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## CLASS: XI ACCOUNTANCY ADJUSTED/AMENDED CASH BOOK

In practice, the bank reconciliation statement is prepared after adjusting the cash book. Adjusting the cash book before preparing the bank reconciliation statement is completely optional, if reconciliation is done during different months. But if reconciliation is done at the end of the accounting year or financial year, the cash book must be adjusted so as to reflect the correct bank balance in the balance sheet. The adjusted cash book balance is ascertained as follows:

- 1) Firstly, a cash book is prepared having bank column only.
- 2) Secondly, make the necessary entries in the cash book in respect of the following:
  - a) Amount recorded in the Pass Book but not yet recorded in the Cash Book such as:
    - Bank charges debited by the bank, Dividend collected by the bank, payment made by the bank as standing order, dishonored of cheque.
  - b) All the errors that have crept in the Cash Book such as:
    - Over-casting in the debit/credit column of the Cash Book, Under-casting in the debit/credit column of the Cash Book, amount entered twice in the Cash Book, Wrong amount in the Cash Book
- 3) Cash Book is then balanced and the new balance of the cash Book is taken as the starting point for preparing the bank reconciliation statement.
- 4) The Bank Reconciliation Statement with amended Cash Book balance is prepared, only for the following causes of disagreement
  - Cheque issued but not yet presented for payment
  - Cheque deposited into bank but not yet credited by the bank
  - A wrong credit given by the bank in Pass Book
  - A wrong debit given by the bank Pass Book
  - Cheque received and recorded in the bank column but not yet sent to bank for collection

### Q.1 State True or False:

- a) A Bank Reconciliation Statement is not a part of the Double Entry System.
- b) Bank Balance as per Bank Statement is shown in the Balance Sheet, at the end of the year.
- c) When Bank Reconciliation Statement is prepared, the company will need to make an entry for each item added to or deducted from the balance on the Bank Statement and the balance in the Cash Book.
- d) Bank Reconciliation Statement is prepared at the end of the accounting year only.

**Q.2** According to Cash Book of Mr. A, there was a balance of Rs. 1,050 in favour on 30.06.2003 in his business bank account. However, according to his Bank Statement this account was overdrawn. On investigation you find that:

- i) The receipt column of the Cash Book has been over-added by Rs. 1,100.
- ii) Cheque drawn and entered in the Cash Book in June 2003 amounting to Rs. 1,670 were not presented until July, 2003.
- iii) Discount received from a supplier of Rs. 100 had been included with the cheque entered in the Bank column of the Cash Book in April, 2003.
- iv) An amount of Rs. 750 paid directly into A's Account by a customer not entered in the Cash Book.

- v) A cheque payment of Rs. 1,230 in April, 2003 had been entered in the Cash Book as Rs. 1,320.
- vi) The bank had charged the business account with a cheque for Rs. 2,200 in February 2003, which should have been passed through A's private account.
- vii) Bank charges of Rs. 80 at 31/12/2002 and Rs. 100 at 30/06/2002 had not been entered in the Cash Book.
- viii) Cheque of the value of Rs. 3,780 received from customers were recorded in the Cash Book on 28/06/2003 but not entered by the bank until 02/07/2003.

**Q.3** Prepare a Bank Reconciliation Statement as on 31<sup>st</sup> Dec, 2012 of Mr. Pandit from the following particulars after finding out the adjusted bank balance as per the Cash Book:

|  |       |
|--|-------|
| (i) Bank overdraft as per Cash Book  | 3,500 |
| (ii) Cheque issued but not encashed during the year  | 2,200 |
| (iii) Cheque deposited but not credited by the bank during the year  | 660   |
| (iv) Cheque deposited as per Bank Statement not entered in the Cash Book                                     | 950   |
| (v) Bank charges not recorded in the Cash Book   | 150   |
| (vi) Interest charged by the bank recorded twice in the Cash Book  | 450   |
| (vii) Club dues of Mr. Pandit paid by the bank as per standing instructions<br>Not recorded in the Cash Book | 100   |
| (viii) Cheque issued by Mr. Pandit dishonoured   | 1,200 |

## TRIAL BALANCE

A Trial Balance is a five-column statement prepared with the names and balances of all the accounts in the ledger and cash book. The debit balances are listed in the left-hand column and credit balances are listed in the right-hand column. The total of the two columns should agree. A Trial balance essentially proves the arithmetical accuracy of the books of accounts. A Trial Balance is prepared at regular intervals, for example on a monthly, quarterly, half-yearly or yearly basis as desired. The order of accounts of the ledger does not matter in the Trial Balance.

### Defects of a Trial Balance:

A Trial Balance in which the credit and debit accounts match does not prove that:

- a) All transactions have been correctly analyzed and recorded in the proper accounts.
- b) All transactions have been recorded in the books of original entry.

### Errors disclosed by a Trial Balance:

The disagreement of a Trial Balance indicates the presence of one or more of the following errors in the books of accounts.

1. Omission to post an amount in the ledger.
2. Debit or credit entries are not posted at all.
3. Debits are wrongly posted as credits and vice versa
4. Wrong totaling of Subsidiary Books.
5. Difference in amount between the entries.
6. Errors in computation of an account balance.
7. Omission of account balance.
8. Balance of an account wrongly recorded in the Trial Balance.

**Errors Not Disclosed by the Trial Balance:**

Errors of omission,

Errors of Principle,

Compensating Errors,

Recording Wrong Amount in the Books of Original Entry,

Recording Both Aspects of a Transactions more than once in the Books of Accounts

Errors in Recording a Transaction on the Correct Side of a Wrong Account

**Q. 1** From the following information, draw up a trial balance in the books of Shri Parminder Singh as on 31<sup>st</sup> March, 2016

Capital Rs. 56,000; Purchases Rs. 14,400; Discount allowed Rs. 480; Carriage inward Rs. 3,480; Carriage outward Rs. 920; Sales Rs. 24,000; Return inward Rs. 120; Return outward Rs. 280; Rent & Taxes Rs. 480; Plant and Machinery Rs. 32,280; Stock on 1<sup>st</sup> April, 2015 Rs. 6,200; Sundry debtors Rs. 8080; Sundry creditors Rs. 4,800; Investment Rs. 1,440; Commission received Rs. 720; Cash in hand Rs. 40; Cash at bank Rs. 4040; Motor cycle Rs. 13,840; 31<sup>st</sup> and Stock on 31<sup>st</sup> March, 2016 ( not adjusted) Rs. 8,200.

**Q. 2** What will be the effect on Trial Balance if purchases return of Rs. 10,000 has been wrongly posted to the debit of sales return account but correctly entered in the customer's account.

**Q.3** The total of debit side of the Trial Balance of a daily newspaper firm at 31<sup>st</sup> Dec, 2012 is Rs. 1,80,590 and that of the credit side is Rs. 36,470. After several checkings and re-checkings the following mistakes are discovered:

| Name of the Accounts | Correct figure (as it should be) | Figure as it appears in T.B   |
|----------------------|----------------------------------|-------------------------------|
| Opening Stock        | 12,700                           | 12,600                        |
| Advertisement Income | 71,780                           | 71,780                        |
|                      |                                  | (But appear on the debit side |
| Rent & Rates         | 2,260                            | 2,500                         |
| Sundry Creditors     | 6,170                            | 6,000                         |
| Sundry Debtors       | 8,150                            | 8,400                         |

**Q.4** State the accounts which are not considered while preparing Trial Balance by balance method?

**Q.5** What will be the effect on the Trial Balance if RS. 2,000 received as rent and correctly entered in the cash book but not posted to rent account?

**Q.6** The following Trial Balance was prepared on 31/03/2013 without taking into consideration the information given below:

| Debit Side |  | Rs.      | Credit Side    |  | Rs.      |
|------------|--|----------|----------------|--|----------|
| Salaries   |  | 75,000   | Sales          |  | 2,75,000 |
| Rent       |  | 15,000   | Capital        |  | 2,50,000 |
| Purchases  |  | 1,75,000 | Creditors      |  | 50,000   |
| Debtors    |  | 50,000   | Bank Overdraft |  | 27,500   |

|                  |          |                  |        |
|------------------|----------|------------------|--------|
| Opening Stock    | 30,000   | Bills Payable    | 25,000 |
| Fixed Assets     | 2,30,000 | Returns Outwards | 2,500  |
| Return Inwards   | 5,000    |                  |        |
| Bills Receivable | 37,500   |                  |        |
| Wages            | 5,000    |                  |        |
| Insurance        | 7,500    |                  |        |

Information:

- (i) Credit purchases of Rs. 10,000 and credit sales of Rs. 20,000 have not been recorded in the books.
- (ii) Outstanding liabilities:
  - a) Wages Rs. 5,000; b) Rent Rs. 2,000; c) Carriage inward Rs. 1,000 d) Prepaid insurance Rs. 500.

On the basis of the above information prepare adjusted Trial Balance.

## Rectification of Errors

### State True or False

- (i) Error of principle arises because of an incorrect application of the principles of accounting, and failure to differentiate between capital and revenue expenditure.
- (ii) Error of principle affect only one account.
- (iii) Omission to record a transaction in the subsidiary book will affect two accounts.
- (iv) Wages paid for installation of a machine has been debited to Wages Account. It is a compensating error.
- (v) Casting errors are not reflected in the Trial Balance.
- (vi) Purchase Day Book was overcast by Rs. 1,000. The rectification of this error will reduce gross profit by Rs. 1,000.
- (vii) In taking out a Trial Balance, a book keeper finds that debit total exceeds credit total by Rs. 500. It means that the Suspense Account had a debit balance.

### Multiple Choice

- (i) A Suspense Account is:
  - (a) Not part of the double entry system
  - (b) a ledger account
  - (c) Prepared before the Trial Balance
  - (d) None of these
- (ii) Wages paid to workers for extension of office building debited to Wages Account will affect:
  - (a) Gross profit
  - (b) net profit
  - (c) A and B both
  - (d) None of these
- (iii) Error of principle arise because of:
  - (a) An incorrect application of accounting principles
  - (b) Failure to differentiate between capital and revenue items
  - (c) A and B both
  - (d) None of these
- (iv) Which of the following errors is an error of omission?
  - (a) Purchase of Rs. 1,000 has been recorded in the sales return book.
  - (b) Repair to machinery has been debited to machinery account.
  - (c) The total of purchases day book has not been posted to the purchase account and total creditor account.
  - (d) Legal charges paid to Mr. Lawyer has been debited to his account.
  - (e) Rs. 500 received from Mr. X has been debited to his account.

- (v) The purchases day book is overcast by Rs. 1,000. This will:
- (a) Increase gross profit and decrease net profit
  - (b) Decrease gross profit and increase net profit
  - (c) Decrease gross profit as well as net profit
  - (d) Decrease only gross profit
- (vi) In the books of accounts of a trader, the following errors have been detected for the financial year 2013-14:
- (i) Depreciation- Rs. 11,000 over stated
  - (ii) Accrued Expenses- Rs. Rs. 7,000 understated
- The impact of this on the reposted net profit for the year ending on 31<sup>st</sup> March 2014 is:
- (a) Rs. 18,000 overstated
  - (b) Rs. 11,000 overstated
  - (c) Rs. 7,000 understated
  - (d) Rs. 4,000 understated

Q.3 You are presented with a Trial Balance of Saxena as on 30.06.2013, showing the credit is in excess by Rs. 415, which has been carried to Suspense Account. On close scrutiny of the books, the following errors are revealed:

- (a) A cheque of Rs. 3,456 received from Shankar, after allowing him a discount of Rs. 46 was endorsed to Sharma in full settlement for Rs. 3,500. The cheque was finally dishonoured but no entries were passed in the books.
  - (b) Goods valued Rs. 230 returned by Swaminathan were entered in the Purchases Book and posted there from to Swaika's account for Rs. 320.
  - (c) Bill for Rs. 750 received from Sureka for repair to machinery was entered in the Inward Invoice Book as Rs. 650.
  - (d) Goods worth Rs. 1,234 purchased from Sharaf on 29.06.2013 had been entered in the Purchased Day Book and credited to him but were not delivered till 5<sup>th</sup> July 2013, stock being taken 30.06.2013. The title of the goods was, however, passed on 29.06.2013.
  - (e) Rs. 79 paid for freight on machinery was debited to Freight Account as Rs. 97.
- You are required to pass the necessary journal entries for correcting the above errors.

Q.4 The difference in Trial Balance is kept in Suspense Account. Before preparing final accounts, the following errors were detected:

- (a) Purchase of Rs. 540 was written in Sales Day Book, but was posted to the correct side of party's account.
  - (b) Salary Account total Rs. 12,600 on page 32 was carried over to the next page as Rs. 1,260 on the wrong side.
  - (c) Interest on overdraft Rs. 650 was not posted to the Ledger from the Cash Book.
  - (d) Rs. 600 collected from a party in respect of the old dues from him which had been written off as bad two years ago, was credited to the party's account.
- Prepare Suspense Account also state to what extent the Profit and Loss Account would have been affected if the above errors had been detected and corrected.

Q.5 M/s Modern Chemicals were unable to agree the Trial Balance on 30/06/2013 and have raised a Suspense Account for the difference. Later, the following errors were discovered and rectified and the Suspense Account was closed:

- (a) The addition of the 'Sundry Purchases' column in the tabular Purchases Journal was short by Rs 150 and other totals were in order.

- (b) A bill of exchange (received from Gupta) for Rs 2,000 had been returned by the bank as dishonoured and had been credited to the bank and debited to Bills Receivable Account.
- (c) Goods to the value of Rs 105 returned by a customer, Thomas, had been posted to the debit of Thomas and also to Sales Returns.
- (d) Sundry items of furniture sold for Rs 3,000 had been entered in the Sales Day Book, the total of which had been posted to Sales Account.
- (e) An amount of Rs 600 due from Z, a customer, had been omitted from the schedule of Sundry Debtors.
- (f) Discount amounting to Rs 30 allowed to a customer, had been posted in his account, but not posted to Discount Account.
- (g) Insurance premium of Rs 450 paid on June 30, 2012 for the year ended 31st June 2013 had not been brought forward.

You are required to: (i) Pass journal entries to rectify the above errors; and (ii) Draw up Suspense Account after rectifying the above mistakes.