	Date	Particulars	J.F	Amount				
	To M/s A(Advance)		2000								
	To M/s B(Advance)		1000								
	To M/s C(Advance)		800								
	To Cash		900		By Balance c/d		4700				
			<b>4700</b>				<b>4700</b>				
	To Balance b/d		4700								

Dr.				Accommodation Charges A/c				Cr.			
Date	Particulars	J.F	Amount	Date	Particulars	J.F	Amount				
	To M/s A(Advance)		6000								
	To M/s B(Advance)		3000								
	To M/s C(Advance)		2400								
	To Cash		2800		By Balance c/d		14200				
			<b>14200</b>				<b>14200</b>				
	To Balance b/d		14200								

Dr.				Cr.			
Travelling Allowance Charges a/c							
Date	Particulars	J.F	Amount	Date	Particulars	J.F	Amount
	To M/s A(Advance)		500				
	To M/s B(Advance)		250				
	To M/s C(Advance)		180				
	To Cash		200		By Balance c/d		800
			<b>1130</b>				<b>1130</b>
	To Balance b/d		1130				

Dr.				Cr.			
Rent A/c							
Date	Particulars	J.F	Amount	Date	Particulars	J.F	Amount
	To M/s A(Advance)		4000				
	To M/s B(Advance)		1800				
	To M/s C(Advance)		1000				
	To Cash		1600		By Balance c/d		8400
			<b>8400</b>				<b>8400</b>
	To Balance b/d		8400				

Dr.				Cr.			
Stationary A/c							
Date	Particulars	J.F	Amount	Date	By Particulars	J.F	Amount
	To M/s A(Advance)		700				
	To M/s B(Advance)		450				
	To M/s C(Advance)		320				
	To Cash		230				
	To Cash		300		By Balance c/d		2000
			<b>2000</b>				<b>2000</b>
	To Balance b/d		2000				

Dr.				Cr.			
Honorarium A/c							
Date	Particulars	J.F	Amount	Date	By Particulars	J.F	Amount
	To M/s A(Advance)		3000				
	To M/s B(Advance)		1500				
	To M/s C(Advance)		1500				
	To Bank		2000		By Balance c/d		8000
			<b>8000</b>				<b>8000</b>
	To Balance b/d		8000				

Dr.				Hire Charges a/c				Cr.	
Date	Particulars	J.F	Amount	Date	Particulars	J.F	Amount		
	To M/s A(Advance)		500						
	To M/s C(Advance)		300						
			<b>800</b>		By Balance c/d				<b>800</b>
	To Balance b/d		800						<b>800</b>

Dr.				Photo Charges A/c				Cr.	
Date	Particulars	J.F	Amount	Date	Particulars	J.F	Amount		
	To M/s A(Advance)		300						
	To M/s B(Advance)		300						
			<b>600</b>		By Balance c/d				<b>600</b>
	To Balance b/d		600						

Dr.				Material A/c				Cr.	
Date	Particulars	J.F	Amount	Date	Particulars	J.F	Amount		
	To Bank		13250						
			<b>13250</b>		By Balance c/d				<b>13250</b>
	To Balance b/d		13250						

Dr.				Salary (DEO) A/c				Cr.	
Date	Particulars	J.F	Amount	Date	Particulars	J.F	Amount		
	To Bank		1500						
			<b>1500</b>		By Balance c/d				<b>1500</b>
	To Balance b/d		1500						

Dr.				Bags A/c				Cr.	
Date	Particulars	J.F	Amount	Date	Particulars	J.F	Amount		
	To Bank		1200						
			<b>1200</b>		By Balance c/d				<b>1200</b>
	To Balance b/d		1200						

Dr.				Printing A/c				Cr.	
Date	Particulars	J.F	Amount	Date	Particulars	J.F	Amount		
	To Bank		1500						
			<b>1500</b>		By Balance c/d				<b>1500</b>
	To Balance b/d		1500						



**Trial Balance as on .....**

Particulars	Debit (Rs.)	Credit (Rs.)
Cash in Hand	470	
Cash at Bank	5050	
Soft Skills Training (Transfer In)		60000
Loan (ICICI)		3000
Accommodation Charges	4700	
Food Charges	14200	
Traveling Allowance	1130	
Rent	8400	
Stationary	2000	
Honorarium	8000	
Hire Charges	800	
Photo Charges	600	
Material	13250	
Salary to DEO	1500	
Bags	1200	
Printing	1500	
Advance to M/s B	200	
<b>Total</b>	<b>63000</b>	<b>63000</b>

**Income and Expenditure for the period from ... to..**

Particulars	C.Y. (Rs.)	P.Y (Rs.)
<b>INCOME</b>		
Soft Skills Training (Transfer In)	60000	
Other income		
<b>Total Income (A)</b>	<b>60000</b>	
<b>EXPENDITURE</b>		
Accommodation Charges	4700	
Food Charges	14200	
Traveling Allowance Charges	1130	
Rent	8400	
Stationary	2000	
Honorarium	8000	
Hire Charges	800	
Photo Charges	600	
Material	13250	
Salary to DEO	1500	
Bags	1200	
Printing	1500	
<b>Total Expenditure (B)</b>	<b>57280</b>	
<b>Surplus / deficit (A-B)</b>	<b>2720</b>	

**Balance Sheet of M/s. Zed as on .....**

<b>Liabiities</b>	<b>C.Y</b>	<b>P.Y</b>	<b>Assets</b>	<b>C.Y</b>	<b>P.Y</b>
<b><u>Capital, Reserves and surplus</u></b>			<b><u>Fixed Assets</u></b>		
Fund Balance	Nil		<b><u>Investments</u></b>		
Add: Surplus	2720				
<b>Total Fund</b>	<b>2720</b>		<b><u>Current Assets</u></b>		
Reserves	Nil		Cash in hand	470	
			Cash at bank	5050	
<b><u>Long term Liabilities</u></b>			Advance to M/s B	200	
Loan from ICICI	3000				
<b><u>Current Liabilities</u></b>					
<b>TOTAL</b>	<b>5720</b>			<b>5720</b>	

## **Transactions**

Transactions are those activities of an organization, which involve transfer of money or goods or services between two persons or two accounts. *For example*, purchase of goods, sale of goods, borrowing from bank, lending of money, salaries paid, rent paid and commission. Transactions are of two types, namely, cash and credit transactions.

Cash Transaction is one where cash receipt or payment is involved in the transaction.

Credit Transaction is one where cash is not involved immediately but will be paid or received later.

## **Assets**

Assets are the properties of every description belonging to the business. Cash in hand, plant and machinery, furniture and fittings, bank balance, debtors, bills receivable, stock of goods, investments, Goodwill are examples for assets. Assets can be classified into tangible and intangible.

## **Liabilities**

Liabilities refer to the financial obligations of a business. These denote the amounts which a business owes to others, e.g., loans from banks or other persons, creditors for goods supplied, bills payable, outstanding expenses, bank overdraft etc.

## **Debtors**

A person (individual or firm) who receives a benefit without giving money or money's worth immediately, but liable to pay in future or in due course of time is a debtor. The debtors are shown as an asset in the balance sheet.

## **Creditors**

A person who gives a benefit without receiving money or money's worth immediately but to claim in future, is a creditor. The creditors are shown as a liability in the balance sheet.

## **Purchases**

Purchases refer to the amount of goods bought by a business for resale or for use in the production. Goods purchased for cash are called cash purchases. If it is purchased on credit, it is called as credit purchases. Total purchases include both cash and credit purchases.

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## Sales

Sales refer to the amount of goods sold that are already bought or manufactured by the business. When goods are sold for cash, they are cash sales but if goods are sold and payment is not received at the time of sale, it is credit sales. Total sales include both cash and credit sales.

## Revenue

Revenue means the amount receivable or realised from sale of goods and earnings from interest, dividend, commission, etc.

## Expense

It is the amount spent in order to produce and sell the goods and services. For example, purchase of raw materials, payment of salaries, wages, etc.

## Receipt

Receipt is an acknowledgement for cash received. It is issued to the party paying cash. Receipts form the basis for entries in cash book.

## Account

Account is a summary of relevant business transactions at one place relating to a person, asset, expense or revenue named in the heading. An account is a brief history of financial transactions of a particular person or item. An account has two sides called debit side and credit side.

## The Accounting Equation

The financial condition or position of a business enterprise is represented by the relationship of assets to liabilities and capital.

**Assets:** Properties used in business that are owned and have monetary value, for instance, cash, inventory, building, and equipment.

**Liabilities:** Amounts owed to creditors, including all payable accounts. Liabilities may also include certain deferred items.

**Owner's Equity:** The interest of the owners in an enterprise.

These three basic elements are connected by a fundamental relationship called the accounting equation. This equation expresses the equality of the assets on one side with the claims of the creditors and owners on the other side:

$$\text{Assets} = \text{Liabilities} + \text{Owner's Equity/Fund}$$

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## ACCOUNTING CONCEPTS

**Entity:** Business is treated as a unit or entity apart from its owners, creditors and others. In other words, the proprietor of a business concern is always considered to be separate and distinct from the business which he controls. All the business transactions are recorded in the books of accounts from the view point of the business. Even the proprietor is treated as a creditor to the extent of his capital.

**Continuity:** the business will exist for a long period and transactions are recorded from this point of view. There is neither the intention nor the necessity to wind up the business in the foreseeable future.

**Money Measurement:** in accounting, all transaction are expressed in terms of money, i.e., money is considered the common unit of measurement.

**Time Period:** An essential function of accounting is to provide information for decision making. To accomplish this, it is necessary to establish accounting periods, or systematic time intervals, so that timely accounting data can be developed.

**Historical cost:** the properties and services acquired by an enterprise are generally recorded at cost (the cash or its equivalent given to acquire the property or service). The cost is spread over the accounting periods that benefit from the expenditure.

**Objectivity:** Accounting entries should be based on objective evidence to the fullest extent possible.

**Consistency:** A standard method of treatments from one year to the next is necessary if periodic financial statements are to be compared with one another. Where a different method will state result and financial position more fairly, the change may be made if the effect on the statements is clearly disclosed.

**Dual Aspect Concept:** Dual aspect principle is the basis for Double Entry System of book-keeping. All business transactions recorded in accounts have two aspects - receiving benefit and giving benefit. For example, when a business acquires an asset (receiving of benefit) it must pay cash (giving of benefit).

### Full Disclosure Concept

Accounting statements should disclose fully and completely all the significant information. Based on this, decisions can be taken by various interested parties. It involves proper classification and explanations of accounting information which are published in the financial statements.

### Double Entry System:

There are numerous transactions in a business concern. Each transaction, when closely analyzed, reveals two aspects. One aspect will be “receiving aspect” or “incoming aspect” or “expenses/loss aspect”. This is termed as the “Debit aspect”. The other aspect will be “giving aspect” or “outgoing aspect” or “income/gain aspect”. This is termed as the “Credit aspect”. These two aspects namely “Debit aspect” and “Credit aspect” forms the basis of Double Entry System. The double entry system is so named since it records both the aspects of a transaction.

