

UNIT – II

Trial Balance :

Trial balance is a statement, prepared with the debit and credit balances of ledger accounts to test the arithmetical accuracy of the books.

Objectives:

The objects of the preparation of the Trial Balance are as follows :

i. A Trial Balance provides a good check on the accuracy of the work done in preparing ledger accounts. When the total of the debit balances agree with total of credit balances, it is quite a good proof that the ledger accounts have been correctly written up. If the Trial balance totals do not agree, then it shows that there are some errors which must be detected and rectified, before final accounts are prepared.

ii. It brings together the balances of all the accounts at one place and thus facilitates the preparing the trading accounts and profit and loss accounts, which is the results of the business; and the balance sheet to ascertain the financial position of the firm. In short, Trial Balance is the basic to prepare the final accounts.

iii. The balance of any accounts can be easily and conveniently known by the trail balance.

iv. It serves as a summary of what is contained in the ledger.

Rules for Preparation of Trial Balance :

From the available balances of various ledger accounts, the trial balance shall be prepared on the basis of following rules.

Debit All Expenses and Assets .

Credit All Incomes and Liabilities.

Subsidiary Books:

Meaning:

Maintaining a single ‘ journal book’ in which journal entries are written for each transaction and posting them to ledger is practicable in small business where a single accountant can maintain accounts or the owner himself can do the accounts work. In bigger business, transactions are so numerous and varied that a single journal book is absolutely inadequate and cumbersome. Several accounts assistants may have to do accounts work as a team and share the burden. It may be necessary to group similar transactions even at journal stage in the shape of ‘Special journals’ to minimise and facilitate ledger work. Thus, the system of Subsidiary Books as an alternative for single journal was developed.

Purchase Book:

Purchase book is also known as ‘bought book’ ‘Purchase day book’, invoice book’; and ‘purchase journal’. All credit purchase of goods is recorded in this book. Periodical total of this book provided total credit purchase of goods made by the firm.

Purchase Return Book:

It is also called ‘Returns outward book’ and ‘Purchase returns journal’. Goods returned to suppliers which were originally purchased on credit are recorded in this book. Periodically totals of this book provide data on purchase returns by the firm.

Sales Book:

Sales book is also known as 'Day book', 'Sales day book', 'Sold book', 'Sales journal', etc. All credit sales of goods are recorded in this book. Periodical totals of this book provide the total credit sales of goods by the firm.

Sales Returns Book:

This book is also called 'Returns Inward Book' and 'Sales Returns Journal'. Goods returned by customers who were originally sold on credit are recorded in this book. Monthly totals of this book provide data on sales returns. Credit notes sent to the customers after receiving the goods returned by them form the basis for entries in this book.

Debit Note:

When goods are returned to suppliers, a statement is sent to them information about the debit given to their account. This statement is called Debit Note. It is so called Debit Note., because of the Debit given to the concerned Party's account.

Credit Note: Our customers may return goods to us. On receipt of the goods returned by the customers, a credit note is sent to them, by us, intimating the credit given to their account. This statement is called Credit Note.

Cash Book:

One of the most important books maintained in any business concern is the cash book. The cash book records transactions connected with cash. The object of cash book is to keep a daily record of transactions relating to receipts and payments of cash. When the business is large, the numbers of transactions relating to cash are also usually large. Since, cash transactions form the major portion of the transactions of a business, it is necessary to keep a separate book for cash transactions. If every transaction is entered in the journal, it will be tremendous job. Thus, it becomes necessary to have a cash book to record only the cash transactions. The following are the different types of cash book maintained in business firms:

- i. Single Column Cash Book (Simple Cash Book)
- ii. Double Column Cash Book (Cash Book with Discount and Cash Columns)
- iii. Three Column Cash Book (Cash Book with Discount, Cash and Bank Columns)
- iv. Analytical Petty Cash Book.

Journal Proper:

There are certain transactions, which cannot be entered in through any subsidiary books and such transactions are entered in the form of journal, called Journal Proper. From this journal proper, further their postings are made as usual. Examples of such transactions are:

- i. Opening entries
- ii. Transfer entries
- iii. Adjusting entries
- iv. Closing entries
- v. Rectification journal entries.
- vi. Credit Purchase or Sales of assets.
- vii. Bad debts.
- viii. Other entries not made in any other subsidiary books

Advantages of Subsidiary Books:

The advantages of maintaining subsidiary books are as follows:

i. Division of labour:

The division of journal resulting in division of work, ensures more clerks working independently in recording original entries in the subsidiary books.

ii. Efficiency:

The division of labour also helps the reduction in work load, saving in time and stationery. It also gives advantages of specialisation leading to efficiency.

iii. Prevents Errors and Frauds:

The accounting work can be divided in such a manner that the work of one person is automatically checked by another person. With the use of internal check, the possibility of occurrence of errors and frauds may be avoided.

iv. Easy References:

It facilitates easy references to any particular item. For instance total credit sales for a month can be easily obtained from the sale book.

v. Easy Postings:

Postings from the subsidiary books are made at convenient intervals depending upon the nature of the business.