

Fifth Edition

# WORKBOOK PRINCIPLES OF ACCOUNTING

For Business Administration Students



Zaheer Swati

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# Principles of Accounting

Workbook  
(Fifth Edition)

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Publisher

Accountancy Knowledge  
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Learning Management System  
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## Preface

The development of the Principles of Accounting Workbook has been a continuous academic journey that began in 2008, coinciding with my appointment as a faculty member at COMSATS University Islamabad, Abbottabad Campus. The motivation for initiating this project was to provide students with a structured, practice-oriented learning resource that would complement classroom instruction and facilitate independent study.

The **first edition**, compiled in 2008, was designed as a problem-based workbook. It consisted of selected questions from various sources, presented in a unit-based structure, where each lecture corresponded to one unit. The format emphasized problem-solving by providing blank working areas for students to complete during study sessions.

The **second edition**, published in 2012, introduced a more comprehensive approach by integrating descriptive explanations of fundamental concepts alongside numerical problems. This edition also included multiple-choice questions (MCQs) and problem sets at the end of each lecture, thereby enhancing both conceptual understanding and assessment opportunities.

The **third edition**, released in 2017, was a compact and refined version of the workbook. A significant development at this stage was the launch of the website Accountancy Knowledge, which provided online solutions, practice MCQs, and additional problem-based learning resources to support both classroom and independent study.

The **fourth edition**, issued in 2023, further refined and modernized the content, aligning it with contemporary pedagogical approaches and addressing the evolving needs of accounting students.

The present **fifth edition** continues this progression by combining concise conceptual explanations with illustrative examples, supported by digital learning tools. Direct links to the Accountancy Knowledge website are provided for practice and reinforcement, while Learning Management System (LMS) integration offers structured access to supplementary resources, enhancing both classroom engagement and self-directed learning.

Throughout these successive editions, the central objective has remained consistent, to create a pedagogically sound, practice-oriented resource that bridges theoretical knowledge with applied accounting skills. It is my hope that this edition will serve as a valuable academic aid for students in their learning process and as a practical teaching resource for faculty members.

**Zaheer Swati**

*Author*

**01-08-2025**

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[Principles of Accounting Workbook](#)

[MCQs Practice](#)

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## ACCOUNTING BASICS

### 1.1 Definitions of Accounting

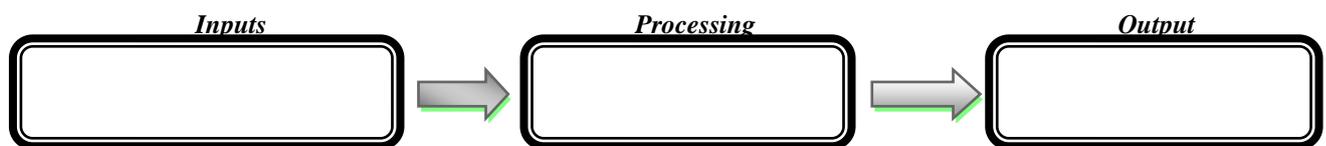
- Accounting is the language of the business.
- Language is a way to communicate ideas or information, so in this way accounting is considered a way or path in business studies in order to communicate different aspects of business financial matters
- For instance, a manager says that his/her organization gain profit, so all respondents are easily understand that his organization get some thing in the form of money/value. In this example the word profit is a term of business language.

**Def** According to American Institute of Certified Public Accountants (AICPA), *Accounting is an art of recording classifying and summarizing in a significant manner and in terms of money, transactions and events which are, in part at least, of a financial character, and interpreting the results thereof.*

**Def** Accounting Principles Board (APB) defined Accounting in the following words. *Accounting is a services activity. Its function is to provide quantitative information primarily financial in nature, about economic entities that is intended to be useful in making economic decisions in making reasoned choices among alternative courses of action.*

**Def** American Accounting Association 1966 (AAA) defines accounting *as the process of identifying, measuring, and communicating economic information to permit informed judgment and decisions by the use of information.*

**FOCUS** In other context, *it is systematic process of recording, classifying and summarizing economic event in terms of money in order to facilitate economic decision makers.* So in this point of view this subject is a sequence of different steps in order to produce information which facilitate in the way of business decisions.



### 1.2 Forms of Accounting

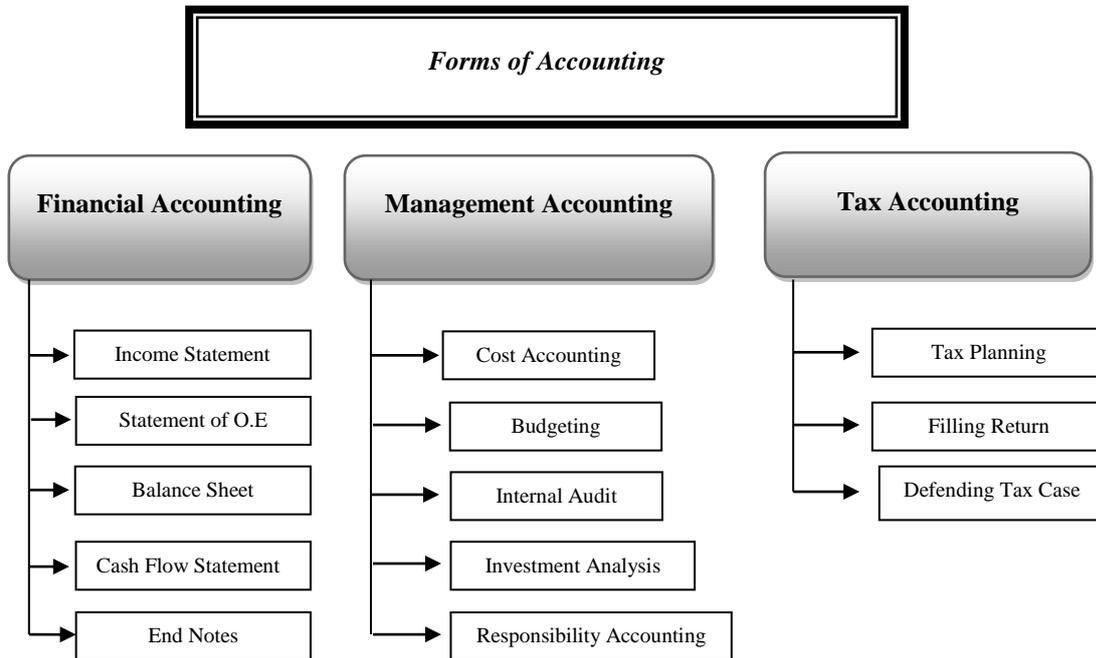
- Just as there are many types of economic decisions, there are many types of accounting information
- Financial Accounting, Management Accounting and Tax accounting often are describing three types of accounting information that are widely used business decisions

#### 1.2.1 Financial Accounting

- ❖ Financial Accounting refers to information describing the financial resources, obligations and activities of an economic entity
- ❖ It is the maintenance of daily record of all financial transactions in such manner that it would help in the preparation financial statements
- ❖ Financial Accounting information is designed primarily to assist investors and creditors
- ❖ Accounting information also used for preparation of income tax return
- ❖ Financial Accounting information is used for so many purposes that it often is called “General-Purpose Accounting
- ❖ End results of Financial Accounting are financial statements

**1.2.2 Management Accounting**

- ✓ Management Accounting is meant specifically to assist the management in its operational and strategic planning
- ✓ This objective is achieved through preparation periodic reports about product, activities, departments and individuals
- ✓ Cost Accounting and Responsibility Accounting are the two significant parts of management accounting
- ✓ The most important role of Management Accounting is to set targets in the form of budget or standards, measure the actual performance and then make variance
- ✓ It is specific purpose accounting



**1.2.3 Tax Accounting**

- ❖ The financial statements are prepared according to the general accepted accounting principles (GAAP), International Accounting Standards (IAS), International Financial Reporting Standards (IFRS) and/or prevailing rules of country
- ❖ Since these rules and regulation allow flexibility in the accounting treatment of different items, some of them may not be acceptable to tax authorities
- ❖ Taxable profit must be calculated according to the tax laws of country, based on information provided by the financial statements
- ❖ The preparation of tax returns has therefore become a specialized field. Every enterprise would like to minimize tax return. This required tax planning

**1.3 Users of Financial Information**

- ✓ Accounting is the information system that identifies, records, and communicates the economic events of an organization to interested users
- ✓ Accounting information is needed by two sets of parties, which are internal and external
- ✓ Internal users are associated with management of the organization
- ✓ The external users consist of several explicit groups which are outside the organization and has interest (financial and non-financial) in an organization

### 1.3.1 Internal Users

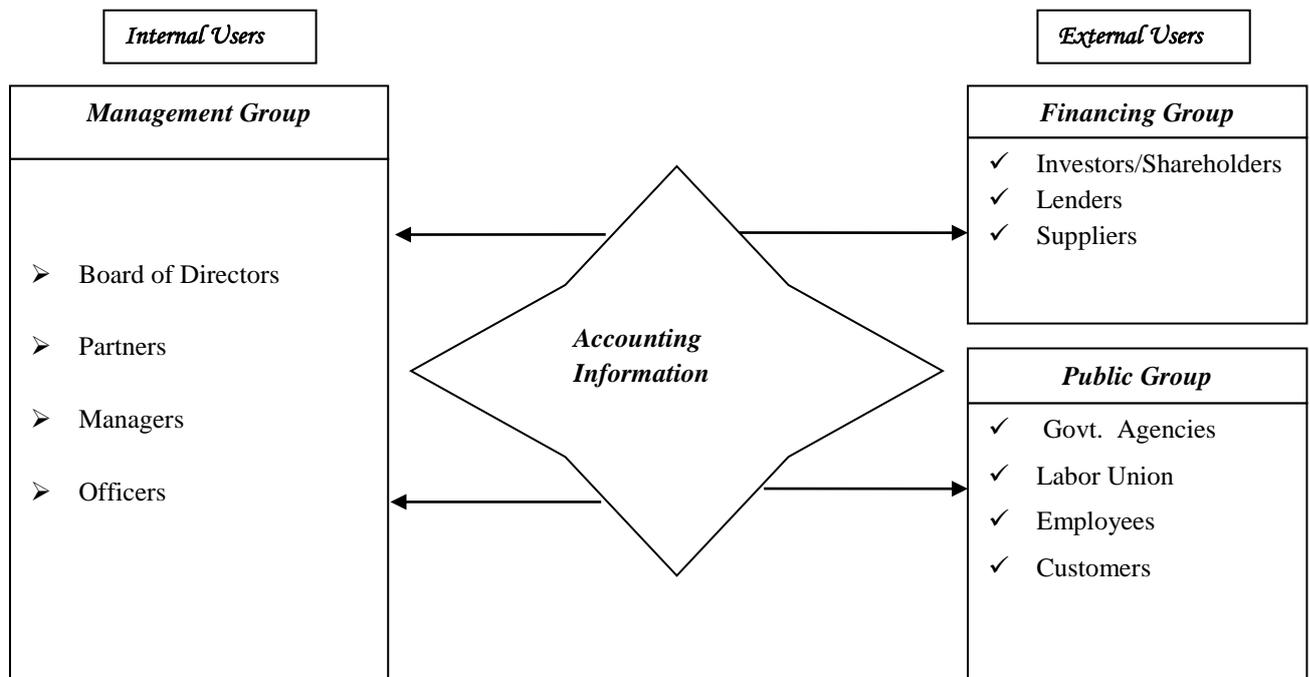
Internal users of accounting are parties who have directly connected with a company

- Internal users require financial statements to make important business decisions that affect its continued operations
- Financial analysis is then performed on these statements to provide management with a more detailed understanding of the figures
- Financial accounting as well as management accounting use for internal purpose

### 1.3.2 External Users

External users of accounting are potential investors, customers, banks, government agencies and other parties who are outside the business but need financial information about the business for a diverse number of reasons

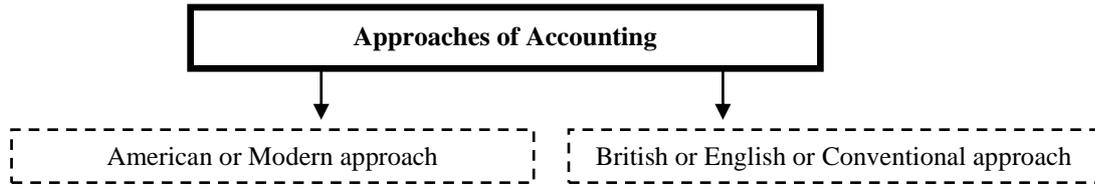
- Prospective investors make use of financial statements to assess the viability of investing in a business
- Financial institutions (banks and other lending companies) use financial information to decide whether to grant a company with fresh working capital or extend debt securities (such as a long-term bank loan or debenture) to finance expansion and other significant expenditures
- Government entities (Tax Authorities) need financial statements to ascertain the accuracy of taxes and other duties declared and paid by a company
- Media and the general public are also interested in financial statements for a variety of reasons



### 1.4 Purpose of Accounting

- The purpose of accounting is to provide the information that is needed for sound economic decision making
- The main purpose of financial accounting is to prepare financial statements that provide information about organization
- Financial accounting is performed according to GAAP in America and IAS/IFRS in rest of countries with in the laws and rules of particular country

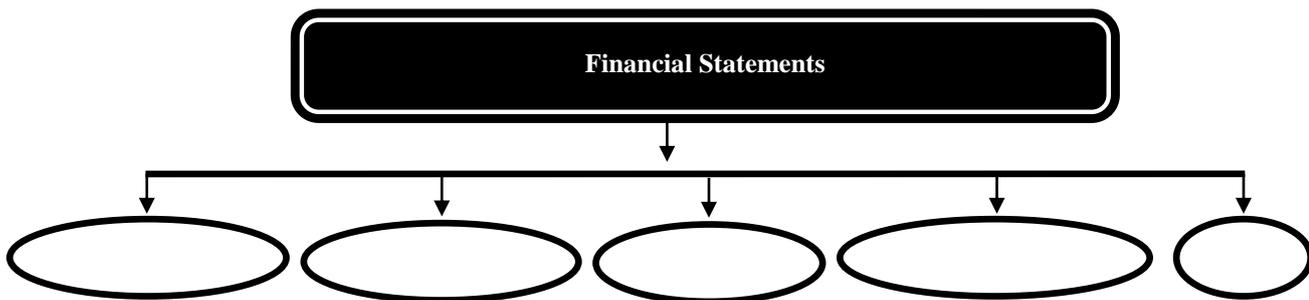
### 1.5 Approaches of Accounting



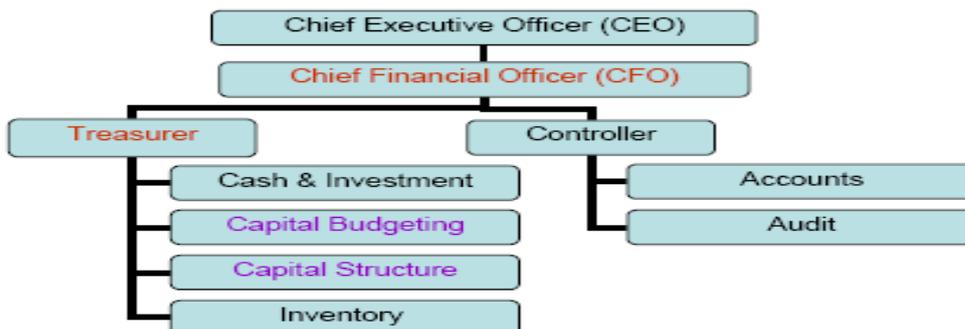
| American Approach                     | British Approach                      |
|---------------------------------------|---------------------------------------|
| Account Receivables                   | Sundry Debtors or Debtors, Book Debts |
| Account Payable                       | Sundry Creditors or Creditors         |
| Inventory                             | Stock                                 |
| Owner's Equity                        | Capital                               |
| Assets = Equities                     | Equities = Assets                     |
| Assets = Liabilities + Owner's Equity | Owner's Equity + Liabilities = Assets |
| Shareholder                           | Stockholder                           |
| Payable                               | Outstanding                           |
| Note Payable                          | Bill Payable                          |
| Check                                 | Cheque                                |
| Note Receivable                       | Bill Receivable                       |

### 1.6 Financial Statements

End results of financial accounting are financial statements



### 1.7 Organizational Structure



Practice MCQs

[www.accountancyknowledge.com/accounting-basics-mcqs/](http://www.accountancyknowledge.com/accounting-basics-mcqs/)

## TYPES OF BUSINESSES

- The word “Business” means the state of being busy
- Generally, an organization (combination of resources) entity engaged for making profit
- In other words all legal and economic activities undertaken towards achieving organizational objective of an enterprise referred to Business

Different authors define business in their own context; however, central idea is same



- *Every human activity which is engaged in for the sake of earning profit may be called business*
- *Business may be defined as human activities directed toward providing or acquiring wealth through buying and selling of goods*
- *An institution organized and operated to provide goods and services to the society, under the incentive of private gain is business*



Concluded that, the term business includes all human activities concerned with earning money or it is an activity in which produce or exchange goods and services for mutual gain or profit. The goods and services produced or purchased for personal use are not included in business. Business can be classified into different types under different basis by different authors. Some forms under some basis are discussed below:

### 2.1 Classification by Operational Activity

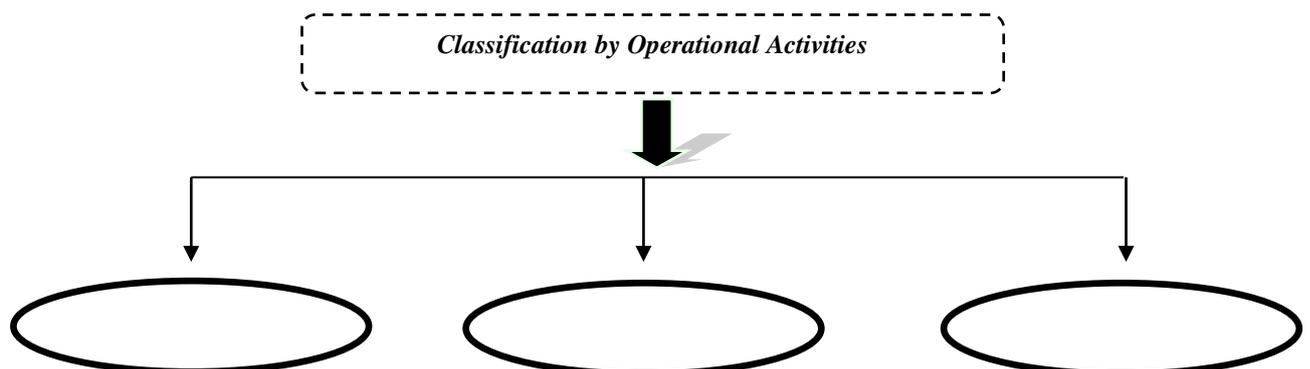
From operational activities point of view business can be classified into three main classes of activities. These activities are as follows

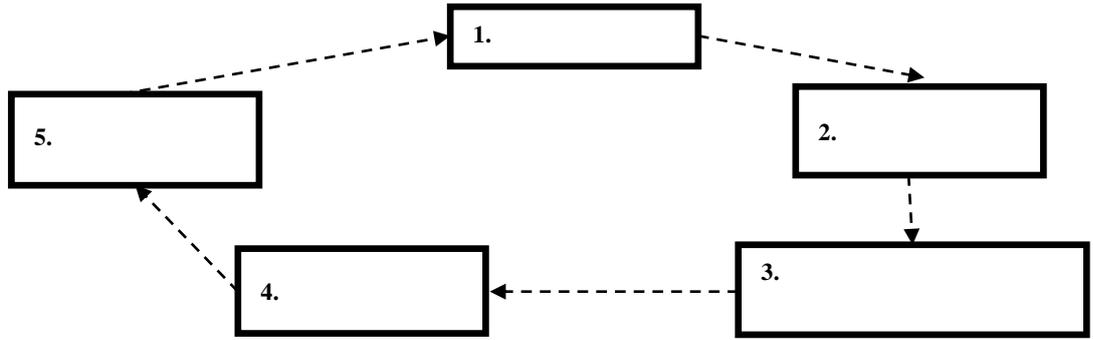
#### 2.1.1 Merchandising Activity:

- This type of business does not change the shape of the goods rather by adding their profit
- Business received goods in finished form and sell to customers as it is

#### 2.1.2 Manufacturing Activities:

- ❖ The enterprises which are involved in manufacturing activities, start their activities from purchase of raw material and put labor and factory overhead on the raw material and develop products
- ❖ Produced products are looks entirely different from raw material
- ❖ Hence we can say that in this type of business value addition is carries out





**2.1.3 Services Activities:**

The organizations involve in providing service like banking, education, insurance, management development and training are called services activities

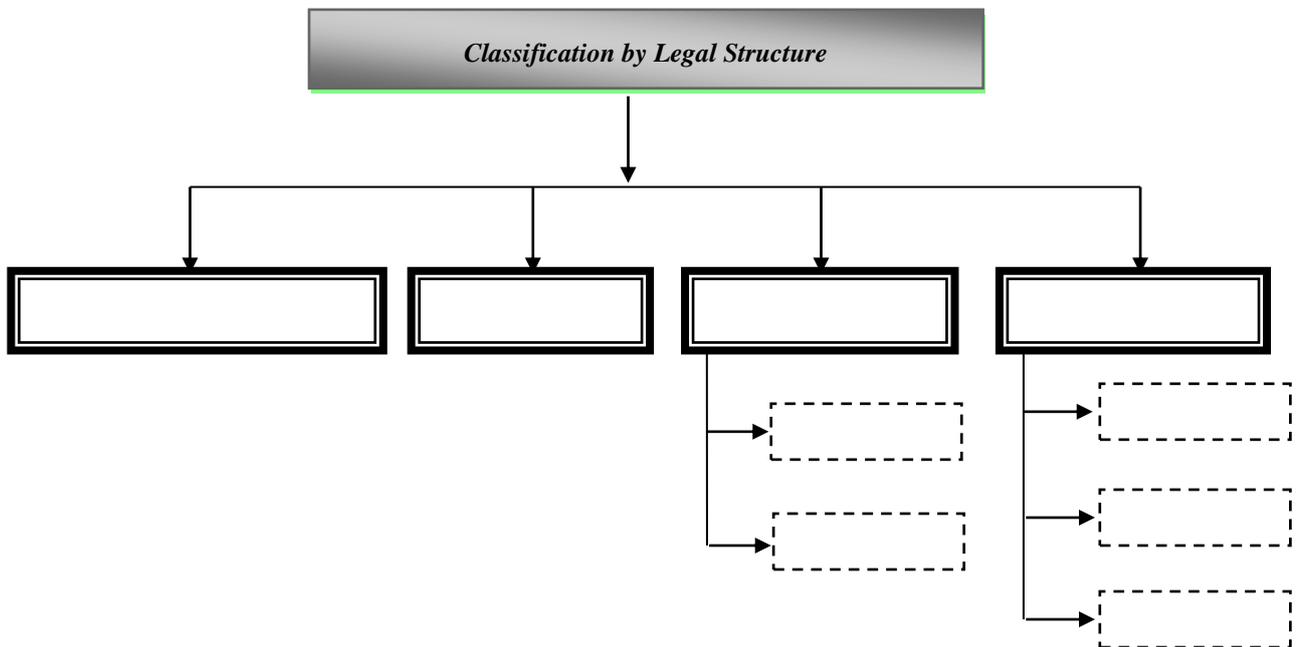
**2.2 Classification by Sector**

- Basically there are two sector public and private
- The public sector business organizations, for profit or non profit, are the ones controlled by the government, for instance, Pakistan Railways and WAPDA
- The firms owned by private entrepreneurs are private sector organizations like Bestway Cement etc



**2.3 Classification by Legal Structure**

In terms of the legal structure, firm can be categorized into the following four categories.



### 2.3.1 Sole Proprietorship

- ❖ A business owned by one person and the owner may operate by own or may employ others
- ❖ The owner of the business has total and unlimited personal liability of the debts incurred by the business



Stafford states, *it is the simplest form of business organization, which is owned and controlled by one man*

G. Baker defined as; *sole proprietorship is a business operated by one person to earn profit*

- ❖ Sole proprietorship is the oldest form of business organization in which one man invests his capital himself. He is all in all in doing his business. He enjoys the whole of the profit or bearing a loss

### 2.3.2 Partnership

- ✓ Partnership is the second stage in the evolution business organization
- ✓ It means the association of two or more persons to carry on as co-owners
- ✓ The persons who constitute this organization are individually termed as partners and collectively known as firm; and the name under which their business is conducted is called “The Firm Name”
- ✓ In ordinary business, the number of partners should not exceed 20, but in case of banking business it must not exceed 10. This type of business organization is very popular in Pakistan
- ✓ The law related to partnership is called Partnership act 1932 in Pakistan

According to Section 4 of Partnership Act 1932; *Partnership is the relation between persons who have agreed to share the profits of a business carried on by all or any of them acting for all*

### 2.3.3 Companies

- Joint Stock Company is the third major form of business organization
- It is entirely different organizational from sole proprietorship & partnership
- There are two advantages of Joint Stock Company. First of all, it enjoys the advantage of increased capital. Secondly, the company offers the protection of limited liability to the investors and disadvantage is double taxation (Corporate + Income Tax)
- The law relating to Joint Stock Company has been laid in Companies Ordinance, 1984



The most widely quoted definition of a company was given by an American judge, Justice Marshal in 1891, in which he defined a corporation as; *an artificial being, invisible, intangible and existing only in law*

According to S.E. Thomas; *a company is an incorporated association of persons formed usually for the pursuit of some commercial purpose.*

- There are two types of companies which are discussing below.

#### 2.3.3.1 Public Limited Company:

- Company which is formed by a least ‘7’ members, and there no restrictions to maximum number of shareholders
- This company can invite public to subscribe its shares or debentures by issuance of prospectus
- The shares of a public company are freely transferable or subscribe
- The word 'Limited' is used at the end of the name of public company

### 2.3.3.2 Private Limited Company:

- It is a company which is formed by at least '2' members and maximum number of members which is fifty (50)
- A private company cannot invite public to subscribe to its shares or debentures by issue of prospectus
- The transfers of shares is generally restricted by the articles of association of a private company
- In case of a private company, the word 'Private Limited' must be used at the end of the name of a company

### 2.3.4 Hybrid

- ❖ Those combine limited liability advantage of a company with single tax advantages of a sole proprietor/ partnership

#### 2.3.4.1 S-Type Corporation:

- ✚ S-Type corporations are limited liability corporations without double taxation
- ✚ In a regular corporation, the company itself is taxed on business profits. In addition, the owners pay individual income tax on money that they draw from the corporation as salaries, bonuses, or dividends
- ✚ In contrast, in an S corporation, all business profits "pass through" to the owners, who report them on their personal tax returns (as in sole proprietorships or partnerships)

#### 2.3.4.2 LLP:

- ✓ Limited Liability Partnership (LLP) is also a form of partnership with allows limited liability to the owners
- ✓ These organizations are similar in many ways to the partnership; however, LLPs offer more flexibility and benefits to the owners

#### 2.3.4.3 PC:

- Personal Corporations (PC) or Professional Corporations are generally formed by professionals to protect them against litigations. Professionals like doctors, lawyers etc. prefer to register their business as Professional Corporations

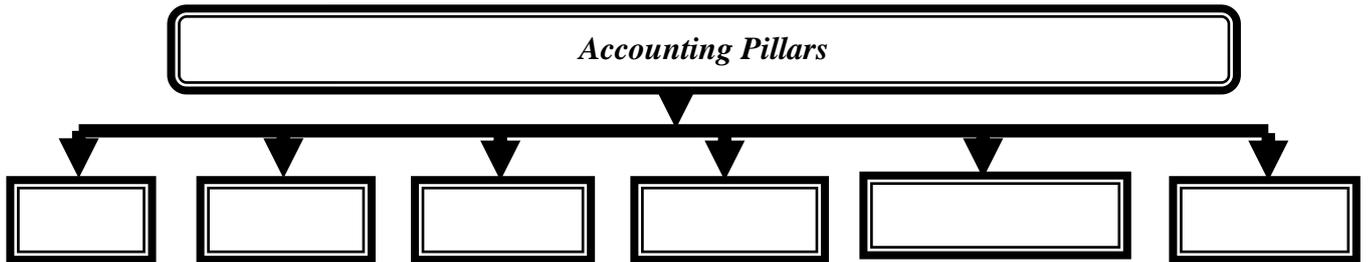
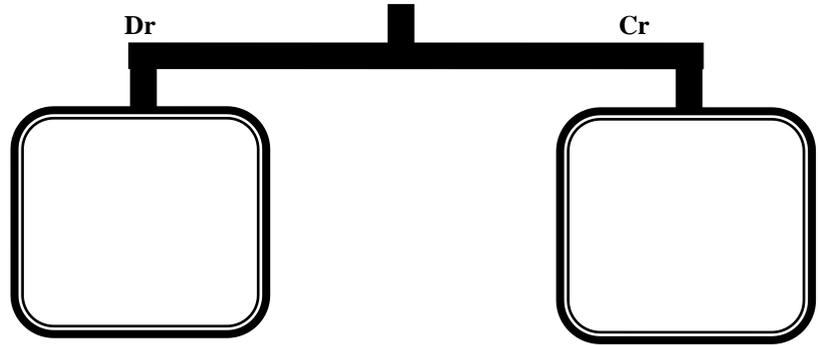
## Practice MCQs

[www.accountancyknowledge.com/types-of-businesses-mcqs/](http://www.accountancyknowledge.com/types-of-businesses-mcqs/)

## TYPES of ACCOUNTS

There are six Accounting Pillars:

| Accounting Pillars |  |
|--------------------|--|
|                    |  |



### 3.1 Assets



All Economic Resources of business organization. Assets are defined in Statement of Financial Accounting Concept 6 (SFAC 6); as *future economic benefits obtained or controlled by a particular entity as a result of past transactions or events* (Para. 25)

- A resource having economic value that an individual, corporation or country owns or controls with the expectation that it will provide future benefit
- It has four types, Tangible Assets, Intangible Assets, Natural Resources and Financial Assets

**Tangible Assets:** Machinery, Furniture, Building, Equipments, Plant, Car, Inventories, Fixture and Fittings, Computer, Books etc. etc.

**Intangible Assets:** Patents, Goodwill, Copy Rights, Trade Mark etc. etc.

**Natural Resources:** Land, Mines, Coal, Forest etc. etc.

**Financial Assets:** Cash, Note Receivables, Marketable Securities, Bank, Prepaid items, etc. etc.

### 3.2 Liabilities

- ✓ All Economic Obligations of business organization|



Liabilities are defined by SFAC 6 as *future sacrifices of economic benefits arising from present obligations of a particular entity to transfer assets or provide services to other entities in the future as a result of past transactions or events* (Para. 35)

- ✓ Whenever a person purchases something on credit he promises to pay for the goods on a future date. This is his obligation to pay cash at a future date and thus it becomes his liability
- ✓ Liabilities are typically divided into two categories: short-term or Current Liabilities and Long Term Liabilities

**Current Liabilities:** Account Payable, Bank Overdraft/Overdrawn, Note Payable outstanding or payables, etc.

**Long Term Liabilities:** Bank Loan, Debenture, Bonds, Mortgage Loan etc. etc.

### 3.3 Drawing

- De-investment of the owner from business
- Drawing is defines as withdrawal made by owner in the form of cash and other assets for their personal use
- This will be reduce the owner equity account
- This is the case only sole proprietorship and partnership
- There is no drawing account in case of corporation. Drawing decrease owner equity in the business

### 3.4 Owner Equity

- Investment in the business by owner



According to SFAC 6 *the residual interest in the net assets of an entity that remains after deducting its liabilities* (Para. 49)

### 3.5 Expenses

- All Outflows of the business for earning|



According to SFAC 6 as *outflows from delivering or producing goods, rendering services or carrying out other activities that constitute the entity's ongoing major or central operations* (Para. 80).

- Expenses are economic costs that a business incurs through its operations to earn revenue

Wages, Salaries, Rent, Octri, Fright, Carriage, Stationery, Repairs, Carriage, Discount, Transportation, Commission and all accounts have debit balance (Dr) etc.

**3.6 Revenue**

- ❖ All inflows of the business.
- ❖ Revenue = Cost + Profit or (Loss)



According to SFAC 6 as *inflow from delivering or producing goods, rendering services or other activities that constitute the entity's ongoing major or central operations* (Para. 78)

- ❖ Revenue is the amount of money that a company receives from its operating activities in a given period, mostly from sales of products and/or services to customers
- ❖ It is not to be confused with the terms "profits" or "net income" which generally means total revenue less total expenses in a given period; Profit = Revenue - Cost
- ❖ Revenue is calculated by multiplying the price at which goods or services are sold by the number of units sold

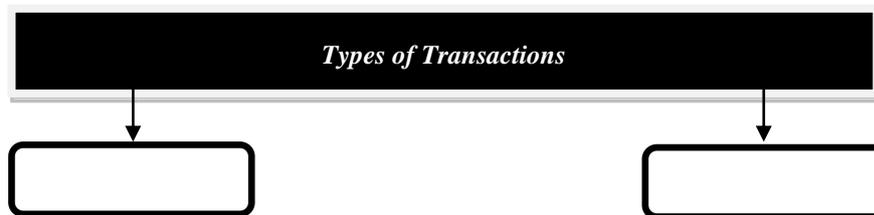
Sales, fees etc. and all accounts have credit balance like commission (Cr) etc.

**3.7 Transactions**

- Transactions are heartbeat of every business
- All economic activities are called transactions
- Any dealing between two persons involving money or a valuable thing is called transaction
- Every person cannot fulfill all his needs like food, clothing, housing etc. on his own. He, therefore, depends on other people to provide him with some of his needs

**3.8 Forms of Transactions**

- Translating every transaction in terms of money does not always mean that the money changes hands, the same time at which the transaction takes place. It may be paid before or after the goods are exchanged
- When the money value of an item being purchased is paid, at the same time the item is exchanged. The transaction is said to be a cash transaction
- On the other hand, if the payment is delayed to a future date, the transaction is termed as a credit transaction



**3.9 Chart of Accounts**

- Account is formal record that represents certain resources and claims to such resources, transactions or other events that result in changes to those resources and claims
- Chart of accounts is a list of ledger account names and numbers arranged in the order in which they appear in the financial statements
- The chart serves as a useful source for locating a given account within the ledger. The numbering system for the chart of accounts must leave room for new accounts. A range of numbers is assigned to each financial statement category

**Example # 3.1:** For each of the following, write Accounting Pillars and Normal Balance?

| <i>S.no</i> | <b>Items</b>             | <b>Accounting Pillars</b> | <b>Normal Balance</b> |
|-------------|--------------------------|---------------------------|-----------------------|
| 1           | Cash                     |                           |                       |
| 2           | Accounts Payable         |                           |                       |
| 3           | Income Taxes             |                           |                       |
| 4           | Stock                    |                           |                       |
| 5           | Transportation cost      |                           |                       |
| 6           | Prepaid Rent             |                           |                       |
| 7           | Sales                    |                           |                       |
| 8           | Note Payable             |                           |                       |
| 9           | Bill Receivables         |                           |                       |
| 10          | Salary Outstanding       |                           |                       |
| 11          | Rent and Taxes           |                           |                       |
| 12          | Common Stock             |                           |                       |
| 13          | Sundry Debtors           |                           |                       |
| 14          | Commission (cr)          |                           |                       |
| 15          | Leasehold Land           |                           |                       |
| 16          | Utility Bills            |                           |                       |
| 17          | Other Income             |                           |                       |
| 18          | Land and Building        |                           |                       |
| 19          | Insurance Premium        |                           |                       |
| 20          | Payable and Outstanding  |                           |                       |
| 21          | Owner Invested Machinery |                           |                       |
| 22          | Drawings                 |                           |                       |
| 23          | Bank Charges             |                           |                       |
| 24          | Salaries received        |                           |                       |
| 25          | Fuel Expense             |                           |                       |
| 26          | Loan to Employees        |                           |                       |
| 27          | Bank Account             |                           |                       |
| 28          | Wages earned             |                           |                       |
| 29          | Marketable Securities    |                           |                       |
| 30          | Unearned Revenue         |                           |                       |

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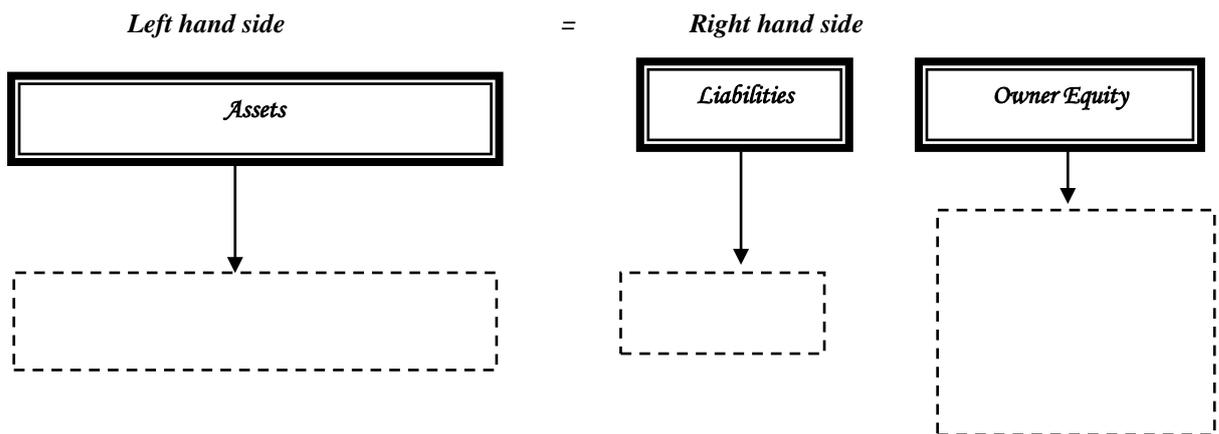
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### ACCOUNTING EQUATION

- ❖ Double entry bookkeeping states that for every debit entry there should be pass a credit entry. Every transaction has twofold effect; this concept has a result of Accounting Equation or Balance Sheet Equation or Fundamental Equation

$$\begin{aligned}
 \text{Resources} &= \text{Source} \\
 &\text{Or} \\
 \text{Assets} &= \text{Equities / Claims (Claims may be internal or external)} \\
 &\text{Or} \\
 \text{Asset} &= \text{Liabilities} + \text{Owner Equity} \\
 &\text{Or}
 \end{aligned}$$

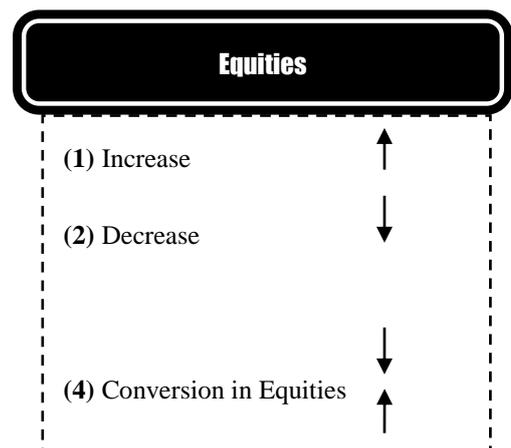
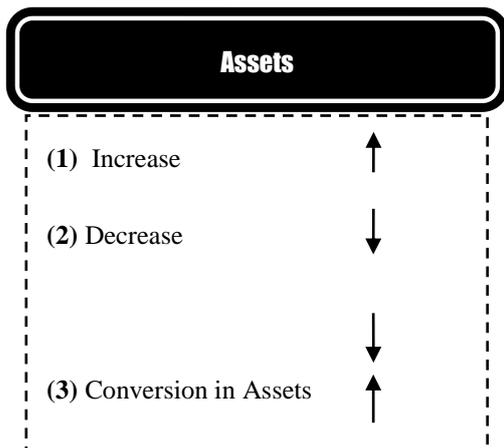


**Which of the following is correct form of Equation?**

|             |   |             |   |                |     |
|-------------|---|-------------|---|----------------|-----|
| Assets      | = | Liabilities | + | Owner's Equity |     |
| Assets      | - | Liabilities | = | Owner's Equity |     |
| Liabilities | = | Assets      | - | Owner's Equity |     |
| Asset       | - | Liabilities | - | Owner's Equity | = 0 |

- ❖ At any point of time total assets must be equal to total equities. In other words we can say that left hand side which is resource side must be equal to right hand side which is of course source side

#### 4.1 Four Effects



**Example # 4.1:** For each of the following transactions indicate the effects on the Accounting Equation of the Company i.e. (Increase, Decrease, Conversion or No Effect)?

(1) The owner invests personal cash in the company?

| Assets | Liabilities | Owner's Equity |
|--------|-------------|----------------|
|        |             |                |

(2) The owner withdraws company's assets for personal use?

| Assets | Liabilities | Owner's Equity |
|--------|-------------|----------------|
|        |             |                |

(3) The company purchases equipment with its cash?

| Assets | Liabilities | Owner's Equity |
|--------|-------------|----------------|
|        |             |                |

(4) The company repays the bank loan by introducing reinvestment of owner in the company?

| Assets | Liabilities | Owner's Equity |
|--------|-------------|----------------|
|        |             |                |

**Example # 4.2:** From the list of accounts below, determine which assets are and which equities are. List the assets under the Asset Column and the equities under the equities Column. Then add each column and complete the Fundamental Accounting Equation?

| Accounts            |                    | Asset | Equities |
|---------------------|--------------------|-------|----------|
| Cash                | Rs. 5,000          |       |          |
| Accounts Receivable | 10, 600            |       |          |
| Building            | 35,000             |       |          |
| Accounts Payable    | 5,000              |       |          |
| Inventory           | 200                |       |          |
| Computer Equipment  | 18,000             |       |          |
| Bank Loan           | 6,000              |       |          |
| Mortgage Payable    | 10,000             |       |          |
| Owner Equity        | 47,800             |       |          |
| <b>TOTAL</b>        | <b>Rs. 137,600</b> |       |          |

**Example # 4.3:** For each of the following equations, a figure is missing. In the space provided, please supply the missing figure that will balance the equation.

| Assets | Liabilities | Owner's Equity |
|--------|-------------|----------------|
| 100    | 20.00       |                |
|        | 720         | 70             |
| 2,000  |             | 1,600          |
| 11,218 | 10,000      |                |
|        | 25          | 985            |
| 340    |             | 328            |
| 8793   | 0           |                |
|        | 1,501       | 499            |

**Example # 4.4:** Prepare Accounting Equation on the basis of following transactions?

1. Arush Khan and Company started business with cash Rs. 100,000
2. She purchased Furniture for cash Rs. 2,000
3. Purchases Machinery on credit from Umer Abbasi Rs.10,000
4. Cash withdraw by owner Rs. 20,000
5. Cash Sales of Rs. 6,000
6. Credit sales to Ayesha Iqbal Rs.2,000
7. Paid rent Rs. 2,500 and wages Rs. 1,500

| S. No | Assets |           |           |                 | Equities    |     |
|-------|--------|-----------|-----------|-----------------|-------------|-----|
|       | Cash   | Furniture | Machinery | A/C Receivables | A/C Payable | O.E |
| 1     |        |           |           |                 |             |     |
| Bal   |        |           |           |                 |             |     |
| 2     |        |           |           |                 |             |     |
| Bal   |        |           |           |                 |             |     |
| 3     |        |           |           |                 |             |     |
| Bal   |        |           |           |                 |             |     |
| 4     |        |           |           |                 |             |     |
| Bal   |        |           |           |                 |             |     |
| 5     |        |           |           |                 |             |     |
| Bal   |        |           |           |                 |             |     |
| 6     |        |           |           |                 |             |     |
| Bal   |        |           |           |                 |             |     |
| 7     |        |           |           |                 |             |     |
| Bal   |        |           |           |                 |             |     |
| Total |        |           |           |                 |             |     |

**Example # 4.5:** On 1<sup>st</sup> January, 2016 the balances of Muhammad Danish & Bros. are as follows?

| Assets         |                    | Equities       |                    |
|----------------|--------------------|----------------|--------------------|
| Cash .....     | 25,000             | Creditor ..... | 40,000             |
| Debtor .....   | 17,000             | Capital .....  | 94,000             |
| Inventory..... | 22,000             |                |                    |
| Building ..... | 70,000             |                |                    |
| <b>Total</b>   | <b>Rs. 134,000</b> |                | <b>Rs. 134,000</b> |

Transaction during the January was

**January**

- 1) Purchase inventory for cash Rs. 3,600
- 5) Sold inventory for cash Rs. 12,000 costing Rs. 10,500
- 7) Cash paid to creditor Rs. 25,000
- 9) Sold inventory for cash Rs. 5,000 and on credit Rs. 3,000 costing Rs. 6,000
- 11) Inventory returned by a cash customer Rs. 2,000 costing Rs. 1,900
- 15) Cash received from debtors Rs. 14,000
- 18) Cash paid for furniture purchased for owner domestic use Rs. 1,000
- 20) Paid salaries Rs. 1,400

**Requirement:** Show the effects of above transaction on the accounting equation:

| S. No        | Assets |        |           |          | Equities |         |
|--------------|--------|--------|-----------|----------|----------|---------|
|              | Cash   | Debtor | Inventory | Building | Creditor | Capital |
| Bal          |        |        |           |          |          |         |
| 1            |        |        |           |          |          |         |
| Bal          |        |        |           |          |          |         |
| 5            |        |        |           |          |          |         |
| Bal          |        |        |           |          |          |         |
| 7            |        |        |           |          |          |         |
| Bal          |        |        |           |          |          |         |
| 9            |        |        |           |          |          |         |
| Bal          |        |        |           |          |          |         |
| 11           |        |        |           |          |          |         |
| Bal          |        |        |           |          |          |         |
| 15           |        |        |           |          |          |         |
| Bal          |        |        |           |          |          |         |
| 18           |        |        |           |          |          |         |
| Bal          |        |        |           |          |          |         |
| 20           |        |        |           |          |          |         |
| Bal          |        |        |           |          |          |         |
| <b>Total</b> |        |        |           |          |          |         |

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### ACCOUNTING VARIATION PROFORMA

| S.No | Transaction | Charts of Accounts | Accounting Pillars | Reasons | Debit | Credit |
|------|-------------|--------------------|--------------------|---------|-------|--------|
|      |             |                    |                    |         |       |        |

#### 5.1 Chart of Accounts

**Assets:**  
Machinery, Furniture, Leasehold Premises, Building, Equipment, Plant, Account Receivables, Note Receivables, Land, Car, Marketable Securities, Cash, Goodwill, Leasehold building, Bank, Computer, Fixture and Fittings, Copy Rights, Leasehold land, Inventories, Loan to employees, Prepaid items etc. etc.

**Drawing:**  
Any withdrawal made by Owner in the form of Physical assets like furniture, inventory etc. or in the form of Financial asset like cash etc.

**Expense:**  
Wages, Salaries, Rent, Octri, Freight, Carriage, Repairs, Maintenance, Discount, Rebate, Transportation, Commission, Miscellaneous Expense, Entertainment Expense (which have debit balance or paid)

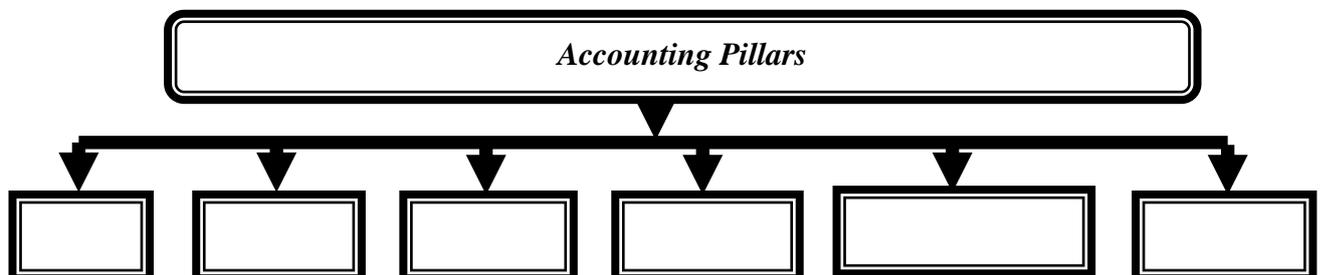
**Liability:**  
Note Payable, Account Payable, Bank Loan, Debenture, Bonds, Mortgage Loan and any outstanding or payables and unearned

**Owner Equity:**  
Any assets invested by owner may be in form of monetary or physical assets.

**Revenue:**  
Sales, fees etc. all accounts have credit balance like commission (Cr) or received like discount received

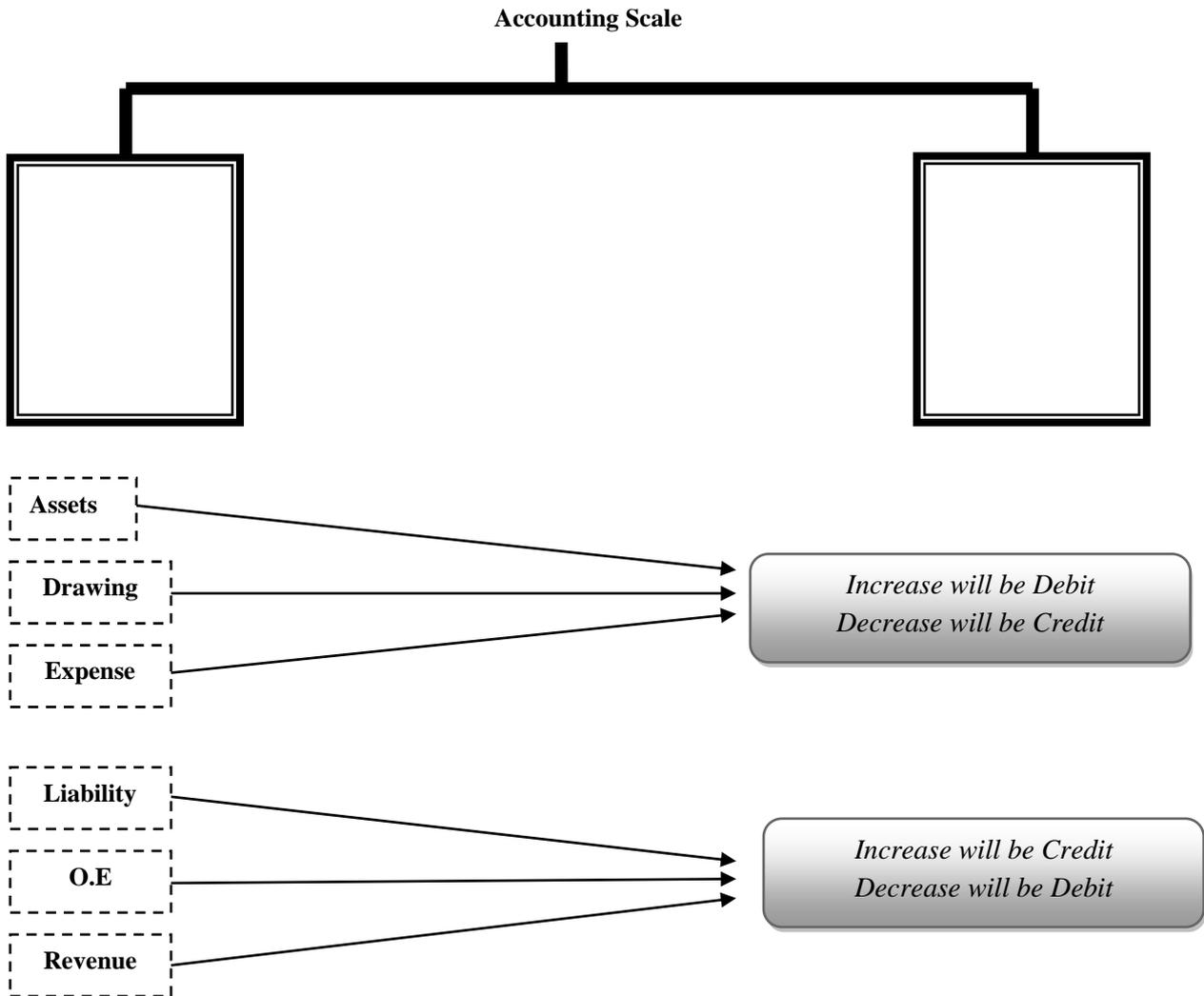
#### 5.2 Accounting Pillars

There are six Pillars of Accounting



### 5.3 Golden Rules of Debit and Credit

- ◆ The term debit means left, and credit means right. They do not mean increase or decrease
- ◆ Debit is abbreviated Dr and credit is abbreviated Cr
- ◆ The act of entering an amount of the left side of an account is called debiting. Making an entry on the right side is called crediting
- ◆ When the totals of the two sides are compared, an account will have a debit balance if the left side (Dr side) is greater. Conversely, the account will have a credit balance if the right side (Cr side) is greater



### 5.4 Contra Accounts

|   |
|---|
| 1. Purchase Return ..... Return Outward ..... Contra Expense ..... Cr Balance |
| 2. Sales Return ..... Return Inward ..... Contra Revenue ..... Dr Balance     |
| 3. Accumulated Depreciation ..... Contra Assets ..... Cr Balance              |
| 4. Provision for Bad Debts ..... Contra Assets ..... Cr Balance               |

**5.5 Normal Balances**

| Items                           | Normal Balance |     |
|---------------------------------|----------------|-----|
|                                 | Dr.            | Cr. |
| Assets                          |                |     |
| Liabilities                     |                |     |
| Expenses                        |                |     |
| Revenue                         |                |     |
| Owner's Equity                  |                |     |
| Drawing                         |                |     |
| Purchase Return/ Return Outward |                |     |
| Sales Return/ Return Inward     |                |     |
| Accumulated Depreciation        |                |     |
| Provision for Bad Debts         |                |     |

**Example 5.1:** For each of the following items write Accounting Pillars and Normal Balances:

| Items                                  | Accounting Pillars | Normal Balance |
|--|--------------------|----------------|
| Cash at bank                           |                    |                |
| Financial charges paid                 |                    |                |
| Accumulated Depreciation               |                    |                |
| Stock in trade                         |                    |                |
| Salaries payable                       |                    |                |
| Advance deposit and prepayments        |                    |                |
| Carriage inward                        |                    |                |
| Commission received                    |                    |                |
| Sundry debtors                         |                    |                |
| Purchases Return/ Return outward       |                    |                |
| Investment by Owner                    |                    |                |
| Bank charges (Dr)                      |                    |                |
| Profit or Capital gain                 |                    |                |
| Provision for bad debts                |                    |                |
| Cash in hand                           |                    |                |
| Mark up (Cr)                           |                    |                |
| Sundry creditors                       |                    |                |
| Transportation outward                 |                    |                |
| Due from customers                     |                    |                |
| Unearned Revenue                       |                    |                |
| Deinvestment by owner for personal use |                    |                |
| Sales Return/ Return Inward            |                    |                |
| Outstanding wages                      |                    |                |

**Example 5.2:** Use Accounting Variation Proforma for following transactions

Jan. 2 Owners invested cash of Rs. 70,000 in new business. *(Hint: Owner's Equity is Source)*

| Charts of Accounts | Accounting Pillars | Reasons | Debit | Credit |
|--------------------|--------------------|---------|-------|--------|
|                    |                    |         |       |        |
|                    |                    |         |       |        |

Jan. 3 An additional Rs. 10,000 was borrowed from a local bank as bank loan. *(Hint: Liability is Source)*

| Charts of Accounts | Accounting Pillars | Reasons | Debit | Credit |
|--------------------|--------------------|---------|-------|--------|
|                    |                    |         |       |        |
|                    |                    |         |       |        |

Jan. 5 Paid Rs. 1,500 in office rent for the month. *(Hint: Expenses always debited with its own Name)*

| Charts of Accounts | Accounting Pillars | Reasons | Debit | Credit |
|--------------------|--------------------|---------|-------|--------|
|                    |                    |         |       |        |
|                    |                    |         |       |        |

Jan. 6 Cash sales Rs. 1,000. *(Hint: Revenue always credited with its own Name)*

| Charts of Accounts | Accounting Pillars | Reasons | Debit | Credit |
|--------------------|--------------------|---------|-------|--------|
|                    |                    |         |       |        |
|                    |                    |         |       |        |

Jan. 9 Inventory costing Rs. 2,000 were purchased on account. *(Hint: Account Payable for credit buying)*

| Charts of Accounts | Accounting Pillars | Reasons | Debit | Credit |
|--------------------|--------------------|---------|-------|--------|
|                    |                    |         |       |        |
|                    |                    |         |       |        |

Jan. 10 Credit sales Rs. 3,000. *(Hint: Account Receivable for credit sales)*

| Charts of Accounts | Accounting Pillars | Reasons | Debit | Credit |
|--------------------|--------------------|---------|-------|--------|
|                    |                    |         |       |        |
|                    |                    |         |       |        |

Jan. 12 Purchase goods for Rs. 6,000 cash. *(Hint: When goods or merchandising bought we debit purchase account)*

| Charts of Accounts | Accounting Pillars | Reasons | Debit | Credit |
|--------------------|--------------------|---------|-------|--------|
|                    |                    |         |       |        |
|                    |                    |         |       |        |

Jan. 14 Rs. 1,200 was paid on account to the vendor/supplier.

*(Hint: Reducing Liability)*

| Charts of Accounts | Accounting Pillars | Reasons | Debit | Credit |
|--------------------|--------------------|---------|-------|--------|
|                    |                    |         |       |        |
|                    |                    |         |       |        |

Jan. 15 Received cash from customer Rs. 3,000.

*(Hint: Assets realized or conversion of assets)*

| Charts of Accounts | Accounting Pillars | Reasons | Debit | Credit |
|--------------------|--------------------|---------|-------|--------|
|                    |                    |         |       |        |
|                    |                    |         |       |        |

Jan. 17 Paid insurance premium for two years Rs. 2,400.

*(Hint: More than one year expense is asset)*

| Charts of Accounts | Accounting Pillars | Reasons | Debit | Credit |
|--------------------|--------------------|---------|-------|--------|
|                    |                    |         |       |        |
|                    |                    |         |       |        |

Jan. 19 Goods return by cash customer of Rs. 200.

*(Hint: Sales return is always debited)*

| Charts of Accounts | Accounting Pillars | Reasons | Debit | Credit |
|--------------------|--------------------|---------|-------|--------|
|                    |                    |         |       |        |
|                    |                    |         |       |        |

Jan. 20 Goods return to credit supplier of Rs. 500.

*(Hint: Purchase return is always credited)*

| Charts of Accounts | Accounting Pillars | Reasons | Debit | Credit |
|--------------------|--------------------|---------|-------|--------|
|                    |                    |         |       |        |
|                    |                    |         |       |        |

Jan. 21 Received commission of worth Rs. 700.

*(Hint: Revenue always credited with its own Name)*

| Charts of Accounts | Accounting Pillars | Reasons | Debit | Credit |
|--------------------|--------------------|---------|-------|--------|
|                    |                    |         |       |        |
|                    |                    |         |       |        |

Jan. 22 Purchase machinery of Rs. 10,000; Rs. 2,500 paid and for remaining sign a note.

*(Hint: Compound entry)*

| Charts of Accounts | Accounting Pillars | Reasons | Debit | Credit |
|--------------------|--------------------|---------|-------|--------|
|                    |                    |         |       |        |
|                    |                    |         |       |        |
|                    |                    |         |       |        |

Jan. 22 Total services performed for Rs. 4,500, cash received Rs. 2,000 and remaining note receivable.

| Charts of Accounts | Accounting Pillars | Reasons | Debit | Credit |
|--------------------|--------------------|---------|-------|--------|
|                    |                    |         |       |        |
|                    |                    |         |       |        |
|                    |                    |         |       |        |

Jan. 22 Sales for client who have paid in advance in March 12.

| Charts of Accounts | Accounting Pillars | Reasons | Debit | Credit |
|--------------------|--------------------|---------|-------|--------|
|                    |                    |         |       |        |
|                    |                    |         |       |        |
|                    |                    |         |       |        |

Jan. 25 Account receivable collected for Rs. 1,500.

| Charts of Accounts | Accounting Pillars | Reasons | Debit | Credit |
|--------------------|--------------------|---------|-------|--------|
|                    |                    |         |       |        |
|                    |                    |         |       |        |
|                    |                    |         |       |        |

Jan. 28 Purchased supplies of worth Rs. 25,000; paid 10,000 cash and remaining account payable.

| Charts of Accounts | Accounting Pillars | Reasons | Debit | Credit |
|--------------------|--------------------|---------|-------|--------|
|                    |                    |         |       |        |
|                    |                    |         |       |        |
|                    |                    |         |       |        |

Jan. 30 Received Rs. 3,000 cash from customer to whom sales to be delivered in future.

| Charts of Accounts | Accounting Pillars | Reasons | Debit | Credit |
|--------------------|--------------------|---------|-------|--------|
|                    |                    |         |       |        |
|                    |                    |         |       |        |
|                    |                    |         |       |        |

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## ACCOUNTING CYCLE

- Bookkeeping should not be confused with accounting or accountancy.
- Persons with little knowledge of accounting may fail to understand the difference between these terms and often used to mean the same thing.
- Therefore, it is useful to make a distinction.

### 6.1 Bookkeeping

- Bookkeeping is a small part of the field of accounting and the simplest part, just like arithmetic is a small part of the broad discipline of mathematics
- Its work is clerical nature and can be performed by office workers, machine and computers. The functions of Bookkeeping is to properly record the financial transactions in the books of account
- Bookkeeping is recording or first phase of an accounting system

### 6.2 Accounting

- The process of accounting begins where the bookkeeping process ends
- Accounting is broad subject and final phase
- The function of accounting is to classify the recorded transactions, summarize them, interpret them, and collect and communicate necessary information to the management and other interested parties
- Accounting includes not only maintenance of accounting records, but also the preparation and interpretation of Financial Statements

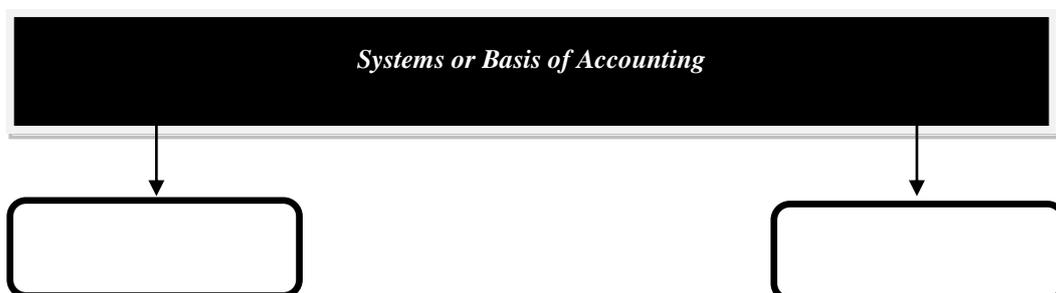
### 6.3 Accountancy

- The two words accounting and accountancy are often used to mean the same thing. But it is not correct
- Accountancy is the main subject while, accounting is one of its branches
- The word "accountancy" is far extensive; i.e. the scope of accountancy is far a wide and extensive compared to accounting
- It covers the entire body of theory and practice, e.g. bookkeeping, accounting, costing, auditing, taxation etc.



### 6.4 Systems or Basis of Accounting

There are two systems or basis of accounting, Cash and accrual. The difference between the two systems of accounting is when revenues and expenses are recorded



### 6.4.1 Cash Accounting

- With cash basis accounting, revenue is recognized (recorded) when cash is received. Expenses are recognized only when cash is paid
- It is the accounting system in which revenue and expenses are recorded when actual cash / cheque is received or paid
- The same principle applies for income and other transactions as well i.e. income is recorded when cash is actually received
- No Account Payable or Account Receivables
- Let's take the example of utility bills like electricity, telephone etc. The bill of January is received on 5<sup>th</sup> February and paid on 15<sup>th</sup> February. If the organization is following cash accounting practice it will record the expense of electricity on 15<sup>th</sup> February
- Cash-based accounting refers to keeping a record of cash inflows and cash outflows

### 6.4.2 Accrual Accounting

- ✓ Accrual basis accounting requires accountants to follow the revenue recognition principle and the expense recognition principle
- ✓ It is the accounting system in which events are recorded as and when they occur
- ✓ This means that revenue is recorded when it is earned
- ✓ Expense is recorded when incurred i.e. the organization has obtained the benefit from it
- ✓ Consider the same example the electricity is utilized in the month of January so the expense should be recorded in the month of January 31<sup>st</sup>
- ✓ Similarly the case of revenue
- ✓ Account Payable and Account Receivable available
- ✓ Cash basis accounting does not satisfy the requirements of Generally Accepted Accounting Principles (GAAP), whereas accrual basis accounting does.
- ✓ Accrual basis accounting provides an objective measurement of net income

## 6.5 Methods of Recordings

There are two methods of recording for transactions

### 6.5.1 Single Entry Book-Keeping

- This is the conventional style of keeping records
- In single entry book keeping system, as it is clear from the name, only one aspect of the transaction is recorded
- This actually is not a system but is a procedure by which small business concerns, like retailers and small shopkeepers, keep record of their sale / income. In this system, there are usually two to three registers
- "Naqad Khata" is one register cash received from customers is recorded
- Whereas the other one is a person-wise record of goods sold on credit "Udhar Khata"
- That means only one aspect of transaction i.e. either cash receipt/payment or credit is maintained
- Single entry is faulty, incomplete, inaccurate, unscientific and unsystematic style of account keeping

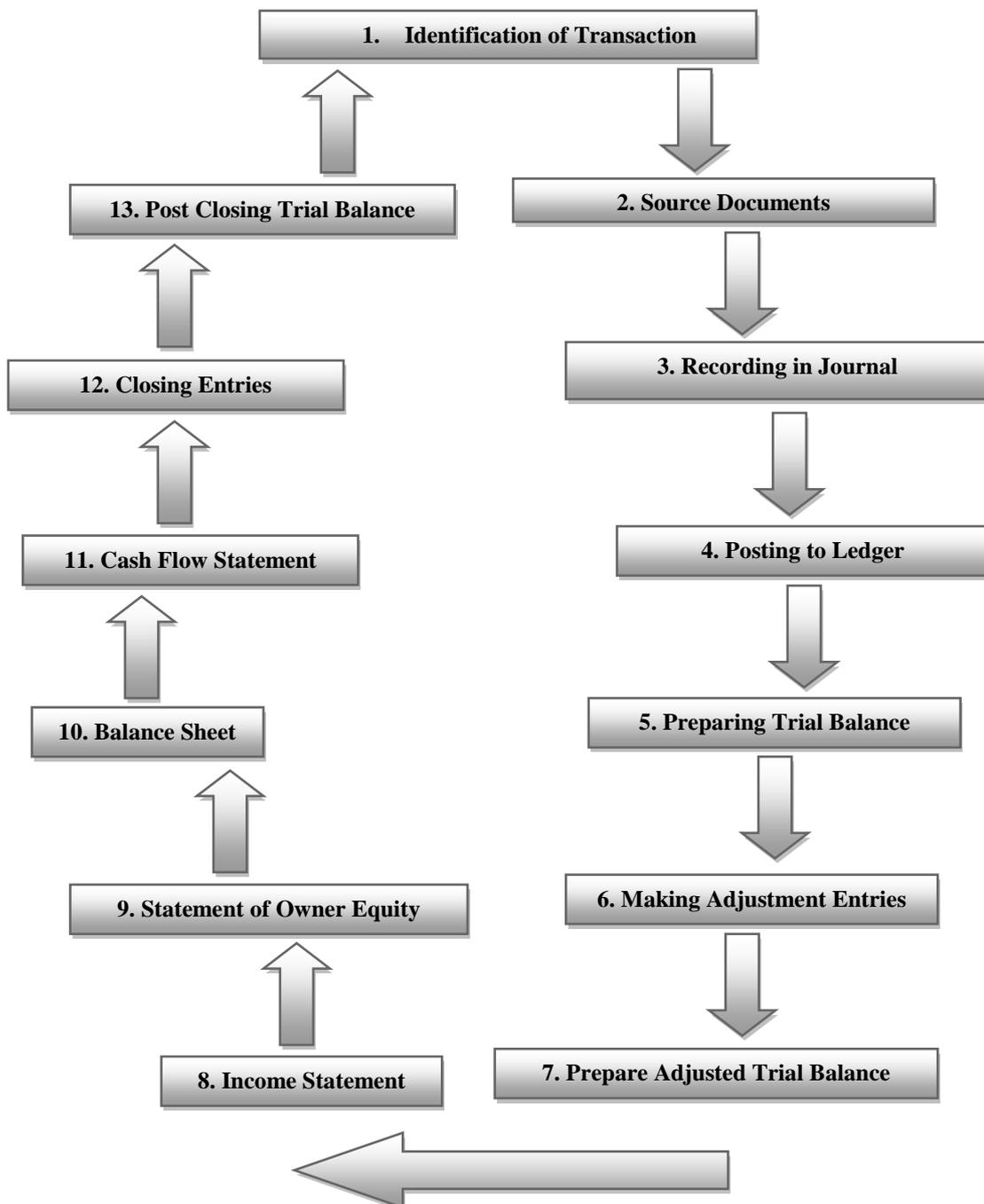
### 6.5.2 Double Entry Book-Keeping

- ❖ Locus Pacioli, an Italian wrote a first book on double entry system in 1494

- ❖ The concept of double entry is based on the fact that every transaction has two aspects i.e. receiving a benefit and giving a benefit
- ❖ The accounting system that records both the aspects of transaction in books of accounts is called double entry system
- ❖ ‘Debit’ (derived from Latin word *Debere* which means to owe) and ‘Credit’ (derived from Latin word *Credere* which means that which one believes in, including persons, like creditor) are denoted by ‘Dr’ and ‘Cr’ respectively. The ultimate result of the system is that for every Debit (Dr) there is an equal Credit (Cr)

### 6.6 Accounting Cycle

Accounting cycle refers to completed sequence of accounting steps and procedures which are required to be repeated in same order during each accounting period



### 6.6.1 Identification of Transactions

- In accounting, only business transaction or economic activities are recorded (except drawing in case of non-corporate form of business)
- A transaction is a particular type of event, which can be expressed in terms of money and brings changes in the financial position of a business unit
- A transaction involves transfer of something of value between two or more entities. A transaction may be an exchange in which each party receives as well as sacrifices values; in other words, in every transaction, there is a movement of value from one source to another
- A transaction can also be non-reciprocal transfer in which a business unit incurs a liability (penalty imposed by government) or transfer an asset to another entity (payment of income tax) or receives an asset (subsidy received from government)
- Transaction may be external (between business and second party) or internal (not involving second party like depreciation on machinery)

### 6.6.2 Source Documents

- ❖ Source documents are the evidences of business transactions (Audit requirements)
- ❖ Which provide information about the nature of the transaction, the date, the amount and the parties involved in it
- ❖ Since each transaction has an effect on the financial position of the business, there should be a documentary evidence to establish the monetary amount at which transactions are recorded
- ❖ According to the verifiable objective principle of Accounting, each transaction recorded in the books of accounts should have sufficient proof to support it
- ❖ That the transactions are properly authorized. The common documents that generally use are described below

#### 6.6.2.1 Cash Memo:

- ★ When a trader sells goods for cash, he gives a cash memo
- ★ When a trader purchases goods for cash, he receives a cash memo
- ★ Details regarding the items, quantity, rate and the price are mentioned in the cash memo

#### 6.6.2.2 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
- Similarly, when a trader purchases goods on credit, he receives a credit bill from the supplier of goods

#### 6.6.2.3 Receipt:

- ❖ When a trader receives cash from a credit customer, he issues a receipt containing the date, the amount and the name of the customer
- ❖ The original copy is handed over to the credit customer and the duplicate copy is kept for record
- ❖ In the same way, whenever we make payment, we obtain a receipt from the party to whom we make payment

**6.6.2.4 Debit Note:**

- A debit note is prepared by the buyer and it contains the date of the goods returned, name of the supplier, details of the goods returned and reasons for returning the goods
- A duplicate copy or counter foil of the debit note is retained by the buyer. On the basis of debit note, the suppliers account is debited in the books

**6.6.2.5 Credit Note:**

- A credit note is prepared by the seller and it contains the date on which goods are returned, name of the customer, details of the goods received back, amount of such goods and reasons for returning the goods
- A duplicate copy of the credit note is retained for the record purpose
- On the basis of credit note, the customer's account is credited in the books

**6.6.2.6 Pay-in-Slip:**

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

**6.6.2.7 Cheque**

- ✓ A cheque is a document in writing drawn upon a specified banker to pay a specified sum to the bearer or the person named in it and payable on demand
- ✓ Each cheque book has a counterfoil in which the same details in the cheque 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

**6.6.2.8 Vouchers**

- ★ A voucher is a written document in support of a business transaction
- ★ Vouchers are prepared by an accountant and each voucher is counter signed by an authorized person of the organization
- ★ The vouchers are properly filed according to their serial numbers so that the auditors may easily vouch them and these may also serve as documentary evidence in future.
- ★ Voucher may be receipt, payment and general

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### JOURNAL ENTRY (I)

- ❖ The word Journal has been derived from French word “Jour”. Jour means day
- ❖ So Journal means daily up to date record of economic transaction. It is just like a shopping bag which all transactions’ are recorder in order of their occurrences date wise (Chronological order)
- ❖ Every business transaction affects two or more accounts. Under double entry bookkeeping system equal debit and credit entries are made for every economic activity
- ❖ It is a book of Original Entry. It is first recording step. It records transactions in chronological order. Every transaction is to be recorded in Journal. Every organization has to maintain one Journal book at least, and General Journal is general purpose book of Prime Entry
- ❖ Entering transaction data in the journal is known as journalizing
- ❖ The journal makes three significant contributions to the recording process:
  - The journal discloses in one place the complete effect of a transaction
  - The journal provides a chronological record of transactions
  - The journal helps prevent or locate errors because the debit and credit amounts for each entry can be readily compared

#### 7.1 Entry

Single record of the business transaction is called entry. We use this term to describe record transaction in Journal book

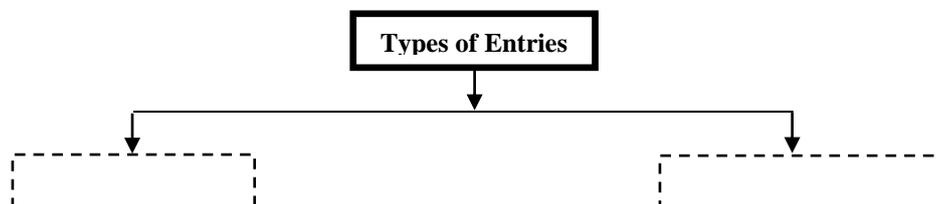
##### 7.1.1 Parts of Entry

There are three parts of Entry. First write in first line just after date line is Debit, second must write in below line after indented ten spaces from data line is Credit and last part is Narration which is brief description of transaction write within parenthesis

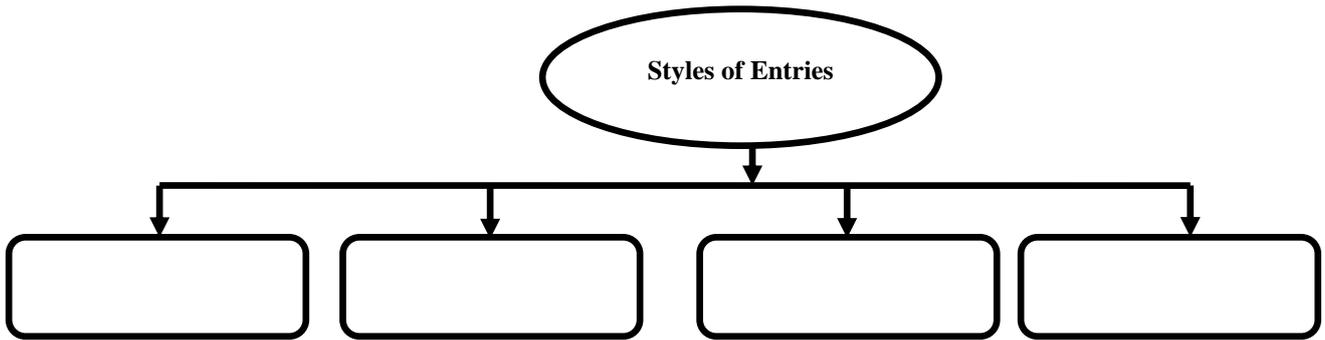
| General Journal |      |   |     |             |        |
|-----------------|------|---|-----|-------------|--------|
| Date            |      | Account Titles and Explanation  | Ref | Amount (Rs) |        |
|                 |      |   |     | Debit       | Credit |
| Year            |      | Debit elements of entry<br>Credit elements of entry<br>(Narration is brief description) |     | *****       | *****  |
| Month           | Date |   |     | *****       | *****  |
| <b>Total</b>    |      |   |     | *****       | *****  |

##### 7.1.2 Types of Entry

There are two types of Entries. First is simple entry and second is compound entry. Simple Entry has one Debit and one Credit while, Compound Entry has more than on Debit or more than one Credit or more than one Debit and Credit

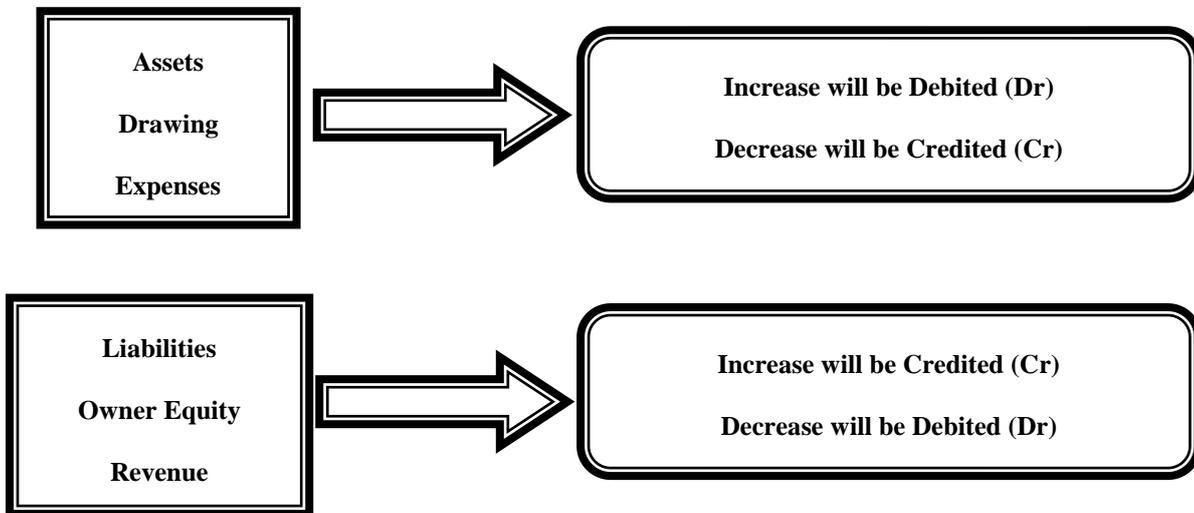


7.1.3 Styles of Entries



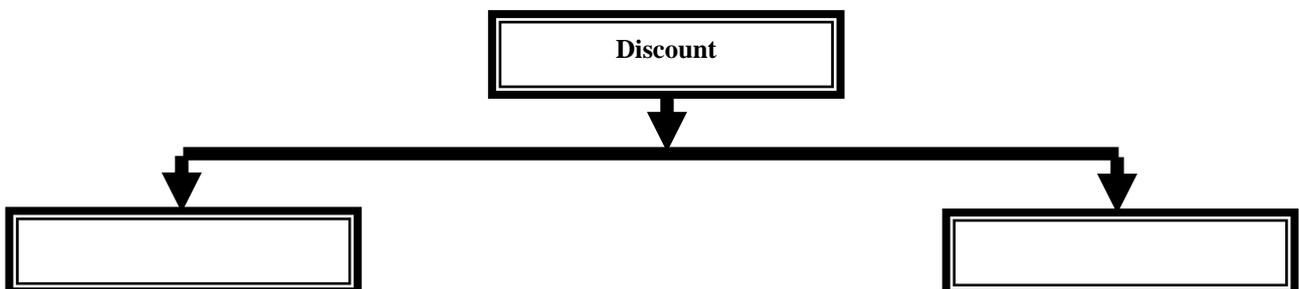
7.2 Application for Golden Rules of Debit and Credit

- We have divided six pillars into two groups. First group contains Assets, Drawing and Expenses have ruled that increase will be Debited and decrease will be Credited
- The second group contains Liabilities, Owner Equity and Revenue has ruled that decrease will be Debited and increase will be Credited. Now we would like to apply these rules one by one



7.3 Discount

- Discount is reduction in listed price
- There are two types i.e. Trade Discount and Cash Discount (if not mention than also cash discount)
- Trade Discount is not considering for entry while entries are passed for cash discount



**Example # 7.1:** Following transactions are related to Saifullah Naseem business. You are required to pass Journal Entries

June 1, 2016, Mr. Saifullah started business with cash Rs. 10,000 and Furniture Rs. 2,000

| Date   | Account Title and Explanations | Ref | Amount (Rs) |        |
|--------|--------------------------------|-----|-------------|--------|
|        |                                |     | Debit       | Credit |
| 2016   |                                |     |             |        |
| June 1 |                                |     |             |        |

June 5. Purchased merchandise/goods on credit Rs. 5,000 from Ali Store

| Date   | Account Title and Explanations | Ref | Amount (Rs) |        |
|--------|--------------------------------|-----|-------------|--------|
|        |                                |     | Debit       | Credit |
| 2016   |                                |     |             |        |
| June 5 |                                |     |             |        |

June 7. Sold goods/ merchandise on credit Rs. 6,000 to Ahmed Brothers

| Date   | Account Title and Explanations | Ref | Amount (Rs) |        |
|--------|--------------------------------|-----|-------------|--------|
|        |                                |     | Debit       | Credit |
| 2016   |                                |     |             |        |
| June 7 |                                |     |             |        |

June 15. Payment of creditors in full settlement of account Rs. 4,900 of June 5<sup>th</sup> transaction

| Date    | Account Title and Explanations | Ref | Amount (Rs) |        |
|---------|--------------------------------|-----|-------------|--------|
|         |                                |     | Debit       | Credit |
| 2016    |                                |     |             |        |
| June 15 |                                |     |             |        |



June 20. Received from debtors in full settlement of account Rs. 5,800 of June 7<sup>th</sup> transaction

| Date |    | Account Title and Explanations | Ref | Amount (Rs) |        |
|------|----|--------------------------------|-----|-------------|--------|
|      |    |                                |     | Debit       | Credit |
| 2016 |    |                                |     |             |        |
| June | 20 |                                |     |             |        |

June 25. Rs. 500 was privately used by Saifullah

| Date |    | Account Title and Explanations | Ref | Amount (Rs) |        |
|------|----|--------------------------------|-----|-------------|--------|
|      |    |                                |     | Debit       | Credit |
| 2016 |    |                                |     |             |        |
| June | 25 |                                |     |             |        |

June 27. Purchase furniture of worth Rs. 60,000, having 10% trade discount

| Date |    | Account Title and Explanations | Ref | Amount (Rs) |        |
|------|----|--------------------------------|-----|-------------|--------|
|      |    |                                |     | Debit       | Credit |
| 2016 |    |                                |     |             |        |
| June | 27 |                                |     |             |        |

June 28. Paid Salaries Rs. 1,500

| Date |    | Account Title and Explanations | Ref | Amount (Rs) |        |
|------|----|--------------------------------|-----|-------------|--------|
|      |    |                                |     | Debit       | Credit |
| 2016 |    |                                |     |             |        |
| June | 28 |                                |     |             |        |

**Example # 7.2: Cases When Purchases are Credited?**

There are five cases when purchases are recorded as credited

**Case # 1 Goods Lost by Fire of Rs. 400**

| Date | Account Title and Explanations | Ref | Amount (Rs) |        |
|------|--------------------------------|-----|-------------|--------|
|      |                                |     | Debit       | Credit |
|      | Lost by Fire<br>Purchases      |     | 400         | 400    |

**Case # 2 Goods Lost by Theft of Rs. 500**

| Date | Account Title and Explanations | Ref | Amount (Rs) |        |
|------|--------------------------------|-----|-------------|--------|
|      |                                |     | Debit       | Credit |
|      | Lost by Theft<br>Purchases     |     | 500         | 500    |

**Case # 3 Goods distributed as Charity of Rs. 600**

| Date | Account Title and Explanations | Ref | Amount (Rs) |        |
|------|--------------------------------|-----|-------------|--------|
|      |                                |     | Debit       | Credit |
|      | Charity<br>Purchases           |     | 600         | 600    |

**Case # 4 Goods distributed as Free Sample of Rs. 700**

| Date | Account Title and Explanations | Ref | Amount (Rs) |        |
|------|--------------------------------|-----|-------------|--------|
|      |                                |     | Debit       | Credit |
|      | Free Sample<br>Purchases       |     | 700         | 700    |

**Case # 5 Goods withdrawal by Owner of Rs. 800**

| Date | Account Title and Explanations | Ref | Amount (Rs) |        |
|------|--------------------------------|-----|-------------|--------|
|      |                                |     | Debit       | Credit |
|      | Drawing<br>Purchases           |     | 800         | 800    |

**Example # 7.3:** In the table below, indicate the accounts that would be debited and credited for each of the transactions?

1. Provide services to customers on account
2. Purchase land by paying cash
3. Purchase an insurance policy that will provide coverage for a two-year period
4. Acquire cash by issuing common stock
5. Receive payment from a customer for services that will be provided over the next six months
6. Cash deposited into bank
7. Purchased goods by cheque
8. Drew cash from bank for office use
9. Purchased goods from Miss Noreen
10. Cash sales made
11. Paid cash to Miss Noreen
12. Recognize expense for amount of office supplies already in stock, that had been used during the period
13. Discount Received by cash
14. Drew cash from bank for personal use of proprietor
15. Received cash from credit customer
16. Paid rent by cash
17. Furniture lost by fire

**Solution**

| <i>S.no</i> | <i>Account Debited</i> | <i>Account Credited</i> |
|-------------|------------------------|-------------------------|
| 1           |                        |                         |
| 2           |                        |                         |
| 3           |                        |                         |
| 4           |                        |                         |
| 5           |                        |                         |
| 6           |                        |                         |
| 7           |                        |                         |
| 8           |                        |                         |
| 9           |                        |                         |
| 10          |                        |                         |
| 11          |                        |                         |
| 12          |                        |                         |
| 13          |                        |                         |
| 14          |                        |                         |
| 15          |                        |                         |
| 16          |                        |                         |
| 17          |                        |                         |

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**JOURNAL ENTRY (II)**

**Example # 8.1:** For each of the following, write Types of Accounts, Normal Balances, Increase and rule to Decrease?

| <i>S.no</i> | <b>Items</b>             | <b>Types of Accounts</b> | <b>Normal Balance</b> | <b>Rule to Increase</b> | <b>Rule to Decrease</b> |
|-------------|--------------------------|--------------------------|-----------------------|-------------------------|-------------------------|
| 1           | Cash/Bank                | Asset                    |                       |                         |                         |
| 2           | Accounts Payable         | Liability                |                       |                         |                         |
| 3           | Retained Earnings        | Owner's Equity           |                       |                         |                         |
| 4           | Income Taxes             | Expense                  |                       |                         |                         |
| 5           | Inventories              | Assets                   |                       |                         |                         |
| 6           | Long term Debt           | Liability                |                       |                         |                         |
| 7           | Transportation in        | Expense                  |                       |                         |                         |
| 8           | Prepaid Expenses         | Asset                    |                       |                         |                         |
| 9           | Sales                    | Revenue                  |                       |                         |                         |
| 10          | Due from Customer        | Asset                    |                       |                         |                         |
| 11          | Note Payable             | Liability                |                       |                         |                         |
| 12          | Bill Receivables         | Asset                    |                       |                         |                         |
| 13          | Salary Outstanding       | Liability                |                       |                         |                         |
| 14          | Rent and Taxes           | Expense                  |                       |                         |                         |
| 15          | Resources owed           | Liability                |                       |                         |                         |
| 16          | Expired Cost             | Expense                  |                       |                         |                         |
| 17          | Return inward            | Contra Revenue           |                       |                         |                         |
| 18          | Intangibles              | Asset                    |                       |                         |                         |
| 19          | Carriage Outward         | Expense                  |                       |                         |                         |
| 20          | Common Stock             | Owner's Equity           |                       |                         |                         |
| 21          | Dividend paid            | Expense                  |                       |                         |                         |
| 22          | Discount on Purchases    | Revenue                  |                       |                         |                         |
| 23          | Sundry Debtors           | Asset                    |                       |                         |                         |
| 24          | Return Outward           | Contra Expense           |                       |                         |                         |
| 25          | Unexpired Revenue        | Liability                |                       |                         |                         |
| 26          | Resources Owned          | Asset                    |                       |                         |                         |
| 27          | Loss and Capital Loss    | Contra O.E               |                       |                         |                         |
| 28          | Accumulated Depreciation | Contra Asset             |                       |                         |                         |
| 29          | Leasehold Land           | Assets                   |                       |                         |                         |
| 30          | Bad Debts                | Expense                  |                       |                         |                         |
| 31          | Other Income             | Revenue                  |                       |                         |                         |
| 32          | Unexpired Expense        | Asset                    |                       |                         |                         |
| 33          | Insurance Premium        | Expense                  |                       |                         |                         |
| 34          | Due to Vendors           | Liability                |                       |                         |                         |
| 35          | Profit or Capital Gain   | Owner's Equity           |                       |                         |                         |
| 36          | Drawings                 | Drawings                 |                       |                         |                         |
| 37          | Depreciation Expense     | Expense                  |                       |                         |                         |
| 38          | Expired Cost             | Expense                  |                       |                         |                         |
| 39          | Provision for Bad Debts  | Contra Assets            |                       |                         |                         |
| 40          | Loan to Employees        | Asset                    |                       |                         |                         |

**Example # 8.2:** Journalize the following transactions:

**2023**

- Feb. 01 Rayyan Maqsood Commence business with cash Rs. 25,000.
- 04 Purchase furniture for cash Rs. 4,000.
- 06 Bought goods on credit 2,500.
- 08 Rent for two years paid in advance 3,000.
- 11 Drawings by the proprietor for household expenses 500.
- 13 Goods sold on account Rs. 5,000.
- 14 Paid Rs. 1,000 of accounts payable.
- 18 Purchases office equipment from Najeebullah 4,500.
- 23 Cash received from on account 3,500.
- 28 Electricity bill paid 700.

**Solution:**

**General Journal**

| Date    | Account Title and Explanations | Ref | Amount (Rs) |        |
|---------|--------------------------------|-----|-------------|--------|
|         |                                |     | Debit       | Credit |
| 2023    |                                |     |             |        |
| Feb. 01 |                                |     |             |        |
| 04      |                                |     |             |        |
| 06      |                                |     |             |        |
| 08      |                                |     |             |        |
| 11      |                                |     |             |        |
| 13      |                                |     |             |        |
| 14      |                                |     |             |        |
| 18      |                                |     |             |        |
| 23      |                                |     |             |        |
| 28      |                                |     |             |        |
|         | <b>Total</b>                   |     |             |        |



**Example # 10.4:** Journalise the following transactions in the General Journal of Raza Akbar.

Debit Balances as on Jan. 1, 2024: Cash in hand Rs. 8,000; Cash at Bank Rs. 25,000; Stock of goods Rs. 20,000; Furniture Rs. 2,000; Building Rs. 10,000; Account Receivable - Sadia Rs. 2,000, Saad Rs. 1,000 and Waleed Rs. 2,000.

Credit Balances on Jan. 1, 2024: Account Payable - Haris Rs. 5,000; Loan from Fatima Rs. 10,000. The following were further transactions in the month of Jan, 2024:

- 03 Purchased goods worth Rs. 5,000 for cash less 20% trade discount.
- 05 Purchased plant from Salman Javed for Rs. 6,000 and paid Rs. 500 as cartage for bringing the plant to the factory and another Rs. 2,000 as installation charges.
- 06 Sold goods to Hashim Abbasi for cash Rs. 1,000.
- 07 Cash withdrawn from bank 2,500.
- 09 Sold goods to Afaq on credit Rs. 2,000.
- 10 Paid Salman Javed Rs. 5,800 in full settlement.
- 11 Interest received from Huzaifa Rs. 300
- 12 Invoiced a client Mr. Qasim for Rs. 3,600 for services provided.
- 14 Invested in Government securities Rs. 5,000.
- 15 Purchases merchandising, on credit from supplier ABC Trading 1,500.
- 16 Cash customer returned goods to us Rs. 900.
- 17 Withdraw goods from business for personal use Rs. 200.
- 18 Bought Rs. 8,000 worth of new inventory on account under credit terms of 2/10, n/30.
- 19 Received Rs. 1,980 from Afaq and allowed him Rs. 20 as discount.
- 20 Purchased goods worth Rs. 10,000 for cash less 20% trade discount and 5% cash discount.
- 21 Drew a cheque for pretty cash Rs. 1,200.
- 22 Received cash for Rs. 3,000 of accounts receivable - Ali.
- 23 Paid by cheque fire insurance premium Rs. 7,500.
- 24 Paid to creditor for January 18<sup>th</sup>, transaction.
- 25 Paid electricity of Rs. 2,200.
- 26 Furniture Lost by fire Rs. 14,500.
- 27 Paid interest on loan Rs. 500.
- 28 Received dividend on shares of A & Co. Ltd. Rs. 13,000.
- 29 Defective goods return to supplier (January 15<sup>th</sup> transactions) of worth Rs. 800.
- 30 Deposited Rs. 4,000 into bank account.



Solution:

General Journal

| Date |    | Account Title and Explanations | Ref | Amount (Rs) |        |
|------|----|--------------------------------|-----|-------------|--------|
|      |    |                                |     | Debit       | Credit |
| 2024 |    |                                |     |             |        |
| Jan  | 01 |                                |     |             |        |
|      | 03 |                                |     |             |        |
|      | 05 |                                |     |             |        |
|      | 06 |                                |     |             |        |
|      | 07 |                                |     |             |        |
|      | 09 |                                |     |             |        |
|      | 10 |                                |     |             |        |
|      | 11 |                                |     |             |        |
|      | 12 |                                |     |             |        |
|      | 14 |                                |     |             |        |
|      | 15 |                                |     |             |        |
|      |    |                                |     |             |        |

|    |  |              |  |  |
|----|--|--------------|--|--|
| 16 |  |              |  |  |
| 17 |  |              |  |  |
| 18 |  |              |  |  |
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| 24 |  |              |  |  |
| 25 |  |              |  |  |
| 26 |  |              |  |  |
| 27 |  |              |  |  |
| 28 |  |              |  |  |
| 29 |  |              |  |  |
| 30 |  |              |  |  |
|    |  | <b>Total</b> |  |  |

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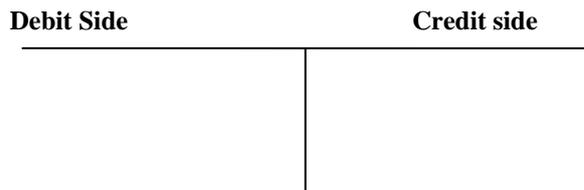
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### STANDARD GENERAL LEDGER

- Ledger accounts are used to post the economic activities.
- Posting is the name of transferring accounts from the book of prime entry to related ledger accounts.
- When all the transactions for a given period have been journalized, the next step is to classify them according to the account affected.
- Ledger is a book that keeps separate record for each account.
- Ledger is the book of secondary entry.
- An account in its simplest form is a T-shape. It should be noted that Journal contains a chronological record while Ledger contains a classified record of all economic activities.



#### 9.1 Types of Ledger and Procedure

There are two types of ledger accounts.

##### 9.1.1 Standard General Ledger

Since the Ledger keeps record of transactions that affect one head of account, therefore, it should provide all the information that a user may need. Usually the ledger is required to provide following information.

- |                 |                      |            |          |
|-----------------|----------------------|------------|----------|
| (a) Account #   | (b) Title of Account | (c) Page # | (d) Date |
| (e) Description | (f) Reference        | (g) Amount |          |

| Account # |              |     |        | Title of Account |              |     |        | Page # |  |
|-----------|--------------|-----|--------|------------------|--------------|-----|--------|--------|--|
| Date      | Description  | Ref | Amount | Date             | Description  | Ref | Amount |        |  |
|           |              |     |        |                  |              |     |        |        |  |
|           |              |     |        |                  |              |     |        |        |  |
|           |              |     |        |                  |              |     |        |        |  |
|           | <b>Total</b> |     |        |                  | <b>Total</b> |     |        |        |  |

##### 9.1.1.2 Process of Posting in Standard General Ledger

The process of posting is simple and involves following steps.

- ❖ The debit part of journal entry is recorded on the debit side of the relevant account by credit account name (Source).
- ❖ The credit part of journal entry is recorded on the credit side of the relevant account by debit account name (Source).
- ❖ In the reference column of the general journal the code or page number of ledger account are noted.
- ❖ In the reference column of the ledger account the page number of the journal is noted.

Example # 9.1: Post following entries to Cash Standard Ledger Account?

| General Journal |    |   | Page # 177 |                    |                    |
|-----------------|----|---|------------|--------------------|--------------------|
| Date            |    | Account Title and Explanations            | Ref        | Amount (Rs)        |                    |
|                 |    |   |            | Debit              | Credit             |
| 2015            |    |   |            |                    |                    |
| July            | 1  | Cash<br>Owner's equity                    |            | 100,000            | 100,000            |
|                 | 5  | Purchases<br>Cash                         |            | 15,000             | 15,000             |
|                 | 8  | Cash<br>Sales                             |            | 25,000             | 25,000             |
|                 | 12 | Account Receivable_ Raheel Store<br>Sales |            | 13,000             | 13,000             |
|                 | 16 | Drawing<br>Cash                           |            | 4,000              | 4,000              |
|                 | 19 | Cash<br>Commission                        |            | 2,000              | 2,000              |
|                 | 21 | Machine<br>Account Payable_ Ali sons      |            | 10,000             | 10,000             |
|                 | 23 | Cash<br>Account Receivable_ Raheel Store  |            | 10,000             | 10,000             |
|                 | 27 | Salary<br>Cash                            |            | 1,000              | 1,000              |
|                 | 29 | Account Payable_ Ali Sons<br>Cash         |            | 8,000              | 8,000              |
| <b>Total</b>    |    |   |            | <b>Rs. 188,000</b> | <b>Rs. 188,000</b> |

| Account # 102 |             |     |        | Cash Account |             |     |        | Page # 880 |  |
|---------------|-------------|-----|--------|--------------|-------------|-----|--------|------------|--|
| Date          | Description | Ref | Amount | Date         | Description | Ref | Amount |            |  |
|               |             |     |        |              |             |     |        |            |  |
|               |             |     |        |              |             |     |        |            |  |
|               |             |     |        |              |             |     |        |            |  |
|               |             |     |        |              |             |     |        |            |  |
|               |             |     |        |              |             |     |        |            |  |
|               |             |     |        |              |             |     |        |            |  |
|               |             |     |        |              |             |     |        |            |  |
| <b>Total</b>  |             |     |        | <b>Total</b> |             |     |        |            |  |

**9.1.1.3 Balancing an Account**

- Find the total of debit side and Find the total of credit side. Put bigger value both sides in Total.
- Calculate the difference between the two sides. This is the Balance (The balancing figure between the two sides).
- Write the balance on the smaller side with key words "Balance c/d". However, the balance will be known by the larger side i.e. if the debit side is greater than the credit side, the balance will be known as debit balance and vice versa.
- Bring down the debit balance on the debit side writing the words in Description column "Balance b/d". Similarly, bring down the credit balance on the credit side be writing the words in the Description column "Balance b/d".

**Example # 9.2:** Sardar Hammad is sole owner of business. He has been started business since 1990 in Karachi. Following are transaction for the month of August 2016, prepare General Journal, General Ledgers and Trial Balance.

3. Reinvestment in the shape of Cash Rs. 80,000 and Furniture Rs. 20,000.
5. Cash Sales Rs. 10,000 and on account Sales Rs. 12,000.
6. Bought goods from Ahmed Co. Rs. 60,000 paid Rs. 15,000 cash and remaining Note payable pay within 30 days.
9. Purchase Office Equipment from Waseem Shah worth Rupees Rs. 99,000, a cash down payment of Rs. 19,000 and balance will be paid by four installments, first due on 30 August.
21. Goods return by credit customer of worth Rs. 12,000.
30. Paid first installment of Rs. 20,000.

**General Journal**

| Date         | Account Title and Explanations  | Ref | Amount (Rs.)       |                    |
|--------------|---|-----|--------------------|--------------------|
|              |   |     | Debit              | Credit             |
| <b>2016</b>  |   |     |                    |                    |
| <b>Aug.</b>  |   |     |                    |                    |
| 3            | Cash<br>Furniture<br>Owner's Equity_ Sardar Hammad<br>(Reinvest by owner in the business)                     |     | 80,000<br>20,000   | 100,000            |
| 5            | Cash<br>Account Receivable<br>Sales<br>(Cash and credit Sales)  |     | 10,000<br>12,000   | 22,000             |
| 6            | Purchases<br>Cash<br>Note Payable_ Ahmed Co.<br>(Purchases by cash and credit from Ahmed)                     |     | 60,000             | 15,000<br>45,000   |
| 9            | Office Equipment<br>Cash<br>Account Payable_ Waseem Shah<br>(Purchase O. equipment on installments by Waseem) |     | 99,000             | 19,000<br>80,000   |
| 21           | Sales Return<br>Account Receivable<br>(Goods return by credit customer)                                       |     | 12,000             | 12,000             |
| 30           | Account Payable_ Waseem Shah<br>Cash<br>(Paid 1 <sup>st</sup> installment to Waseem Shah)                     |     | 20,000             | 20,000             |
| <b>Total</b> |   |     | <b>Rs. 313,000</b> | <b>Rs. 313,000</b> |

Account # 1 Cash Account Page #

| Date         | Description | Ref | Amount (Rs.) | Date         | Description | Ref | Amount (Rs.) |
|--------------|-------------|-----|--------------|--------------|-------------|-----|--------------|
|              |             |     |              |              |             |     |              |
|              |             |     |              |              |             |     |              |
|              |             |     |              |              |             |     |              |
|              |             |     |              |              |             |     |              |
|              |             |     |              |              |             |     |              |
| <b>Total</b> |             |     |              | <b>Total</b> |             |     |              |
|              |             |     |              |              |             |     |              |

Account # 2 Furniture Account Page #

| Date         | Description | Ref | Amount (Rs.) | Date         | Description | Ref | Amount (Rs.) |
|--------------|-------------|-----|--------------|--------------|-------------|-----|--------------|
|              |             |     |              |              |             |     |              |
|              |             |     |              |              |             |     |              |
|              |             |     |              |              |             |     |              |
|              |             |     |              |              |             |     |              |
| <b>Total</b> |             |     |              | <b>Total</b> |             |     |              |
|              |             |     |              |              |             |     |              |

Account # 3 Owner's Equity Account Page #

| Date         | Description | Ref | Amount (Rs.) | Date         | Description | Ref | Amount (Rs.) |
|--------------|-------------|-----|--------------|--------------|-------------|-----|--------------|
|              |             |     |              |              |             |     |              |
|              |             |     |              |              |             |     |              |
|              |             |     |              |              |             |     |              |
|              |             |     |              |              |             |     |              |
| <b>Total</b> |             |     |              | <b>Total</b> |             |     |              |
|              |             |     |              |              |             |     |              |

Account # 4 Account Receivable Page #

| Date         | Description | Ref | Amount (Rs.) | Date         | Description | Ref | Amount (Rs.) |
|--------------|-------------|-----|--------------|--------------|-------------|-----|--------------|
|              |             |     |              |              |             |     |              |
|              |             |     |              |              |             |     |              |
|              |             |     |              |              |             |     |              |
|              |             |     |              |              |             |     |              |
| <b>Total</b> |             |     |              | <b>Total</b> |             |     |              |
|              |             |     |              |              |             |     |              |



## Account # 5

## Sales Account

Page #

| <i>Date</i>  | <i>Description</i> | <i>Ref</i> | <i>Amount (Rs.)</i> | <i>Date</i>  | <i>Description</i> | <i>Ref</i> | <i>Amount (Rs.)</i> |
|--------------|--------------------|------------|---------------------|--------------|--------------------|------------|---------------------|
|              |                    |            |                     |              |                    |            |                     |
|              |                    |            |                     |              |                    |            |                     |
|              |                    |            |                     |              |                    |            |                     |
|              |                    |            |                     |              |                    |            |                     |
| <b>Total</b> |                    |            |                     | <b>Total</b> |                    |            |                     |
|              |                    |            |                     |              |                    |            |                     |

## Account # 6

## Purchase Account

Page #

| <i>Date</i>  | <i>Description</i> | <i>Ref</i> | <i>Amount (Rs.)</i> | <i>Date</i>  | <i>Description</i> | <i>Ref</i> | <i>Amount (Rs.)</i> |
|--------------|--------------------|------------|---------------------|--------------|--------------------|------------|---------------------|
|              |                    |            |                     |              |                    |            |                     |
|              |                    |            |                     |              |                    |            |                     |
|              |                    |            |                     |              |                    |            |                     |
|              |                    |            |                     |              |                    |            |                     |
| <b>Total</b> |                    |            |                     | <b>Total</b> |                    |            |                     |
|              |                    |            |                     |              |                    |            |                     |

## Account # 7

## Note Payable Account

Page #

| <i>Date</i>  | <i>Description</i> | <i>Ref</i> | <i>Amount (Rs.)</i> | <i>Date</i>  | <i>Description</i> | <i>Ref</i> | <i>Amount (Rs.)</i> |
|--------------|--------------------|------------|---------------------|--------------|--------------------|------------|---------------------|
|              |                    |            |                     |              |                    |            |                     |
|              |                    |            |                     |              |                    |            |                     |
|              |                    |            |                     |              |                    |            |                     |
| <b>Total</b> |                    |            |                     | <b>Total</b> |                    |            |                     |
|              |                    |            |                     |              |                    |            |                     |

## Account # 8

## Office Equipment Account

Page #

| <i>Date</i>  | <i>Description</i> | <i>Ref</i> | <i>Amount (Rs.)</i> | <i>Date</i>  | <i>Description</i> | <i>Ref</i> | <i>Amount (Rs.)</i> |
|--------------|--------------------|------------|---------------------|--------------|--------------------|------------|---------------------|
|              |                    |            |                     |              |                    |            |                     |
|              |                    |            |                     |              |                    |            |                     |
|              |                    |            |                     |              |                    |            |                     |
|              |                    |            |                     |              |                    |            |                     |
| <b>Total</b> |                    |            |                     | <b>Total</b> |                    |            |                     |
|              |                    |            |                     |              |                    |            |                     |



Account # 9

Account Payable

Page #

| Date         | Description | Ref | Amount (Rs.) | Date         | Description | Ref | Amount (Rs.) |
|--------------|-------------|-----|--------------|--------------|-------------|-----|--------------|
|              |             |     |              |              |             |     |              |
|              |             |     |              |              |             |     |              |
|              |             |     |              |              |             |     |              |
| <b>Total</b> |             |     |              | <b>Total</b> |             |     |              |

Account # 10

Sales Return Account

Page #

| Date         | Description | Ref | Amount (Rs.) | Date         | Description | Ref | Amount (Rs.) |
|--------------|-------------|-----|--------------|--------------|-------------|-----|--------------|
|              |             |     |              |              |             |     |              |
|              |             |     |              |              |             |     |              |
|              |             |     |              |              |             |     |              |
| <b>Total</b> |             |     |              | <b>Total</b> |             |     |              |

*Sardar Hammad*  
*Trial Balance*  
*As on August 2016*

| S. No.       | Heads of Account   | Ref | Amount (Rs.)       |                    |
|--------------|--------------------|-----|--------------------|--------------------|
|              |                    |     | Debit              | Credit             |
| 1            | Cash               |     |                    |                    |
| 2            | Furniture          |     |                    |                    |
| 3            | Owner Equity       |     |                    |                    |
| 4            | Account Receivable |     |                    |                    |
| 5            | Sales              |     |                    |                    |
| 6            | Purchases          |     |                    |                    |
| 7            | Note Payable       |     |                    |                    |
| 8            | Office Equipment   |     |                    |                    |
| 9            | Account Payable    |     |                    |                    |
| 10           | Sales Return       |     |                    |                    |
| <b>Total</b> |                    |     | <b>Rs. 227,000</b> | <b>Rs. 227,000</b> |

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### RUNNING BALANCE LEDGER

An alternative ruling of a ledger, which is generally adopted by commercial banks and some other business houses, is the entire ledger us divided into six columns.

| Account # |             | Title of Account |            |            | Page #  |
|-----------|-------------|------------------|------------|------------|---------|
| Date      | Description | Ref              | Dr. Amount | Cr. Amount | Balance |
|           |             |                  |            |            |         |
|           |             |                  |            |            |         |
|           |             |                  |            |            |         |

**Example # 10.1:** Post following entries to cash Running Balance Ledger Account?

| General Journal |    |   |     | Page # 177         |                    |
|-----------------|----|---|-----|--------------------|--------------------|
| Date            |    | Account Title and Explanations            | Ref | Amount (Rs)        |                    |
|                 |    |   |     | Debit              | Credit             |
| 2015            |    |   |     |                    |                    |
| July            | 1  | Cash<br>Owner's equity                    |     | 100,000            | 10,000             |
|                 | 5  | Purchases<br>Cash                         |     | 15,000             | 15,000             |
|                 | 8  | Cash<br>Sales                             |     | 25,000             | 25,000             |
|                 | 12 | Account Receivable_ Raheel Store<br>Sales |     | 13,000             | 13,000             |
|                 | 16 | Drawing<br>Cash                           |     | 4,000              | 4,000              |
|                 | 19 | Cash<br>Commission                        |     | 2,000              | 2,000              |
|                 | 21 | Machine<br>Account Payable_ Ali sons      |     | 10,000             | 10,000             |
|                 | 23 | Cash<br>Account Receivable_ Raheel Store  |     | 10,000             | 10,000             |
|                 | 27 | Salary<br>Cash                            |     | 1,000              | 1,000              |
|                 | 29 | Account Payable_ Ali Sons<br>Cash         |     | 8,000              | 8,000              |
| <b>Total</b>    |    |   |     | <b>Rs. 188,000</b> | <b>Rs. 188,000</b> |

| Account # 102 |             | Cash Account |            |            | Page # 880 |
|---------------|-------------|--------------|------------|------------|------------|
| Date          | Description | Ref          | Dr. Amount | Cr. Amount | Balance    |
|               |             |              |            |            |            |
|               |             |              |            |            |            |
|               |             |              |            |            |            |
|               |             |              |            |            |            |
|               |             |              |            |            |            |
|               |             |              |            |            |            |
|               |             |              |            |            |            |
|               |             |              |            |            |            |

**Example # 10.2:** Rameesha Hafeez & Co. is a boat repair yard. During August 2015, its transactions included the following. You are required to prepare General Journal, General Ledger (Running Balance) and Trial Balance.

03. Loan taken from Habib Bank Ltd. of Rs. 25,000. Rs. 20,000 withdrawn for business and remaining in the bank account.
06. Paid rent for the month of August Rs. 4,400 and accrued rent expenses was Rs. 600.
12. At request of Kiwi Insurance, Inc, made repairs on boat of Jon Seaways. Sent bill for Rs. 5,620 for services rendered to Kiwi Insurance Inc. (credit Repair Service Revenue).
18. Made repairs to boat of Dennis Copper and collected in full the charge of Rs. 2,830.
20. Placed Advertisement in The Dawn at a cost of 165, payment to be made within 30 days.
- 25- Received a check for 5,620 from Kiwi Insurance Inc representing collection of the receivable of August 12.
30. Sent check to The Dawn in payment of the liability incurred on August 20.

**General Journal**

| Date        |              | Account Title and Explanations  | Ref | Amount (Rs.)    |                   |
|-------------|--------------|---|-----|-----------------|-------------------|
|             |              |   |     | Debit           | Credit            |
| <b>2009</b> |              |   |     |                 |                   |
| <b>Aug.</b> | <b>3</b>     | Cash<br>Bank<br>Bank Loan<br>(Bank loan liability has been taken)   |     | 20,000<br>5,000 | 25,000            |
|             | <b>6</b>     | Rent Expenses<br>Cash<br>Rent Payable<br>(Rent Expenses paid and outstanding)                               |     | 5,000           | 4,400<br>600      |
|             | <b>12</b>    | Account Receivable_ Kiwi Insurance Inc.<br>Repair Service Revenue<br>(Bill sent to customer)                |     | 5,620           | 5,620             |
|             | <b>18</b>    | Cash<br>Repair Service Revenue<br>(Repair services received by cash)  |     | 2,830           | 2,830             |
|             | <b>20</b>    | Advertisement Expenses<br>Advertisement Payable_ The Dawn<br>(Advertisement Expenses incurred but not paid) |     | 165             | 165               |
|             | <b>25</b>    | Bank<br>Account Receivable_ Kiwi Insurance Inc.<br>(Receivable collected by bank)                           |     | 5,620           | 5,620             |
|             | <b>30</b>    | Advertisement Payable_ The Dawn<br>Bank<br>(Paid liability by bank)   |     | 165             | 165               |
|             | <b>Total</b> |   |     |                 | <b>Rs. 44,400</b> |

Account No. 1

Cash Account

Page #

| <i>Date</i> | <i>Description</i> | <i>Ref</i> | <i>Dr. Amount (Rs.)</i> | <i>Cr. Amount (Rs.)</i> | <i>Balance (Rs.)</i> |
|-------------|--------------------|------------|-------------------------|-------------------------|----------------------|
|             |                    |            |                         |                         |                      |
|             |                    |            |                         |                         |                      |
|             |                    |            |                         |                         |                      |
|             |                    |            |                         |                         |                      |

Account No. 2

Bank Account

Page #

| <i>Date</i> | <i>Description</i> | <i>Ref</i> | <i>Dr. Amount (Rs.)</i> | <i>Cr. Amount (Rs.)</i> | <i>Balance (Rs.)</i> |
|-------------|--------------------|------------|-------------------------|-------------------------|----------------------|
|             |                    |            |                         |                         |                      |
|             |                    |            |                         |                         |                      |
|             |                    |            |                         |                         |                      |
|             |                    |            |                         |                         |                      |

Account No. 3

Bank Loan Account

Page #

| <i>Date</i> | <i>Description</i> | <i>Ref</i> | <i>Dr. Amount (Rs.)</i> | <i>Cr. Amount (Rs.)</i> | <i>Balance (Rs.)</i> |
|-------------|--------------------|------------|-------------------------|-------------------------|----------------------|
|             |                    |            |                         |                         |                      |
|             |                    |            |                         |                         |                      |
|             |                    |            |                         |                         |                      |
|             |                    |            |                         |                         |                      |

Account No. 4

Rent Expenses Account

Page #

| <i>Date</i> | <i>Description</i> | <i>Ref</i> | <i>Dr. Amount (Rs.)</i> | <i>Cr. Amount (Rs.)</i> | <i>Balance (Rs.)</i> |
|-------------|--------------------|------------|-------------------------|-------------------------|----------------------|
|             |                    |            |                         |                         |                      |
|             |                    |            |                         |                         |                      |
|             |                    |            |                         |                         |                      |
|             |                    |            |                         |                         |                      |

Account No. 5

Rent Payable Account

Page #

| <i>Date</i> | <i>Description</i> | <i>Ref</i> | <i>Dr. Amount (Rs.)</i> | <i>Cr. Amount (Rs.)</i> | <i>Balance (Rs.)</i> |
|-------------|--------------------|------------|-------------------------|-------------------------|----------------------|
|             |                    |            |                         |                         |                      |
|             |                    |            |                         |                         |                      |
|             |                    |            |                         |                         |                      |
|             |                    |            |                         |                         |                      |

Account No. 6

Account Receivable Account

Page #

| <i>Date</i> | <i>Description</i> | <i>Ref</i> | <i>Dr. Amount (Rs.)</i> | <i>Cr. Amount (Rs.)</i> | <i>Balance (Rs.)</i> |
|-------------|--------------------|------------|-------------------------|-------------------------|----------------------|
|             |                    |            |                         |                         |                      |
|             |                    |            |                         |                         |                      |
|             |                    |            |                         |                         |                      |
|             |                    |            |                         |                         |                      |

Account No. 7 Repair Services Revenue Account Page #

| Date | Description | Ref | Dr. Amount (Rs.) | Cr. Amount (Rs.) | Balance (Rs.) |
|------|-------------|-----|------------------|------------------|---------------|
|      |             |     |                  |                  |               |
|      |             |     |                  |                  |               |
|      |             |     |                  |                  |               |

Account No. 8 Advertising Expense Account Page #

| Date | Description | Ref | Dr. Amount (Rs.) | Cr. Amount (Rs.) | Balance (Rs.) |
|------|-------------|-----|------------------|------------------|---------------|
|      |             |     |                  |                  |               |
|      |             |     |                  |                  |               |
|      |             |     |                  |                  |               |

Account No. 9 Advertising Expense Payable Account Page #

| Date | Description | Ref | Dr. Amount (Rs.) | Cr. Amount (Rs.) | Balance (Rs.) |
|------|-------------|-----|------------------|------------------|---------------|
|      |             |     |                  |                  |               |
|      |             |     |                  |                  |               |
|      |             |     |                  |                  |               |

**Rameesha Hafeez & Co.**  
**Trial Balance**  
As on August 2015

| S. No.       | Heads of Account            | Ref | Amount (Rs.)      |                   |
|--------------|-----------------------------|-----|-------------------|-------------------|
|              |                             |     | Debit             | Credit            |
| 1            | Cash                        |     |                   |                   |
| 2            | Bank                        |     |                   |                   |
| 3            | Bank Loan                   |     |                   |                   |
| 4            | Rent Expense                |     |                   |                   |
| 5            | Rent Payable                |     |                   |                   |
| 6            | Account Receivable          |     |                   |                   |
| 7            | Repair Services Revenue     |     |                   |                   |
| 8            | Advertising Expense         |     |                   |                   |
| 9            | Advertising Expense Payable |     |                   |                   |
| <b>Total</b> |                             |     | <b>Rs. 34,050</b> | <b>Rs. 34,050</b> |

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## TRIAL BALANCE

- At the end of accounting period, a list of all ledger balances or totals is prepared. This list is called trial Balance
- Trial balance shows the mathematical accuracy of the books of accounts. For every transaction in the double entry system, equal amount of debit and credits are recorded in the books of account
- Both sides of trial balance i.e. Debit side and credit side must be equal. If both sides are not equal, there are errors in the books of accounts

### 11.1 Preparation of Trial Balance

For preparation of Trial Balance, following steps are followed.

- ❖ Write down the company / business name at the top middle of paper
- ❖ Write words 'Trial Balance' below company / business name at top middle of paper
- ❖ Write words ' as on ' with date of preparation in the next line just below
- ❖ Write down balances/totals of all ledger accounts

### 11.2 Form of Trial Balance

There are three types of Trial Balance

#### 11.2.1 Trial Balance with Balances

Under this method, the Trial Balance can be prepared on a loose sheet that may have five columns

- (a) Serial No.;
- (b) Heads of Account;
- (c) Reference;
- (d) Debit Balance and
- (e) Credit Balance

*Farhan Saleem and company*

**Trial Balance**

As on ...

| S. No.       | Heads of Account | Ref | Balance (Rs.) |        |
|--------------|------------------|-----|---------------|--------|
|              |                  |     | Debit         | Credit |
|              |                  |     |               |        |
|              |                  |     |               |        |
|              |                  |     |               |        |
|              |                  |     |               |        |
|              |                  |     |               |        |
|              |                  |     |               |        |
|              |                  |     |               |        |
| <b>Total</b> |                  |     |               |        |

**Example # 11.1:** From the following Ledger Account of Ms Anum Saleem, you are required to prepare Trial Balance as on Jan 31<sup>st</sup>, 2015

**Cash Account**

|              |               |              |               |
|--------------|---------------|--------------|---------------|
| Jan. 2       | 10,000        | Jan. 4       | 1,500         |
| Jan. 2       | 10,000        | Jan. 10      | 6,000         |
| Jan. 5       | 8,500         | Jan. 15      | 7,000         |
| Jan. 20      | 2,200         | Jan. 31      | 1,200         |
|              |               | <b>Bal</b>   | <b>15,000</b> |
| <b>Total</b> | <b>30,700</b> | <b>Total</b> | <b>30,700</b> |

**Supplies Account**

|              |              |              |              |
|--------------|--------------|--------------|--------------|
| Jan. 4       | 3,500        |              |              |
|              |              | <b>Bal</b>   | <b>3,500</b> |
| <b>Total</b> | <b>3,500</b> | <b>Total</b> | <b>3,500</b> |

**Accounts Receivables**

|              |              |              |              |
|--------------|--------------|--------------|--------------|
| Jan. 5       | 6,000        |              |              |
|              |              | <b>Bal</b>   | <b>6,000</b> |
| <b>Total</b> | <b>6,000</b> | <b>Total</b> | <b>6,000</b> |

**Fee Revenue**

|              |               |              |               |
|--------------|---------------|--------------|---------------|
|              |               | Jan. 5       | 14,500        |
| <b>Bal</b>   | <b>14,500</b> |              |               |
| <b>Total</b> | <b>14,500</b> | <b>Total</b> | <b>14,500</b> |

**Accounts Payable**

|              |              |              |              |
|--------------|--------------|--------------|--------------|
| Jan. 31      | 1,200        | Jan. 4       | 2,000        |
| <b>Bal</b>   | <b>800</b>   |              |              |
| <b>Total</b> | <b>2,000</b> | <b>Total</b> | <b>2,000</b> |

**Note payable**

|              |               |              |               |
|--------------|---------------|--------------|---------------|
|              |               | Jan. 2       | 10,000        |
| <b>Bal</b>   | <b>10,000</b> |              |               |
| <b>Total</b> | <b>10,000</b> | <b>Total</b> | <b>10,000</b> |

**Unearned Revenues**

|              |              |              |              |
|--------------|--------------|--------------|--------------|
|              |              | Jan. 20      | 2,200        |
| <b>Bal</b>   | <b>2,200</b> |              |              |
| <b>Total</b> | <b>2,200</b> | <b>Total</b> | <b>2,200</b> |

**Common Stock**

|              |               |              |               |
|--------------|---------------|--------------|---------------|
|              |               | Jan. 2       | 10,000        |
| <b>Bal</b>   | <b>10,000</b> |              |               |
| <b>Total</b> | <b>10,000</b> | <b>Total</b> | <b>10,000</b> |

**Furniture and Fitting**

|              |              |              |              |
|--------------|--------------|--------------|--------------|
| Jan. 10      | 6,000        |              |              |
|              |              | <b>Bal</b>   | <b>6,000</b> |
| <b>Total</b> | <b>6,000</b> | <b>Total</b> | <b>6,000</b> |

**Machinery**

|              |              |              |              |
|--------------|--------------|--------------|--------------|
| Jan. 15      | 7,000        |              |              |
|              |              | <b>Bal</b>   | <b>7,000</b> |
| <b>Total</b> | <b>7,000</b> | <b>Total</b> | <b>7,000</b> |

**Anum Saleem**
**Trial Balance**

 As on June 30<sup>th</sup>, 2015

| S. No. | Heads of Account      | Ref | Balance (Rs.) |        |
|--------|-----------------------|-----|---------------|--------|
|        |                       |     | Debit         | Credit |
| 1      | Cash                  |     |               |        |
| 2      | Supplies              |     |               |        |
| 3      | Account Receivable    |     |               |        |
| 4      | Fee Revenue           |     |               |        |
| 5      | Account Payable       |     |               |        |
| 6      | Note Payable          |     |               |        |
| 7      | Unearned Revenue      |     |               |        |
| 8      | Common Stock          |     |               |        |
| 9      | Furniture and Fitting |     |               |        |
| 10     | Machinery             |     |               |        |
|        | <b>Total</b>          |     |               |        |

**11.2.2 Trial Balance with Totals**

- Under this method, the trial balance is prepared by taking the total of each side of the accounts without balancing the accounts
- This method of preparing a trial balance is not commonly used because it cannot help in preparation of financial statements

**Example # 11.2:** From the Ledger Account of Ms Anum Saleem in example 11.1; prepare Trial Balance with Totals

*Anum Saleem*  
**Trial Balance**  
As on June 30<sup>th</sup>, 2015

| S. No. | Heads of Account      | Ref | Total (Rs.) |        |
|--------|-----------------------|-----|-------------|--------|
|        |                       |     | Debit       | Credit |
| 1      | Cash                  |     |             |        |
| 2      | Supplies              |     |             |        |
| 3      | Account Receivable    |     |             |        |
| 4      | Fee Revenue           |     |             |        |
| 5      | Account Payable       |     |             |        |
| 6      | Note Payable          |     |             |        |
| 7      | Unearned Revenue      |     |             |        |
| 8      | Common Stock          |     |             |        |
| 9      | Furniture and Fitting |     |             |        |
| 10     | Machinery             |     |             |        |
|        | <b>Total</b>          |     |             |        |

**11.2.3 Trial Balance with Balances & Totals**

Under this method, the Trial Balance is prepared by combining the first and second methods

**Example # 11.3:** From the example 11.1; prepare Trial Balance with Balances & Totals

*Anum Saleem*  
**Trial Balance**  
As on June 30<sup>th</sup>, 2015

| S. No. | Heads of Account      | Ref | Balances (Rs.)    |                   | Totals (Rs.)      |                   |
|--------|-----------------------|-----|-------------------|-------------------|-------------------|-------------------|
|        |                       |     | Debit             | Credit            | Debit             | Credit            |
| 1      | Cash                  |     | 15,000            |                   | 30,700            | 15,700            |
| 2      | Supplies              |     | 3,500             |                   | 3,500             |                   |
| 3      | Account Receivable    |     | 6,000             |                   | 6,000             |                   |
| 4      | Fee Revenue           |     |                   | 14,500            |                   | 14,500            |
| 5      | Account Payable       |     |                   | 800               | 1,200             | 2,000             |
| 6      | Note Payable          |     |                   | 10,000            |                   | 10,000            |
| 7      | Unearned Revenue      |     |                   | 2,200             |                   | 2,200             |
| 8      | Common Stock          |     |                   | 10,000            |                   | 10,000            |
| 9      | Furniture and Fitting |     | 6,000             |                   | 6,000             |                   |
| 10     | Machinery             |     | 7,000             |                   | 7,000             |                   |
|        | <b>Total</b>          |     | <b>Rs. 37,500</b> | <b>Rs. 37,500</b> | <b>Rs. 54,400</b> | <b>Rs. 54,400</b> |



**Example # 11.4:** Make Trial Balance from mixed transactions for Iram Shehzadi Ltd at year-end (June 30<sup>th</sup>, 2016)

**Iram Shehzadi Ltd**

**Accounts**

*As on June 30<sup>th</sup>, 2016*

| <i>Description</i>  | <i>Amount</i> | <i>Description</i> | <i>Amount</i> | <i>Description</i> | <i>Amount</i> |
|---------------------|---------------|--------------------|---------------|--------------------|---------------|
| Account Payable     | Rs. 200       | Owner Equity       | Rs. 300       | Land               | Rs. 200       |
| Account Receivables | 350           | Cost of Goods Sold | 820           | Long-term Debts    | 1,300         |
| Accrued Liabilities | 150           | Dep. Expense       | 110           | Prepaid Expenses   | 40            |
| Acc. Depreciation   | 250           | Interest Expense   | 80            | Salaries Expense   | 660           |
| Building            | 1,400         | Unearned Revenue   | 130           | Sales Revenue      | 2,400         |
| Cash                | 120           | Interest Revenue   | 50            | Rent Expense       | 400           |
| Income Tax Expense  | 110           | Inventories        | 610           | Retained Earning   | 120           |

**Iram Shehzadi Ltd**

**Trial Balance**

*As on June 30<sup>th</sup>, 2016*

| <i>S. No</i> | <i>Description</i>  | <i>Ref</i> | <i>Amount (Rs.)</i> |            |
|--------------|---------------------|------------|---------------------|------------|
|              |                     |            | <i>Dr.</i>          | <i>Cr.</i> |
| 1            | Account Payable     |            |                     |            |
| 2            | Account Receivables |            |                     |            |
| 3            | Accrued Liabilities |            |                     |            |
| 4            | Acc. Depreciation   |            |                     |            |
| 5            | Building            |            |                     |            |
| 6            | Cash                |            |                     |            |
| 7            | Income Tax Expense  |            |                     |            |
| 8            | Owner Equity        |            |                     |            |
| 9            | Cost of Goods Sold  |            |                     |            |
| 10           | Dep. Expense        |            |                     |            |
| 11           | Interest Expense    |            |                     |            |
| 12           | Unearned Revenue    |            |                     |            |
| 13           | Interest Revenue    |            |                     |            |
| 14           | Inventories         |            |                     |            |
| 15           | Land                |            |                     |            |
| 16           | Long-term Debts     |            |                     |            |
| 17           | Prepaid Expenses    |            |                     |            |
| 18           | Salaries Expense    |            |                     |            |
| 19           | Sales Revenue       |            |                     |            |
| 20           | Rent Expense        |            |                     |            |
| 21           | Retained Earning    |            |                     |            |
| <b>Total</b> |                     |            |                     |            |

**Example # 11.5:** Correct following Trial Balance for Hareem Mehdi:

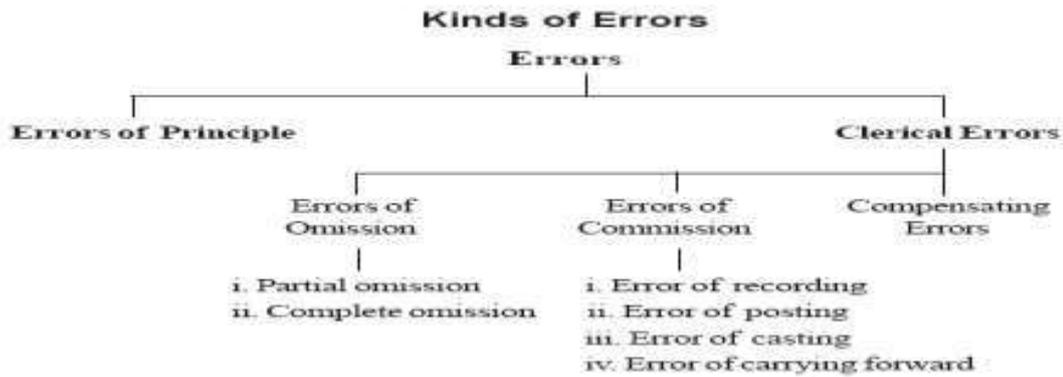
| S. No        | Heads of Accounts    | Ref | Amount (Rs.)     |                  |
|--------------|----------------------|-----|------------------|------------------|
|              |                      |     | Dr               | Cr               |
| 1            | Ahmed Owner's Equity |     |                  | 1,556            |
| 2            | Ahmed Drawing        |     | 564              |                  |
| 3            | Leasehold Premises   |     | 750              |                  |
| 4            | Sales                |     |                  | 2,750            |
| 5            | Due from Customer    |     |                  | 530              |
| 6            | Purchases            |     | 1,259            |                  |
| 7            | Purchases Return     |     | 264              |                  |
| 8            | Loan from Bank       |     |                  | 256              |
| 9            | Creditors            |     | 528              |                  |
| 10           | Trade Expenses       |     | 700              |                  |
| 11           | Cash                 |     | 226              |                  |
| 12           | Bill Payable         |     | 100              |                  |
| 13           | Salaries and Wages   |     | 600              |                  |
| 14           | Stock Opening        |     |                  | 264              |
| 15           | Rent and Rates       |     | 463              |                  |
| 16           | Sales Return         |     |                  | 98               |
| <b>Total</b> |                      |     | <b>Rs. 5,454</b> | <b>Rs. 5,454</b> |

| S. No        | Heads of Accounts    | Ref | Amount (Rs.)     |                  |
|--------------|----------------------|-----|------------------|------------------|
|              |                      |     | Dr               | Cr               |
| 1            | Ahmed Owner's Equity |     |                  |                  |
| 2            | Ahmed Drawing        |     |                  |                  |
| 3            | Leasehold Premises   |     |                  |                  |
| 4            | Sales                |     |                  |                  |
| 5            | Due from Customer    |     |                  |                  |
| 6            | Purchases            |     |                  |                  |
| 7            | Purchases Return     |     |                  |                  |
| 8            | Loan from Bank       |     |                  |                  |
| 9            | Creditors            |     |                  |                  |
| 10           | Trade Expenses       |     |                  |                  |
| 11           | Cash                 |     |                  |                  |
| 12           | Bill Payable         |     |                  |                  |
| 13           | Salaries and Wages   |     |                  |                  |
| 14           | Stock Opening        |     |                  |                  |
| 15           | Rent and Rates       |     |                  |                  |
| 16           | Sales Return         |     |                  |                  |
| <b>Total</b> |                      |     | <b>Rs. 5,454</b> | <b>Rs. 5,454</b> |



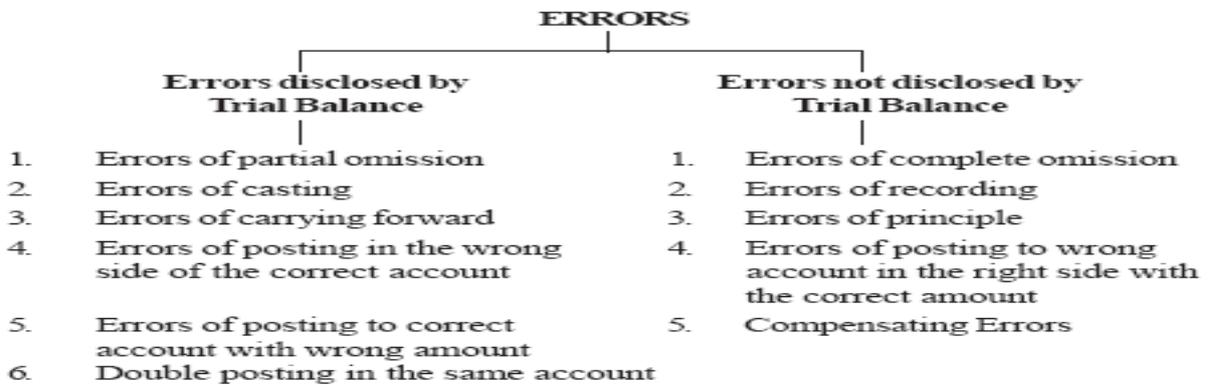
## RECTIFICATION OF ERRORS

- ❖ Errors are unintentional misstatement or omission or mistake committed in book-keeping
- ❖ The mistakes may be one relating to routine or one relating to Principle
- ❖ Following are most common error encountered in accounting records



### 12.1 Errors in Trial Balance

Errors in trial balance are classified as errors disclosed by trial balance and errors not disclosed by trial balance



### 12.2 Locating Errors

Following nine steps will follow in order to locate errors

**Step 1:** Make sure balances in trial balance in correct sides

**Step 2:** Check whether the Debit and Credit sides added correctly by opposite direction

**Step 3:** Divide the difference by 9. If divisible by 9, so transposition error or slide error. If digits are place wrongly i.e. 5,760..... 5,670

Or

6,250 ..... 62.50 (decimal point transposition error)

**Step 4:** Divide the difference by 2, and check the identical amount in the bigger columns of trial balance

**Step 5:** Check ledger account if shows an account equal to difference

**Step 6:** Cross checking the amount in trial balance and ledger accounts

**Step 7:** Re-compute the balance of each ledger

**Step 8:** Check posting from journal to ledger

**Step 9:** Check journal entries in detail



**Example # 12.2:** The Make corrected Trial Balance after anticipating hidden errors

**Sabeela Meer**

Trial Balance

*As on 31<sup>st</sup> December, 2016*

| S. No        | Heads of Accounts      | Ref | Amount (Rs.)       |                    |
|--------------|------------------------|-----|--------------------|--------------------|
|              |                        |     | Dr                 | Cr                 |
| 1            | Owner's Equity         |     |                    | 60,000             |
| 2            | Inventory 01-01-2016   |     | 3,000              |                    |
| 3            | Wages                  |     |                    | 500                |
| 4            | Commission earned      |     |                    | 700                |
| 5            | Tangible Assets        |     |                    | 60,000             |
| 6            | Sales                  |     | 85,000             |                    |
| 7            | Purchases              |     |                    | 45,000             |
| 8            | Return Outward         |     |                    | 1,000              |
| 9            | Sales Return           |     | 2,000              |                    |
| 10           | Carriage Inward        |     |                    | 700                |
| 11           | Fuel and Power Expense |     |                    | 600                |
| 12           | Wages & Salaries       |     | 25,000             |                    |
| 13           | Note Receivables       |     | 7,000              |                    |
| 14           | Account Receivable     |     | 9,000              |                    |
| 15           | Bill Payable           |     |                    | 5,000              |
| 16           | Rent                   |     | 3,000              |                    |
| 17           | Discount Allowed       |     |                    | 2,000              |
| 18           | Cash                   |     | 800                |                    |
| 19           | Creditors              |     | 6,900              |                    |
| 20           | Inventory 31-12-16     |     | 33,800             |                    |
| <b>Total</b> |                        |     | <b>Rs. 175,500</b> | <b>Rs. 175,500</b> |

**Errors:**

- (i) Credit sales of worth Rs. 4,500 was omitted to record in the book of original entry.
- (ii) Wages and Salaries account should be separate to Rs. 15,000 and 10,000 respectively.
- (iii) Drawing of worth Rs. 2,000 wrongly charged to Note Receivable Account.
- (iv) Unearned Sales of Rs. 15,000 was incorrectly credited to Sales Account.

Following accounts are used for correction and adjusting the transactions.

*Sales; Account Receivable; Wages; Salaries; Drawing; Note Receivable; Unearned Sales*



**12.3 Rectification of Error**

- o An accountant can also commit errors while recording business transactions in books of accounts, in their recording, posting or balancing the accounts and so on
- o These errors should be located and corrected as soon as possible so that accounts give true and fair results of the operations of the business enterprise
- o There are certain errors which will disturb the Trial Balance in the sense that the Trial Balance will not agree. These errors are easy to detect and their rectification is also simple
- o However, there are certain errors which are not detected through a Trial Balance. In other words, a Trial Balance would agree in spite of these errors. These errors are very difficult to detect

**Example # 12.3:** Rectify the following journal entries Aroosa & Brothers Co.

| <i>S. No</i> | <i>Wrong Entry / Transaction</i>   | <i>Correct Entry</i>  | <i>Rectifying Entry</i> |
|--------------|--|---|-------------------------|
| 1            | Purchases            6,000<br>Cash                    6,000<br>(Purchase of furniture)     | Furniture            6,000<br>Cash                    6,000                   |                         |
| 2            | Ahmed                10,000<br>Cash                    10,000<br>(Salary paid to Ahmed)    | Salary                10,000<br>Cash                    10,000                |                         |
| 3            | Ravi                    1,500<br>Cash                    1,500<br>(Rent paid)              | Rent                    1,500<br>Cash                    1,500<br>(Rent paid) |                         |
| 4            | Sales                  12,000<br>Cash                    12,000<br>(Credit sale to Naveed) | Account Receivable 12,000<br>Sales                    12,000                  |                         |
| 5            | Cash                    8,000<br>Account Receivable 8,000<br>(Cash sales)                  | Cash                    8,000<br>Sales                    8,000               |                         |
| 6            | The purchases return book overcast by Rs. 1,500  | ----  |                         |
| 7            | The sales book undercast by Rs. 3,500  | ----  |                         |

**Example # 12.4:** Pass Rectification entries for the following transactions at end April, 2016

1. A builder's bill for Rs. 4,600 for the erection of a small shed was debited to Repairs Expense Account
2. Repairs to plant amounting to Rs. 900 had been charged to Plant and Machinery Account
3. Purchase Day Book undercast by Rs. 1,000
4. Check for Rs. 750 received from Hussain Ltd. Was credit to account of Hassan Ltd
5. The total of Return Inward Book has been overcast Rs. 2,000
6. Goods to the value of Rs. 4,000 returned by X were included in closing stock, but no entry was made in books
7. Received Rs.2,000 from Shankar debited to his account
8. The sales book undercast by Rs.1,500

**General Journal**

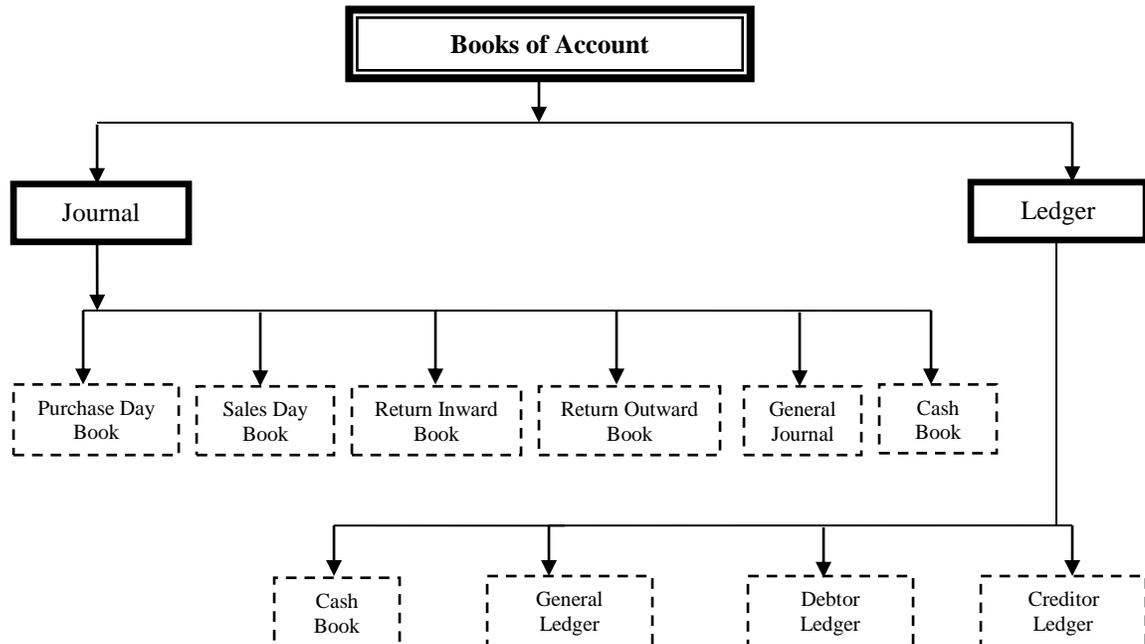
| Date         | Account Title and Explanations | Ref | Amount (Rs) |        |
|--------------|--------------------------------|-----|-------------|--------|
|              |                                |     | Debit       | Credit |
| <b>2016</b>  |                                |     |             |        |
| <i>April</i> | <i>1</i>                       |     |             |        |
|              | <i>2</i>                       |     |             |        |
|              | <i>3</i>                       |     |             |        |
|              | <i>4</i>                       |     |             |        |
|              | <i>5</i>                       |     |             |        |
|              | <i>6</i>                       |     |             |        |
|              | <i>7</i>                       |     |             |        |
|              | <i>8</i>                       |     |             |        |
| <b>Total</b> |                                |     |             |        |

**Practice MCQs**

[www.accountancyknowledge.com/rectification-of-errors-mcqs/](http://www.accountancyknowledge.com/rectification-of-errors-mcqs/)

## BOOKS OF ACCOUNT

- There are two main books of account, Journal and Ledger
- Journal used to record the economic transaction chronologically
- Ledger used to classifying economic activities according to nature



### 13.1 Subdivision of Journal

- ✓ In large business it is found inconvenient to journalize every transaction in one journal
- ✓ Therefore, the journal is sub-divided into different journals known as the subsidiary books
- ✓ The journal is divided in such a way that a separate book is used for each class of transactions The important subsidiary books used in modern business world are the following

#### 13.1.1 Purchases Day Book

- Purchases book or purchases day book is a book of original entry maintained to record credit purchases
- You must note that cash purchases will not be entered in purchases day book because entries in respect of cash purchases must have been entered in the cash book
- At the end of each month, the purchases book is totaled. The total shows the total amount of goods purchased on credit
- Purchases book is written up daily from the invoices received
- The invoices are consecutively numbered
- The invoice of each number is noted in the purchases book

**Purchase Journal (Format)**

| Date         | Account Credited | Invoice # | Ref | Amount |
|--------------|------------------|-----------|-----|--------|
|              |                  |           |     |        |
|              |                  |           |     |        |
|              |                  |           |     |        |
| <b>Total</b> |                  |           |     |        |

**Example # 13.1:** From the following transactions of a trader prepare the Purchases day book

**2014**

|           |  |           |
|-----------|--|-----------|
| January 5 | Purchased goods from Qurat Ul Ain & Co | Rs. 2,400 |
| " 15      | Purchased goods from Saba Sajjad       | 6,000     |
| " 25      | Purchased goods from Omer Nawaz & Co   | 1,500     |
| " 30      | Purchased goods from Maqbool & Co      | 3,000     |

**Purchase Journal**

| Date         | Account Credited | Invoice # | Ref | Amount            |
|--------------|------------------|-----------|-----|-------------------|
|              |                  |           |     |                   |
|              |                  |           |     |                   |
|              |                  |           |     |                   |
|              |                  |           |     |                   |
|              |                  |           |     |                   |
| <b>Total</b> |                  |           |     | <b>Rs. 12,900</b> |

**13.1.2 Sales Day Book**

- A sales book is also known as sales day book in which are recorded the details of credit sales made by a businessman
- Total of sales book shows the total credit sales of goods during the period concerned
- Usually the sales book is totaled every month. The sales day book is written up daily from the copies of invoices sent out

**Sales Journal (Format)**

| Date         | Account Debited | Invoice # | Ref | Amount |
|--------------|-----------------|-----------|-----|--------|
|              |                 |           |     |        |
|              |                 |           |     |        |
|              |                 |           |     |        |
| <b>Total</b> |                 |           |     |        |

**Example # 13.2:** From the following transactions of a trader prepare the sales day book of M. Amin

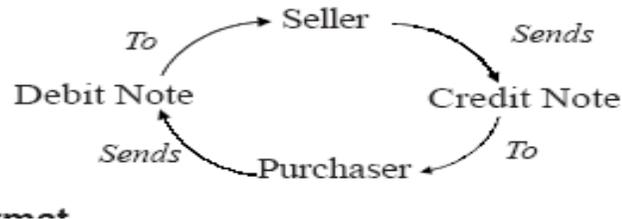
|       |    |                             |  |         |
|-------|----|-----------------------------|--|---------|
| 2017  |    |                             |  |         |
| March | 5  | Sold goods to Ideal College |  | Rs. 200 |
| "     | 10 | Sold goods to Ahmad & Co    |  | 100     |
| "     | 20 | Credit sales to Ayesha Bibi |  | 400     |
| "     | 31 | Sold goods to Gulbaz Khan   |  | 100     |

**Sales Journal**

| Date         | Account Debited | Invoice # | Ref | Amount         |
|--------------|-----------------|-----------|-----|----------------|
|              |                 |           |     |                |
|              |                 |           |     |                |
|              |                 |           |     |                |
|              |                 |           |     |                |
|              |                 |           |     |                |
| <b>Total</b> |                 |           |     | <b>Rs. 800</b> |

**13.1.3 Return Inward Book**

- Sales returns book is also called returns inwards book. It is used for recording goods returned to us by our customers
- Customers who return goods should be sent a credit note. It is a statement sent by a business to customer showing the amount credited to the account



**Return Inward Journal (Format)**

| Date         | Account Credited | Credit Note # | Ref | Amount |
|--------------|------------------|---------------|-----|--------|
|              |                  |               |     |        |
|              |                  |               |     |        |
|              |                  |               |     |        |
| <b>Total</b> |                  |               |     |        |

**Example # 13.3:** From the following transactions of a trader prepare the sales returns book

|      |    |                                    |  |        |
|------|----|------------------------------------|--|--------|
| 2016 |    |                                    |  |        |
| June | 8  | Goods returned by Sana Khalid & Co |  | Rs. 40 |
| "    | 20 | Goods returned by Ideal Traders    |  | 52     |

**Return Inward Journal**

| Date         | Account Credited | Credit Note # | Ref | Amount        |
|--------------|------------------|---------------|-----|---------------|
|              |                  |               |     |               |
|              |                  |               |     |               |
|              |                  |               |     |               |
| <b>Total</b> |                  |               |     | <b>Rs. 92</b> |

**13.1.4 Return Outward Book**

- ✓ Purchases returns book is a book in which the goods returned to suppliers are recorded. It is also called returns outward book or purchases returns day book
- ✓ Goods may be returned because they are of the wrong kind or not up to sample or because they are damaged etc.
- ✓ When the goods are returned to the suppliers, intimation is sent to them through what is known as a debit note
- ✓ These debit notes serve as vouchers for these entries. A debit note is a statement sent by a businessman to vendor, showing the amount debited to the account



**Return Outward Journal (Format)**

| Date         | Account Debited | Debit Note # | Ref | Amount |
|--------------|-----------------|--------------|-----|--------|
|              |                 |              |     |        |
|              |                 |              |     |        |
|              |                 |              |     |        |
| <b>Total</b> |                 |              |     |        |

**Example # 13.4:** From the following transactions of a trader prepare the purchases returns day book

|         |                   |         |  |
|---------|-------------------|---------|--|
| 2016    |                   |         |  |
| July 14 | Karim & Sons      | Rs. 135 |  |
| " 27    | Maria Waheed & Co | 150     |  |
| " 31    | Saeed Bros        | 25      |  |

**Return Outward Journal**

| Date         | Account Debited | Debit Note # | Ref | Amount         |
|--------------|-----------------|--------------|-----|----------------|
|              |                 |              |     |                |
|              |                 |              |     |                |
|              |                 |              |     |                |
|              |                 |              |     |                |
| <b>Total</b> |                 |              |     | <b>Rs. 300</b> |

**13.1.5 Proper/ General Journal**

- ❖ Journal proper is book of original entry (simple journal) in which miscellaneous credit transactions which do not fit in any other books. It is also called miscellaneous journal or General Journal
- ❖ For example purchase assets on credit, Correcting Entries, Adjusting Entries and Closing Entries etc.

**Example # 13.5:** Record the following transactions in the appropriate journal?

2017

- March 3 Purchased goods from Ali & Co for Rs. 4,500
- “ 8 Sold merchandise to Naeem & Sons worth of Rs. 6,000
- “ 12 Purchase merchandise from B & Brothers Rs. 3,000
- “ 14 Credit sales of goods to Z & Co for Rs. 2,500
- “ 15 Naeem & Sons returned goods Rs. 1,000
- “ 18 Return merchandise to Ali & Co Rs. 500
- “ 22 Purchase Furniture from Mr. Saeed of Rs. 3,200
- “ 24 Returned goods to B & Brothers of Rs. 200
- “ 27 Purchase Machinery on account from MMM Machines Rs. 7,000
- “ 29 Z & Co returned merchandise of Rs. 300

For Solution See  
[www.accountancyKnowledge.com](http://www.accountancyknowledge.com)

**Purchase Journal**

| Date         | Account Credited | Invoice # | Ref | Amount           |
|--------------|------------------|-----------|-----|------------------|
|              |                  |           |     |                  |
|              |                  |           |     |                  |
|              |                  |           |     |                  |
|              |                  |           |     |                  |
| <b>Total</b> |                  |           |     | <b>Rs. 7,500</b> |

**Sales Journal**

| Date         | Account Debited | Invoice # | Ref | Amount           |
|--------------|-----------------|-----------|-----|------------------|
|              |                 |           |     |                  |
|              |                 |           |     |                  |
|              |                 |           |     |                  |
| <b>Total</b> |                 |           |     | <b>Rs. 8,500</b> |

**Return Inward Journal**

| Date         | Account Credited | Credit Note # | Ref | Amount           |
|--------------|------------------|---------------|-----|------------------|
|              |                  |               |     |                  |
|              |                  |               |     |                  |
|              |                  |               |     |                  |
| <b>Total</b> |                  |               |     | <b>Rs. 1,300</b> |

**Return Outward Journal**

| Date         | Account Debited | Debit Note # | Ref | Amount         |
|--------------|-----------------|--------------|-----|----------------|
|              |                 |              |     |                |
|              |                 |              |     |                |
|              |                 |              |     |                |
| <b>Total</b> |                 |              |     | <b>Rs. 700</b> |

**General Journal**

| Date         | Account Titles and Explanation | Ref | Amount (Rs)       |                   |
|--------------|--------------------------------|-----|-------------------|-------------------|
|              |                                |     | Debit             | Credit            |
|              |                                |     |                   |                   |
|              |                                |     |                   |                   |
|              |                                |     |                   |                   |
| <b>Total</b> |                                |     | <b>Rs. 10,200</b> | <b>Rs. 10,200</b> |

**Practice MCQs**

[www.accountancyknowledge.com/books-of-accounts-mcqs/](http://www.accountancyknowledge.com/books-of-accounts-mcqs/)

**Practice Problems with Solutions**

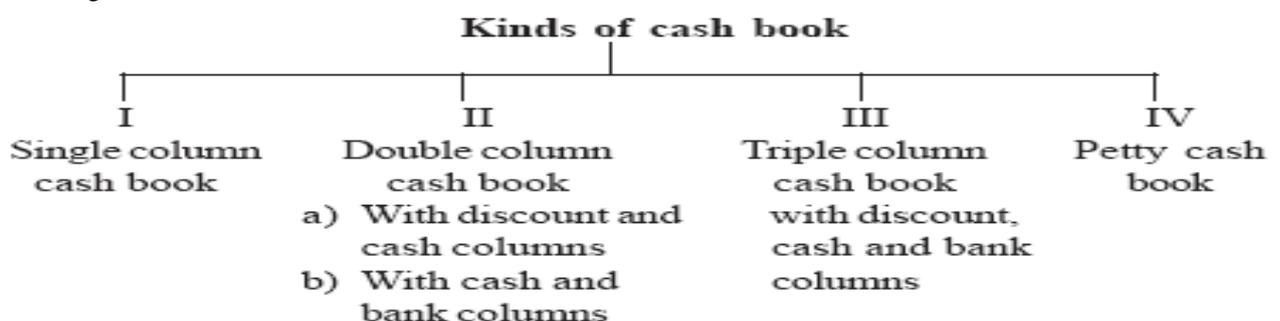
[www.accountancyknowledge.com/books-of-accounts-problems-and-solutions/](http://www.accountancyknowledge.com/books-of-accounts-problems-and-solutions/)

## CASH BOOK (I)

- ◆ Cash book is a book of original entry in which transactions relating only to cash receipts and payments are recorded
- ◆ When cash is received it is entered on the debit or left hand side
- ◆ Similarly, when cash is paid out it is recorded on the credit or right hand side of the cash book
- ◆ Cash Book is dual purpose book; it is Journal as well as Ledger
- ◆ It is journal as cash transactions are chronologically recorded in it. It is a ledger as it contains a classified record of all cash transactions. It Journalized Ledger
- ◆ As for as cash is concerned, consists of coins, currency, checks, money orders, and money on hand or on deposit in a bank
- ◆ Cash is reported in both the balance sheet and the statement of cash flows. The balance sheet shows the amount of cash available at a given point in time. The statement of cash flows shows the sources and uses of cash during a period of time
- ◆ Cash on hand, cash in banks, and petty cash are often combined and reported simply as Cash
- ◆ Cash is the most liquid asset and is listed first in the current assets section of the balance sheet
- ◆ Many companies use the designation “Cash and cash equivalents” in reporting cash. Cash equivalents are short-term, highly liquid investments (Marketable Security) that are both:
  1. Readily convertible to known amounts of cash, and
  2. So near their maturity that their market value is relatively insensitive to changes in interest rates
- ◆ A negative balance in the cash account should be rare. If so, it should be reported among current liabilities
- ◆ This book enables us to know the balance of cash in hand and at bank at any point of time
- ◆ Cash book consists of cash and bank accounts taken out of ledger and maintained separately
- ◆ For Every entry made in the cash book there must be a proper voucher
- ◆ Being the cash book with the balance brought forward from the preceding period or with what we start. It appears at the top of the left side as "Balance b/d" or "Capital b/d" in case of a new business
- ❖ It should be balanced at the end of a given period

### 14.1 Kinds of Cash Book

The type of cash book to be used by any business will depend upon its nature and requirements. It may be anyone of the following



#### 14.1.1 Single Column Cash Book (Cash Column)

- Single column cash book records only cash receipts and payments
- It has only one money column on each of the debit and credit sides of the cash book







**CASH BOOK (II)**

**15.1 Triple Column Cash Book (Cash Bank and Discount Columns)**

- A triple column cash book or three column cash book is one which consists of three separate columns on the debit side as well as credit side for recording cash, bank and discount.
- The discount column on the debit side of the cash book will record discounts allowed and that on the credit side discounts received
- Discount columns in both side are not balanced only totaled

**Hafsa Noor Ayub**  
Cash Book (Triple Column)

For the month ended .....

| Receipts |             |     |      |      |          | Payments |             |     |      |      |          |
|----------|-------------|-----|------|------|----------|----------|-------------|-----|------|------|----------|
| Date     | Description | Ref | Cash | Bank | Discount | Date     | Description | Ref | Cash | Bank | Discount |
|          |             |     |      |      |          |          |             |     |      |      |          |
|          |             |     |      |      |          |          |             |     |      |      |          |
|          |             |     |      |      |          |          |             |     |      |      |          |
|          |             |     |      |      |          |          |             |     |      |      |          |

**Example # 15.1:** From the following transactions write up a three column cash book for Zakir Khan & Co 2016

- June 1 Cash in hand Rs. 2,000 and Bank Overdraft Rs. 1,500
- " 7 Received cash from Riaz & Co. Rs. 190; discount allowed Rs.10
- " 12 Sales by check Rs. 1,000
- " 15 Deposited cash Rs. 1,200 to bank account
- " 20 Paid to Waqas Shahzad Rs. 485; discount received Rs. 15
- " 25 Received check from Salman of Rs. 500 and deposited
- " 27 Paid to Hassan by bank Rs. 300
- " 28 Mr. Salman check of dated 25<sup>th</sup> has been dishonored due to technical reasons

**Zakir Khan & Co**  
Cash Book (Triple Column)

For the month ended June, 2016

| Receipts |              |     |      |      |     | Payments |              |     |      |      |     |
|----------|--------------|-----|------|------|-----|----------|--------------|-----|------|------|-----|
| Date     | Description  | Ref | Cash | Bank | Dis | Date     | Description  | Ref | Cash | Bank | Dis |
|          |              |     |      |      |     |          |              |     |      |      |     |
|          |              |     |      |      |     |          |              |     |      |      |     |
|          |              |     |      |      |     |          |              |     |      |      |     |
|          |              |     |      |      |     |          |              |     |      |      |     |
|          |              |     |      |      |     |          |              |     |      |      |     |
|          |              |     |      |      |     |          |              |     |      |      |     |
|          |              |     |      |      |     |          |              |     |      |      |     |
|          |              |     |      |      |     |          |              |     |      |      |     |
|          | <b>Total</b> |     |      |      |     |          | <b>Total</b> |     |      |      |     |
|          |              |     |      |      |     |          |              |     |      |      |     |

### 15.2 Petty Cash Book

- It is most common to find with large commercial businesses that all receipts and payments are made through bank
- Since expenses like conveyance, carriage, postage, telegrams, traveling etc, cannot be made by means of checks
- The maintenance of a small cash balance to meet these petty payments
- The Imprest System is used for petty cash maintenance
- For example, On June 1, 2012, Rs. 1,000 was given to the petty cashier. He had spent Rs.940 during the month. He will be paid Rs. 940 on 30<sup>th</sup> June by the cashier so that he may again have Rs. 1,000 for the next month of July

**Example # 15.2:** Enter the following transactions in the Petty cash book of Sonia Manzoor; Rs. 100 was given to cashier on 1<sup>st</sup> March, 2017 on the imprest system:

|       |    |                         |       |       |    |                           |    |
|-------|----|-------------------------|-------|-------|----|---------------------------|----|
| March | 2  | Paid for postage stamps | Rs. 8 | March | 23 | Paid for ink and nibs     | 4  |
| "     | 2  | Paid for stationary     | 10    | "     | 26 | Paid for train fair       | 5  |
| "     | 3  | Paid for cartage        | 4     | "     | 28 | Paid for bus fair         | 4  |
| "     | 3  | Paid for postage stamps | 6     | "     | 29 | Envelops and letter heads | 6  |
| "     | 8  | Paid for paper          | 1     | "     | 30 | Printing address on above | 4  |
| "     | 12 | Paid for cartage        | 6     | "     | 31 | Taxi fare to manager      | 10 |

**Sonia Manzoor**

*Petty Cash Book*

For the month ended March, 2017

| Amount Received | Date         | Description | VN          | Total Payments | Postage   | Printing & Stationery | Carriage  | Travelling Expenses | Miscellaneous Expenses |
|-----------------|--------------|-------------|-------------|----------------|-----------|-----------------------|-----------|---------------------|------------------------|
|                 | 2017         |             |             |                |           |                       |           |                     |                        |
| 100             | Mar          | 2           | Cash        |                |           |                       |           |                     |                        |
|                 |              | 2           | Postage     | 8              | 8         |                       |           |                     |                        |
|                 |              | 2           | Stationery  | 10             |           | 10                    |           |                     |                        |
|                 |              | 3           | Cartage     | 4              |           |                       | 4         |                     |                        |
|                 |              | 3           | Postage     | 6              | 6         |                       |           |                     |                        |
|                 |              | 8           | Paper       | 1              |           | 1                     |           |                     |                        |
|                 |              | 12          | Cartage     | 6              |           |                       | 6         |                     |                        |
|                 |              | 23          | Ink         | 4              |           | 4                     |           |                     |                        |
|                 |              | 26          | Train Fair  | 5              |           |                       |           | 5                   |                        |
|                 |              | 28          | Bus Fair    | 4              |           |                       |           | 4                   |                        |
|                 |              | 29          | Envelops    | 6              |           | 6                     |           |                     |                        |
|                 |              | 30          | Printing    | 4              |           | 4                     |           |                     |                        |
|                 |              | 31          | Taxi Fair   | 10             |           |                       |           | 10                  |                        |
|                 | <b>Total</b> |             |             | <b>68</b>      | <b>14</b> | <b>25</b>             | <b>10</b> | <b>19</b>           |                        |
| 42              |              |             | Balance c/d | 32             |           |                       |           |                     |                        |
| 58              |              |             | Balance b/d |                |           |                       |           |                     |                        |

**Example # 15.3:** For the following transactions, you are required to describe side of cash book (Debit or Credit) and the column in which amount is entered (Cash, Bank or Discount)

| <i>S. No</i> | <i>Transactions</i>   | <i>Side of Cash Book<br/>(Debit or Credit)</i> | <i>The column in which<br/>amount is entered<br/>(Cash, Bank or Discount)</i> |
|--------------|---|--|---|
| 1            | Cash received from customer                                   |  |   |
| 2            | Cash paid to vendor   |  |   |
| 3            | Discount allowed  |  |   |
| 4            | Check received  |  |   |
| 5            | Cash deposited in the bank                                    |  |   |
| 6            | Discount received   |  |   |
| 7            | Cash withdrawn for office use                                 |  |   |
| 8            | Check received and deposited immediately                      |  |   |
| 9            | Salary paid by check  |  |   |
| 10           | Cash sales  |  |   |
| 11           | Customer directly paid into bank                              |  |   |
| 12           | Deposited check dishonored                                    |  |   |
| 13           | Issued check dishonored                                       |  |   |
| 14           | Favorable balance of cash in cash book                        |  |   |
| 15           | Bank charges  |  |   |
| 16           | Interest received from bank by company                        |  |   |
| 17           | Interest on overdraft   |  |   |
| 18           | Unfavorable balance of bank in cash book                      |  |   |
| 19           | Amount directly received by bank as per standing instruction  |  |   |
| 21           | Rent received by check  |  |   |
| 22           | Discount on purchases   |  |   |
| 23           | Payment directly made by the bank as per standing instruction |  |   |
| 24           | Discount on sales   |  |   |
| 25           | Credit sales  |  |   |
| 26           | Sales by check and check is retained in business              |  |   |
| 28           | Bank balance overdraft in cash book                           |  |   |
| 29           | Cash balance overdraft in cash book                           |  |   |
| 30           | Commission earned but not received                            |  |   |



### BANK RECONCILIATION STATEMENT (I)

- ✘ The bank and the company maintain independent records of the company's checking account. The two balances are almost never same because of:
  - ⊗ Time lags that prevent one of the parties from recording the transaction in the same period
  - ⊗ Errors by either party in recording transactions. Bank errors are infrequent
- ✘ The cash Book and Pass Book / Bank Statement are prepared separately
- ✘ The Businessman prepares the Cash Book and the Pass Book is prepared by the Bank (here by cash book we mean two or three column cash Book)
- ✘ But as both the books are related to one person and same transactions are recorded in both the books so the balance of both the books should match i.e. the balance as per Pass Book should match to balance at bank as per cash book

|                            | Favorable Balance | Unfavorable Balance |
|----------------------------|-------------------|---------------------|
| Cash Book                  |                   |                     |
| Pass Book / Bank Statement |                   |                     |

- ✘ But many a times these two balances do not agree then, it becomes necessary to reconcile them by preparing a statement which is called Bank Reconciliation Statement
- ✘ A Bank Reconciliation Statement may be defined as a statement showing the items of differences between the cash Book balance and the pass book balance, prepared on any day for reconciling the two balances

#### 16.1 Items of Difference

- ✓ A transaction relating to bank has to be recorded in both the books i.e. Cash Book and Pass Book
- ✓ But sometimes it happens that a bank transaction is recorded only in one book and not recorded simultaneously
- ✓ This causes difference in the two balances usually arises due to timing or errors

#### 16.2 BRS Missing Approach

- In missing method first of all we dig out missing or error items (Find Missing or Error Items)
- After that find the it is missing of cash book or bank statement (Find Missing Book)
- Finally, analyze that it is missing of debit or credit (Find Missing Side)

##### 16.2.1 Unpresented / Outstanding / Not Cashed or Uncashed Cheques:

- Cheque issued (for payments) by business but not presented for payment
- A cashier may send cheques out to suppliers, some of whom may present cheque at the bank immediately while others may keep the cheque for several days
- Cashier will have recorded all the payments in the cash book immediately when issue the cheques
- However, the bank records will only show the cheques that have actually been presented by the suppliers

##### 16.2.2 Uncredited / Uncollected / Uncleared or Outstation Cheques:

- ✓ Check deposited (for receipts) but not collected by bank
- ✓ The firm's cashier records a receipt in the cash book as he or she prepares the bank paying-in slip
- ✓ However, the receipt may not be recorded by the bank on the bank statement for a day or so

**16.2.3 Bank Charges:**

- ❖ The bank charges some amount from each customer by way of incidental charges, collection charges or interest on overdraft etc. Bank debited the amount in pass book
- ❖ But customer comes to know about it only at the end of month

**16.2.4 Interest Credit by Bank:**

- When the bank allows interest to a customer, it credits the customer’s account
- But customer comes to know about it only at the end of month than he would pass appropriate entry

**16.2.5 Direct Deposits to Bank:**

- ✚ When the bank has received a direct amount on the behalf of the business
- ✚ Bank will have recorded the receipt in the business’s account at the bank but the business will be unaware

**16.2.6 Direct payment by Bank:**

- Bank may have deducted items from the customer’s account, but the customer may not be aware of the deduction until the bank statement arrives
- Examples of these deductions include are standing order and direct debit payments

**16.2.7 Check Dishonored:**

- Cheque may be dishonored due to so many reasons
- It is missing of cash book reverse impact as recorded before dishonored

**16.2. 8 Errors and Omissions:**

- Sometimes the difference between the two balances may be accounted for by an error or omission on the part of the bank statement or in the cash book of the business
- Find the missing in order to rectify error or record omission

| <i>Cash Book</i> |  |
|------------------|--|
|                  |  |

| <i>Bank Statement</i> |  |
|-----------------------|--|
|                       |  |

| <i>Cash Book (Missing)</i> |  |
|----------------------------|--|
|                            |  |

| <i>Bank Statement (Missing)</i> |  |
|---------------------------------|--|
|                                 |  |





**Example # 16.2:** From the following transactions, you are required to mention missing (Cash Book or Bank Statement & Dr /Cr)

| Transactions   | Missing   |                |         |
|--|-----------|----------------|---------|
|  | Cash Book | Bank Statement | Dr / Cr |
| Unpresented cheque   |           |                |         |
| Bank charges   |           |                |         |
| Interest credit by bank                                      |           |                |         |
| Direct deposits to bank                                      |           |                |         |
| Direct payment by bank                                       |           |                |         |
| Uncredited checks  |           |                |         |
| Uncollected checks   |           |                |         |
| Issued check dishonored                                      |           |                |         |
| Credit side of the Bank column in cash book cast short       |           |                |         |
| Check received entered twice in the cash book                |           |                |         |
| Outstanding check  |           |                |         |
| Deposited check dishonored                                   |           |                |         |
| Uncleared cheque   |           |                |         |
| Interest allowed by the bank                                 |           |                |         |
| Bank services charges for the month                          |           |                |         |
| Bank credited interest                                       |           |                |         |
| Charged commission on collection of outstation check by bank |           |                |         |
| The debit side of the cash book had been undercast           |           |                |         |
| The bank debited   |           |                |         |
| A check issued to Ahmed & Co. was not encashed               |           |                |         |
| Outstation cheque  |           |                |         |
| Interest charged by the bank                                 |           |                |         |
| An unpaid cheque by bank                                     |           |                |         |
| A check was credited twice in Cash book                      |           |                |         |
| Bills receivable directly collected by bank                  |           |                |         |
| Uncashed cheque  |           |                |         |
| Cheque issued but not cashed                                 |           |                |         |
| Cheque paid into bank but not cleared                        |           |                |         |
| Deposits in transit  |           |                |         |
| Cheque paid in but not entered in the Cash Book              |           |                |         |
| NSF  |           |                |         |

**Practice MCQs**

[www.accountancyknowledge.com/bank-reconciliation-statement-mcqs-1/](http://www.accountancyknowledge.com/bank-reconciliation-statement-mcqs-1/)

**Practice Problems with Solutions**

[www.accountancyknowledge.com/bank-reconciliation-statement-problems-and-solutions/](http://www.accountancyknowledge.com/bank-reconciliation-statement-problems-and-solutions/)



**BANK RECONCILIATION STATEMENT (II)**

*Example # 17.1:* Prepare Bank Reconciliation Statement to find out adjusted balances in both books of Zakirullah Traders on June 30<sup>th</sup>, 2015?

- a) Unfavorable balance as per Bank Statement Rs. 55,000, while cash book credit balance of Rs. 47,100
- b) Mark-up charged by bank Rs. 600
- c) Check of customer Basher & Company for Rs. 3,500 was dishonored and returned by bank
- d) Dividend collected by bank not recorded in the cash book amounted to Rs. 2,000
- e) Checks issued amounted to Rs. 10,000 but presented to bank for payment worth Rs. 5,800
- f) A checks deposited into the bank of worth Rs. 30,000 but Rs. 10,000 check was not collected by bank

| <i>Cash Book</i> | <i>Bank Statement</i> |
|------------------|-----------------------|
|                  |                       |

*Zakirullah Traders*  
*Bank Reconciliation Statement*  
*As on June 30<sup>th</sup>, 2015*

|                         |  |  |
|-------------------------|--|--|
|                         |  |  |
| <b>Add:</b>             |  |  |
|                         |  |  |
|                         |  |  |
| <b>Less:</b>            |  |  |
|                         |  |  |
| <i>Adjusted Balance</i> |  |  |
|                         |  |  |
| <b>Add:</b>             |  |  |
|                         |  |  |
|                         |  |  |
| <b>Less:</b>            |  |  |
|                         |  |  |
| <i>Adjusted Balance</i> |  |  |

**Example # 17.2:** Ms. Fiza Naseem works as a cashier for Pine & Co. Abbottabad. Her responsibilities include entering and maintaining the firm's cash book and preparing a bank reconciliation statement at the end of each month. The firm's cash book for July 2016 which she has just finished entering and balancing for the month end is shown below (Note: for the sake of clarity the cash and discount columns have been omitted from cash book.) A copy of the firm's bank statement from the Star Bank Limited dated 31<sup>st</sup> July 2016 has just been received and is also illustrated. The numerical difference between the two is; Bank statement Rs. 903.00 minus cash book Rs. 641.70 = Rs. 261.30  
This is the difference which Fiza will have to 'reconcile'.

*Step 1 – Tick off the items in both cash book and bank statement*

**Cash Book**

| Receipts     |             |     |                 | Payments     |             |     |                 |
|--------------|-------------|-----|-----------------|--------------|-------------|-----|-----------------|
| Date         | Description | Ref | Bank            | Date         | Description | Ref | Bank            |
| 2011         |             |     |                 | 2011         |             |     |                 |
| July         | 1           |     | 756.20          | July         | 2           |     | 50.00           |
|              | 3           |     | 220.00          |              | 2           |     | 130.00          |
|              | 15          |     | 330.00          |              | 2           |     | 10.00           |
|              | 31          |     | 63.00           |              | 8           |     | 27.50           |
|              |             |     |                 |              | 14          |     | 89.00           |
|              |             |     |                 |              | 14          |     | 49.00           |
|              |             |     |                 |              | 15          |     | 250.00          |
|              |             |     |                 |              | 26          |     | 122.00          |
|              |             |     |                 |              | 31          |     | 641.70          |
| <b>Total</b> |             |     | <b>1,369.20</b> | <b>Total</b> |             |     | <b>1,369.20</b> |

**Bank Statement**

| Date | Description | Ref | Dr. Amount | Cr. Amount | Balance     |
|------|-------------|-----|------------|------------|-------------|
| 2011 |             |     |            |            |             |
| July | 1           |     |            |            | 756.20 (Cr) |
|      | 4           |     |            | 220.00     | 976.20      |
|      | 9           |     | 50.00      |            | 926.20      |
|      | 14          |     | 10.00      |            | 916.20      |
|      | 16          |     | 89.00      |            | 827.20      |
|      | 19          |     |            | 330.00     | 1,157.20    |
|      | 24          |     | 250.00     |            | 907.20      |
|      | 26          |     | 122.00     |            | 785.20      |
|      | 30          |     | 49.00      |            | 736.20      |
|      | 31          |     | 12.95      |            | 723.25      |
|      | 31          |     |            | 179.75     | 903.00 (Cr) |





## ADJUSTMENT ENTRIES (I)

- ❖ In order to ascertain the fair and true results of a business for a particular period, it is essential that all the expenses, revenues related only to that period or year should be considered
- ❖ If Financial Statement for 2016 are prepared, then the expenses and revenues related to 2015 and 2017 should not be considered, the focus will be on 2016 incurred expenses and earned revenues
- ❖ Adjusting entries are needed to ensure that the revenue recognition and expense recognition principles are followed.
- ❖ The trial balance may not contain up-to-date and complete data for several reasons:
  - ◆ Some events are not recorded daily because it is not efficient to do so
  - ◆ Some costs are not recorded during the accounting period because these costs expire with the passage of time rather than as a result of recurring daily transactions
  - ◆ Some items may be unrecorded
- ❖ Adjusting entries are required every time a company prepares financial statements
- ❖ Every adjusting entry will include one income statement account and one balance sheet account
- ❖ Cash is not adjusted at the end of the accounting period, thus should not use cash in the adjusting process
- ❖ Adjustments are made to assign amounts of revenue or expense to the proper accounting period before finalizing the books for the fiscal period
- ❖ The records of such transactions in the book of prime entry are called adjustments. An adjustment means to make a correct record of a transaction which has not been entered or which has been entered but in an incomplete or wrong manner
- ❖ Adjusting entries can be classified as deferrals, accruals and others. Each of these classes has subcategories.

### 18.1 Deferrals

- ♣ To defer means to postpone or delay
- ♣ Deferrals are costs or revenues that are recognized at a date later than the point when cash was originally exchanged
- ♣ Companies make adjusting entries for deferrals to record the portion of the deferred item that was incurred as an expense or earned as revenue during the current accounting period. The two types of deferrals are prepaid expenses and unearned revenues

#### 18.1.1 Prepaid Expenses

- Expenses paid in cash and recorded as assets until they are used or consumed. Prepaid expenses are costs that expire with the passage of time (i. e. rent and insurance) or through use (i. e. supplies)
- Expenses are paid in advance are called prepaid expenses or unexpired expenses
- Cost always has two parts one is expired and other on is unexpired. It is not unlikely that some expenses may have been paid in advance
- Companies record payments of expenses that will benefit more than one accounting
- Examples of common prepayments are insurance, supplies, advertising, and rent. In addition, companies make prepayments when they purchase buildings and equipment
  - Prepaid expenses are costs that expire either with the passage of time (e.g., rent and insurance) or through use (e.g., supplies). The expiration of these costs does not require daily entries, which would be impractical and unnecessary

**Example # 18.1:** For example, on September 1, 2015 full year insurance paid of Rs. 24,000. We will utilize this expense for 12 months and we have 4 months expense for 2015 and remaining for 2016. Prepaid expenses has two case on the basis of journal entry and trial balance presentation

**Case 1: Expense Method**

**General Journal**

| Date      |   | Account Titles and Explanation                            | Ref | Amount (Rs) |        |
|-----------|---|---|-----|-------------|--------|
|           |   |   |     | Debit       | Credit |
| 2015      |   |   |     |             |        |
| September | 1 | Insurance Expense<br>Cash<br>(Insurance expense recorded) |     | 24,000      | 24,000 |

The effect of above regular entry in end of year trial balance is presented below

**Trial Balance**

| S. No. | Heads of Account   | Ref | Amount (Rs.) |        |
|--------|--------------------|-----|--------------|--------|
|        |                    |     | Debit        | Credit |
|        | Insurance Expenses |     | 24,000       |        |

So adjusting entry at December 2015 in order to adjust the balance

**Adjusting Entry**

| Date |    | Account Title and Explanations | Ref | Amount (Rs) |        |
|------|----|--------------------------------|-----|-------------|--------|
|      |    |                                |     | Debit       | Credit |
| Dec  | 31 |                                |     |             |        |

**Case 2: Asset Method**

**General Journal**

| Date      |   | Account Titles and Explanation                            | Ref | Amount (Rs) |        |
|-----------|---|---|-----|-------------|--------|
|           |   |   |     | Debit       | Credit |
| 2015      |   |   |     |             |        |
| September | 1 | Prepaid Insurance<br>Cash<br>(Insurance expense recorded) |     | 24,000      | 24,000 |

The effect of above regular entry in end of year trial balance is presented below

**Trial Balance**

| S. No. | Heads of Account  | Ref | Amount (Rs.) |        |
|--------|-------------------|-----|--------------|--------|
|        |                   |     | Debit        | Credit |
|        | Prepaid Insurance |     | 24,000       |        |
|        |                   |     |              |        |

So adjusting entry at December 2015 in order to adjust the balance

**Adjusting Entry**

| Date |    | Account Title and Explanations | Ref | Amount (Rs) |        |
|------|----|--------------------------------|-----|-------------|--------|
|      |    |                                |     | Debit       | Credit |
| Dec  | 31 |                                |     |             |        |

**18.1.2 Unearned revenues**

- Income received in advance but has not been earned in accounting period is called unearned revenue
- There are some items of income statement such as interest, rent, discount etc. etc. which might have been received in advance for which the services in full has not been given so for
- Companies record cash received before revenue is earned by increasing (crediting)

**Example # 18.2:** Rent received for four year in January 01, 2016 of Rs. 80,000. At the end of 2016 accounting period only one year rent is recognized as revenue and remaining liability for next accounting year

**Case 1: Revenue Method**

**General Journal**

| Date    |   | Account Titles and Explanation | Ref | Amount (Rs) |        |
|---------|---|--------------------------------|-----|-------------|--------|
|         |   |                                |     | Debit       | Credit |
| 2016    |   |                                |     |             |        |
| January | 1 | Cash                           |     | 80,000      |        |
|         |   | Rent Revenue                   |     |             | 80,000 |
|         |   | (Rent revenue recorded)        |     |             |        |

The effect of above regular entry in end of year trial balance is presented below

**Trial Balance**

| S. No. | Heads of Account | Ref | Amount (Rs.) |        |
|--------|------------------|-----|--------------|--------|
|        |                  |     | Debit        | Credit |
|        | Rent             |     |              | 80,000 |
|        |                  |     |              |        |

So adjusting entry at December 2016 in order to adjust the balance

**Adjusting Entry**

| Date |    | Account Title and Explanations | Ref | Amount (Rs) |        |
|------|----|--------------------------------|-----|-------------|--------|
|      |    |                                |     | Debit       | Credit |
| Dec  | 31 |                                |     |             |        |

**Case 2: Liability Method**

**General Journal**

| Date |   | Account Title and Explanations                    | Ref | Amount (Rs) |        |
|------|---|---|-----|-------------|--------|
|      |   |   |     | Debit       | Credit |
| Jan  | 1 | Cash<br>Unearned Rent<br>(Unearned rent recorded) |     | 80,000      | 80,000 |

The effect of above regular entry in end of year trial balance is presented below

**Trial Balance**

| S. No. | Heads of Account | Ref | Amount (Rs.) |        |
|--------|------------------|-----|--------------|--------|
|        |                  |     | Debit        | Credit |
|        | Un earned Rent   |     |              | 80,000 |
|        |                  |     |              |        |

So adjusting entry at December 2016 in order to adjust the balance

**Adjusting Entry**

| Date     |    | Account Titles and Explanation | Ref | Amount (Rs) |        |
|----------|----|--------------------------------|-----|-------------|--------|
|          |    |                                |     | Debit       | Credit |
| 2016     |    |                                |     |             |        |
| December | 31 |                                |     |             |        |

- Deferred..... Expenses..... Assets ..... Unexpired costs or prepayments
- Deferred..... Revenue .....Liability ..... Unearned or Cash received in advance of performing services or selling goods

**18.2 Accruals**

- ◆ The second category of adjusting entries is accruals
- ◆ Prior to an accrual adjustment, the revenue account (and the related asset account) or the expense account (and the related liability account) are understated
- ◆ Thus, the adjusting entry for accruals will increase both a balance sheet and an income statement account
- ◆ Accruals fall into two categories—Accrued Revenues and Accrued Expenses

**18.2.1 Accrued Revenue or Receivable Revenue**

- Revenue earned but not yet received in cash in accounting year
- Revenues earned but not yet recorded at the statement date are accrued revenues
- Accrued revenues may accumulate (accrue) with the passing of time, as in the case of interest revenue. These are unrecorded because the earning of interest does not involve daily transactions
- Companies do not record interest revenue on a daily basis because it is often impractical to do so

**Example # 18.3:** Rs. 100,000 fixed deposits amount in bank in July 01, 2015 and contract is to earn 10% per annum at the end of contract year. So in this case we will receive Rs. 10,000 at June 2016, but we have earned interest of six months in this period 20015, so pass adjusted entry

**Adjusting Entry**

| Date |    | Account Title and Explanations | Ref | Amount (Rs) |        |
|------|----|--------------------------------|-----|-------------|--------|
|      |    |                                |     | Debit       | Credit |
| Dec  | 31 |                                |     |             |        |

**18.2.2 Accrued Expenses or Outstanding Expenses or Expenses Payable**

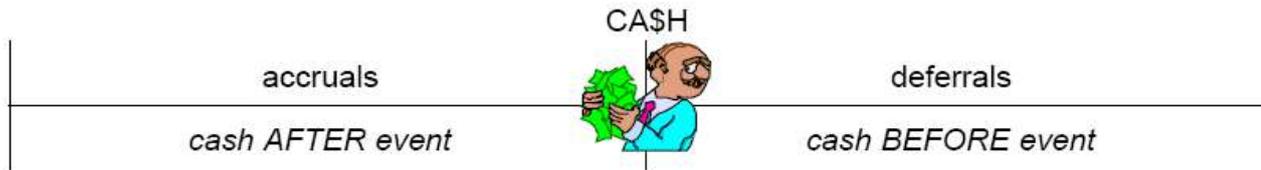
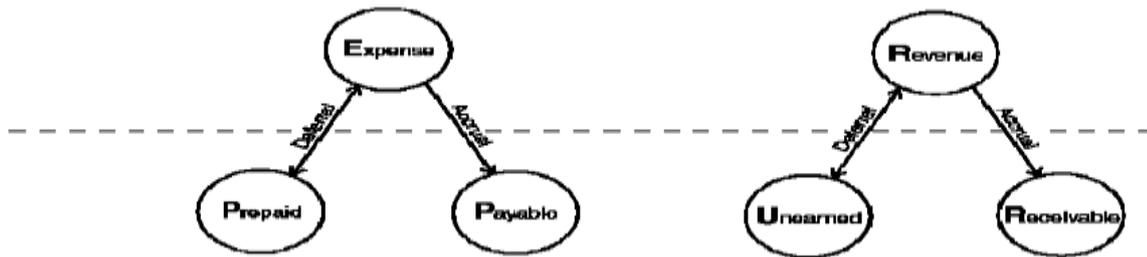
- Expenses incurred but have not been actually paid are called outstanding expenses
- For example, salary for December is generally paid till the 2<sup>nd</sup> and 3<sup>rd</sup> January next
- When books of account are closed and Financial Statements are prepared the amount of staff salary for December is treated as an “Outstanding Salaries”. It will become liability of business as on the closing date
- Expenses incurred but not yet paid or recorded at the statement date are called accrued expenses. Interest, taxes, and salaries are common examples of accrued expenses

**Example # 18.4:** At December 31, 2016, Abdul Basit Anwaar Ltd. expects to pay employees’ salaries of Rs. 8,400 as a result of work performed since the last pay day

**Adjusting Entry**

| Date   | Account Titles and Explanation | Ref | Amount (Rs) |        |
|--------|--------------------------------|-----|-------------|--------|
|        |                                |     | Debit       | Credit |
| 2016   |                                |     |             |        |
| Dec 31 |                                |     |             |        |

- Accrued ..... Revenue ..... Assets ..... Unrecorded revenues (revenues earned, but cash not yet received)
- Accrued .... Expenses..... Liability..... Unrecorded expenses (expenses incurred, but cash not yet been paid)



**Practice MCQs**

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## ADJUSTMENT ENTRIES (II)

### *Review of Deferred and Accrual Adjustment*

| <i>Type of Adjustment</i> | <i>Accounts Before Adjustment</i>               | <i>Adjusting Entry</i>          |
|---------------------------|---|---------------------------------|
| Prepaid expenses          | Assets overstated                               | Dr. Expenses                    |
|                           | Expenses understated                            | Cr. Assets                      |
| Unearned revenues         | Liabilities overstated<br>Revenues understated  | Dr. Liabilities<br>Cr. Revenues |
| Accrued revenues          | Assets understated<br>Revenues understated      | Dr. Assets<br>Cr. Revenues      |
| Accrued expenses          | Expenses understated<br>Liabilities understated | Dr. Expenses<br>Cr. Liabilities |

### 19.1 Depreciation Expenses

- ◆ The third category of adjusting entries is related to other adjustments
- ◆ It includes depreciation and Accounting for bad debts
- ◆ Depreciation is the process of allocating the cost of tangible fixed assets over its estimated life
- ◆ Initially the cost of the assets including installation cost is debited to the particular assets
- ◆ In each accounting year/period a portion of the cost expires and needs adjustment for showing correct profit for the period and correct value of the asset

**Example # 19.1:** On January 1, 2015, Company acquired machinery (a depreciable asset) at a total cost of Rs. 152,000. The estimated salvage value of the asset is Rs. 2,000 and its estimated useful life is five years. Record yearly depreciation

#### Case 1: Cost Method

#### Adjusting Entry

| Date |    | Account Title and Explanations | Ref | Amount (Rs) |        |
|------|----|--------------------------------|-----|-------------|--------|
|      |    |                                |     | Debit       | Credit |
| Dec  | 31 |                                |     |             |        |

Case 2: Written Down Method

Adjusting Entry

| Date |    | Account Title and Explanations | Ref | Amount (Rs) |        |
|------|----|--------------------------------|-----|-------------|--------|
|      |    |                                |     | Debit       | Credit |
| Dec  | 31 |                                |     |             |        |

19.2 Accounting for Bad Debts

- ❖ For achieving the maximum sales, goods are often sold to known customers on credit
- ❖ Since of these customers fails to pay their debts due to insolvency or any other factor
- ❖ These debts which cannot be recovered are called bad debts. It is a loss/expense to the business so, an adjustment is needed
- ❖ Determining the amount of accounts receivable to report is difficult because some receivables will become uncollectible
- ❖ It should be noted here that no adjustment is required for any bad debt which is appearing already in the Trial Balance. The bad debt appearing in the trial balance shows as expense in the income statement only
- ❖ Two methods are used in accounting for uncollectible accounts are Direct Write-off Method and Allowance Method

19.2.1 Direct Write-off Method

- When a specific account is determined to be uncollectible, the loss is charged to Bad Debts Expense
- Bad debts expense will show only actual losses from uncollectible
- Using the direct write-off method, entries to record write-offs are often made in a period following sales rather than in the period in which the sales were made. Therefore, there is no matching of expenses with the revenue
- Use of the direct write-off method can reduce the usefulness of both the income statement and balance sheet
- Unless bad debt losses are insignificant, the direct write-off method is not acceptable for financial reporting purposes

*Example # 19.2:* Based on an analysis the bad debts expense adjustment for the year 2016 is Rs. 1,000 for Ali and Sons

Adjusting Entry

| Date |  | Account Title and Explanations | Ref | Amount (Rs) |        |
|------|--|--------------------------------|-----|-------------|--------|
|      |  |                                |     | Debit       | Credit |
|      |  |                                |     |             |        |

### 19.2.2 Allowance or Provision Method

- The allowance method of accounting for bad debts involves estimating uncollectible accounts at the end of each period
- It provides better matching of expenses and revenues on the income statement and ensures that receivables are stated at their cash (net) realizable value on the balance sheet
- Cash (net) realizable value is the net amount of cash expected to be received. It excludes amounts that the company estimates it will not collect
- Receivables are therefore reduced by estimated uncollectible amounts on the balance sheet through use of the allowance method
- The allowance method is required for financial reporting purposes when bad debts are material
- Three essential features of the allowance method are:
  - Companies estimated uncollectible accounts receivable and match them against revenues in the same accounting period in which the revenues are recorded
  - Company are record estimated uncollectible as an increase (a debit) to Bad Debts Expense and an increase (a credit) to Allowance for Doubtful Accounts (a contra asset account) through an adjusting entry at the end of each period
  - Companies debit actual uncollectible to Allowance for Doubtful Accounts and credit them to Accounts Receivable at the time the specific account is written off as uncollectible

#### 19.2.2.1 Recording Estimated Uncollectible:

- Allowance for Doubtful Accounts shows the estimated amount of claims on customers that are expected to become uncollectible in the future
- The credit balance in the allowance account will absorb the specific write-offs when they occur
- Allowance for Doubtful Accounts is not closed at the end of the fiscal year
- Bad Debts Expense is reported in the income statement as an operating expense (usually a selling expense)

#### 19.2.2.2 Recording the Write-Off

- Each write-off should be approved in writing by authorized management personnel
- Under the allowance method, every bad debt write-off is debited to the allowance account (not to Bad Debt Expense) and credited to the appropriate Account Receivable
- A write-off affects only balance sheet accounts. Cash realizable value in the balance sheet, therefore, remains the same

#### 19.2.2.3 Recovery of an Uncollectible Account

- When a customer pays after the account has been written off, two entries are required:
  - (1) The entry made in writing off the account is reversed to reinstate the customer's account
  - (2) The collection is journalized in the usual manner
- The recovery of a bad debt, like the write-off of a bad debt, affects only balance sheet accounts

**Example # 19.3:** Assume Abbottabad Furniture has credit sales of Rs. 1,200,000 in 2011, of which Rs. 200,000 remains uncollected at December 31<sup>st</sup> 2016. The credit manager estimates that Rs. 12,000 of these sales will prove uncollectible. Pass the adjusting entry to record the estimated uncollectible

**Estimation of Uncollectable**

| Date   | Account Title and Explanations | Ref | Amount |        |
|--------|--------------------------------|-----|--------|--------|
|        |                                |     | Debit  | Credit |
| 2016   |                                |     |        |        |
| Dec 31 |                                |     |        |        |

Assume that the vice-president of finance on March 1, 2017, authorizes a write-off of Rs. 500 balance owed by R. A. Sons. Pass the adjusting entry to record the write-off

**Bad Debts Write-Off**

| Date    | Account Title and Explanations | Ref | Amount |        |
|---------|--------------------------------|-----|--------|--------|
|         |                                |     | Debit  | Credit |
| 2017    |                                |     |        |        |
| March 1 |                                |     |        |        |

When R. A. Sons pays Rs. 500, two journal entries are required to record the collection:

**Recovery of Bad Debts**

| Date | Account Title and Explanations | Ref | Amount |        |
|------|--------------------------------|-----|--------|--------|
|      |                                |     | Debit  | Credit |
|      |                                |     |        |        |
|      |                                |     |        |        |

- ◆ Frequently the allowance is estimated as a percentage of the outstanding receivables
  - Management establishes a percentage relationship between the amount of receivables and expected losses from uncollectible accounts
  - Companies often prepare a schedule in which customer balances are classified by the length of time they have been unpaid
  - Because of its emphasis on time, this schedule is often called an aging schedule and the analysis of it is often called aging the accounts receivable

**SUMMARY OF ADJUSTING ENTRIES**

| Adjusting Entry           | Account to be DEBITED | Account to be CREDITED   |
|---------------------------|-----------------------|--------------------------|
| <b>PREPAID EXPENSES:</b>  |                       |                          |
| Asset Method              | Expense               | Prepaid expense          |
| Expense method            | Prepaid expense       | Expense                  |
| <b>UNEARNED REVENUES:</b> |                       |                          |
| Liability Method          | Unearned Revenue      | Revenue                  |
| Revenue method            | Revenue               | Unearned Revenue         |
| <b>ACCRUED EXPENSES</b>   |                       |                          |
|                           | Expense               | Payable                  |
| <b>ACCRUED REVENUES</b>   |                       |                          |
|                           | Receivable            | Revenue                  |
| <b>DEPRECIATION</b>       |                       |                          |
|                           | Depreciation Expense  | Accumulated depreciation |
| <b>DOUBTFUL ACCOUNTS</b>  |                       |                          |
|                           | Bad debts Expense     | Allowance for Bad Debts  |

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[www.accountancyKnowledge.com](http://www.accountancyKnowledge.com)

**Example # 19.4:** For each of the following cases, prepare the adjusting entries at the end of December, 2011

- a. One-third of the fee related to Rs. 60,000 cash received in advance is performed this period
- b. Wages of Rs. 9,000 are earned by workers but not paid as of December 31, 2011
- c. The prepaid Insurance account had a Rs. 5,000 balance on December 31, 2011. An analysis of insurance policies shows that Rs. 2,200 of unexpired insurance benefits remains at December 31, 2012
- d. The company has earned (but not recorded) Rs. 750 of interest from investments in CDs for the year ended December 31, 2011. The interest revenue will be received on January 10, 2012
- e. The company has a bank loan and has incurred (but not recorded) interest expenses of Rs. 3,500 for the year ended December 31, 2011. The company must pay the interest on January 2, 2012
- f. Record the bad debt expense for December that estimates total uncollectible accounts at Rs. 1,400
- g. Depreciation on the company's equipment is Rs. 3,000 by WDM

**Adjusting Entries**

| Date         | Account Title and Explanations | Ref | Amount (Rs) |        |
|--------------|--------------------------------|-----|-------------|--------|
|              |                                |     | Debit       | Credit |
| <b>2011</b>  |                                |     |             |        |
| <i>Dec</i>   | (a)                            |     |             |        |
|              | (b)                            |     |             |        |
|              | (c)                            |     |             |        |
|              | (d)                            |     |             |        |
|              | (e)                            |     |             |        |
|              | (f)                            |     |             |        |
|              | (g)                            |     |             |        |
| <b>Total</b> |                                |     |             |        |

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## ADJUSTMENT TRIAL BALANCE

### 20.1 Adjusted Trial Balance

- ❖ A list that contains all the accounts and their balances after adjustments have been made is called adjusted trial balance
- ❖ Adjusted trial balance = Trial balance plus or minus adjustments
- ❖ The adjusted trial balance is prepared after all adjusting entries have been journalized and posted
- ❖ The adjusted trial balance shows the balances of all accounts, including those that have been adjusted, at the end of the accounting period
- ❖ The purpose of the adjusted trial balance is to prove the equality of the total debit balances and total credit balances in the ledger after all adjustments
- ❖ The two columns of the adjusted trial balance should equal each other in the same way that the trial balance does
- ❖ Financial Statements can be prepared directly from the adjusted trial balance

*Sadiqa Huma*  
*Adjusted Trial Balance*  
As on ...

| S. No.       | Heads of Account | Ref | Amount (Rs.) |        |
|--------------|------------------|-----|--------------|--------|
|              |                  |     | Debit        | Credit |
|              |                  |     |              |        |
|              |                  |     |              |        |
|              |                  |     |              |        |
|              |                  |     |              |        |
| <b>Total</b> |                  |     |              |        |

**Example # 20.1:** Prepare Adjusted Trial Balance for the year ending 31<sup>st</sup> December 2016 from the Trial Balance and adjustments of Mishal Company given below:

*Mishal Company*  
*Trial Balance*  
As on December 31<sup>st</sup>, 2016

| Description        | Debit              | Credit             |
|--------------------|--------------------|--------------------|
| Drawings           | 14,000             |                    |
| Capital Account    |                    | 80,000             |
| Supplies           | 55,000             |                    |
| Purchases          | 485,000            |                    |
| Sales              |                    | 610,000            |
| Sundry Debtors     | 80,000             |                    |
| Sundry Creditors   |                    | 60,500             |
| Sales Returns      | 5,000              |                    |
| Carriage Inwards   | 6,000              |                    |
| Salaries           | 28,000             |                    |
| Rent, Rates, Taxes | 15,000             |                    |
| Insurance Expense  | 4,000              |                    |
| Machinery          | 50,000             |                    |
| Furniture          | 5,000              |                    |
| Cash in hand       | 3,500              |                    |
| <b>Total</b>       | <b>Rs. 750,500</b> | <b>Rs. 750,500</b> |

**Adjustments:**

- ❖ Depreciate machinery @ 5% p.a. by written down method
- ❖ Outstanding Salaries Rs. 2,000
- ❖ Insurance paid in advance Rs. 500
- ❖ Maintain @ 5% allowance for doubtful debts on sundry debtors
- ❖ Supplies at the end of year of worth Rs. 20,000

**Solution:**

**General Journal**

| Date         | Account Title and Explanations | Ref | Amount (Rs)       |                   |
|--------------|--------------------------------|-----|-------------------|-------------------|
|              |                                |     | Debit             | Credit            |
| 2016         |                                |     |                   |                   |
| Dec 31       |                                |     |                   |                   |
| 31           |                                |     |                   |                   |
| 31           |                                |     |                   |                   |
| 31           |                                |     |                   |                   |
| 31           |                                |     |                   |                   |
| 31           |                                |     |                   |                   |
| <b>Total</b> |                                |     | <b>Rs. 44,000</b> | <b>Rs. 44,000</b> |

**Mishal Company**  
Adjusted Trial Balance  
As on December 31<sup>st</sup>, 2016

| Description | Debit | Credit |
|-------------|-------|--------|
|             |       |        |
|             |       |        |
|             |       |        |
|             |       |        |
|             |       |        |



**Adjustments:**

1. Rent received includes a deposit of Rs. 1,000 refundable to shop-keeper when the premises are vacated (Credit Unearned rent).
2. Outstanding Salary of manager on December 31, 2015 is Rs. 1,500.
3. Inventory in the shop on December 31, is Rs. 60,000.
4. Insurance Expense for the period July 1, 2015 to June 30, 2016.

**Solution 1: Corrected Trial Balance**

*AR Khan Co (Pvt.) Ltd.*

Trial Balance

As on 31<sup>st</sup> December, 2015

| S. No        | Heads of Accounts   | Ref | Amount (Rs.) |        |
|--------------|---------------------|-----|--------------|--------|
|              |                     |     | Debit        | Credit |
| 1            | Return outward      |     |              |        |
| 2            | Furniture           |     |              |        |
| 3            | Salaries            |     |              |        |
| 4            | Account Payables    |     |              |        |
| 5            | Bank                |     |              |        |
| 6            | Carriage Inward     |     |              |        |
| 7            | Rent Received       |     |              |        |
| 8            | Discount Allowed    |     |              |        |
| 9            | Purchases           |     |              |        |
| 10           | Bill Payable        |     |              |        |
| 11           | Account Receivables |     |              |        |
| 12           | Carriage Outward    |     |              |        |
| 13           | Owner Equity        |     |              |        |
| 14           | Machinery           |     |              |        |
| 15           | Return Inward       |     |              |        |
| 16           | Discount Received   |     |              |        |
| 17           | Insurance Expenses  |     |              |        |
| 18           | Sales               |     |              |        |
| 19           | Building            |     |              |        |
| <b>Total</b> |                     |     |              |        |

**Solution 2: Adjusted Entries**

**General Journal**

| Date         |    | Account Title and Explanations | Ref | Amount (Rs) |        |
|--------------|----|--------------------------------|-----|-------------|--------|
|              |    |                                |     | Debit       | Credit |
| 2007         |    |                                |     |             |        |
| Dec          | 31 |                                |     |             |        |
|              | 31 |                                |     |             |        |
|              | 31 |                                |     |             |        |
|              | 31 |                                |     |             |        |
| <b>Total</b> |    |                                |     |             |        |

**Solution 3: Adjusted Trial Balance**

*AR Khan Co (Pvt.) Ltd.*

Adjusted Trial Balance

*As on 31<sup>st</sup> December, 2015*

| S. No | Heads of Accounts | Ref | Amount (Rs.) |        |
|-------|-------------------|-----|--------------|--------|
|       |                   |     | Debit        | Credit |
|       |                   |     |              |        |
|       |                   |     |              |        |
|       |                   |     |              |        |
|       |                   |     |              |        |
|       |                   |     |              |        |
|       |                   |     |              |        |
|       |                   |     |              |        |
|       |                   |     |              |        |
|       |                   |     |              |        |
|       |                   |     |              |        |



**FINANCIAL STATEMENTS (INFORMAL)**

Financial statements are end results of financial accounting. It consists of Income Statement, Statement of Owner Equity and Balance Sheet.

**21.1 Income Statement**

- ✓ An Income Statement presents the results of a company's operations for a given reporting period
- ✓ It is called flow statement or period of time statement
- ✓ The Income Statement presents the Revenues earned and Expenses incurred by an entity during a specific time period
- ✓ Resultant figure known as Net Income/Profit (Excess of revenue over expenses) or Net Loss (Excess of expenses over revenue)
- ✓ Accounting period or year is the period of time covered by an Income Statement. It is usually one year. It can either be calendar year (Jan to Dec) or fiscal year (July to June)
- ✓ Income Statement includes revenue, expenses and net profit or loss which carry forward to statement of owner equity

*Idrees Sultan*  
*Income Statement*

For the Period / Year ended .....

| <i>Expenses</i> | <i>Debit</i> | <i>Revenue</i> | <i>Credit</i> |
|-----------------|--------------|----------------|---------------|
|                 |              |                |               |
|                 |              |                |               |
|                 |              |                |               |
|                 |              |                |               |
| <b>Total</b>    |              | <b>Total</b>   |               |

**19.2 Statement of Owner Equity**

- This is a statement, which shows the financial interest or claim of the owner
- Financial interest of the owner represents residual claim against assets of the business
- It includes initial investment plus any further investment and dividend or profit and less withdrawal or/and loss and closing balance which carry forward to balance sheet

*Saifullah Mir*  
*Statement of Owner Equity*

For the Period / Year ended .....

| <i>Description</i> | <i>Debit</i> | <i>Description</i> | <i>Credit</i> |
|--------------------|--------------|--------------------|---------------|
|                    |              |                    |               |
|                    |              |                    |               |
|                    |              |                    |               |
|                    |              |                    |               |
| <b>Total</b>       |              | <b>Total</b>       |               |

**19.3 Balance Sheet**

- It shows financial position or condition at a specific point in time
- Sometime balance sheet is known a statement of financial position or statement of condition
- A Financial Statement that summarizes a company's Assets, Liabilities and Owner Equity called Balance Sheet
- These three balance sheet segments give investors an idea as to what the company owns and owes, as well as the amount invested by the shareholders. The Balance Sheet must follow the following formula:

$$\text{Assets} = \text{Liabilities} + \text{Shareholders' Equity}$$

**Obaid Ur Rehman**

**Balance Sheet**

As on .....

| <i>Assets</i> | <i>Debit</i> | <i>Equities</i> | <i>Credit</i> |
|---------------|--------------|-----------------|---------------|
|               |              |                 |               |
|               |              |                 |               |
|               |              |                 |               |
|               |              |                 |               |
|               |              |                 |               |
|               |              |                 |               |
|               |              |                 |               |
|               |              |                 |               |
| <b>Total</b>  |              | <b>Total</b>    |               |

**Example # 19.1:** Following are the Adjusted Trial Balance related to Naeem & CO (Pvt.) Limited. Prepare Financial Statements (Income Statement, Statement of Owner Equity and Balance Sheet) for the year ended 31<sup>st</sup> March, 2017

**Naeem & CO (Pvt.) Ltd.**

*Adjusted Trial Balance*

For the Period Ended 31<sup>st</sup> March, 2017

*(Million Rupees)*

| S. No | Heads of Accounts   | Debit | Credit |
|-------|---------------------|-------|--------|
| 1     | Owner Equity        |       | 1,551  |
| 2     | Drawings            | 560   |        |
| 3     | Machinery           | 1,850 |        |
| 4     | Sales               |       | 5,850  |
| 5     | Account Receivables | 530   |        |
| 6     | Purchases           | 1,260 |        |
| 7     | Wages               | 364   |        |
| 8     | Bank Loan           |       | 356    |
| 9     | Account Payable     |       | 528    |
| 10    | Taxes               | 220   |        |
| 11    | Cash in Hand        | 226   |        |
| 12    | Note Payable        |       | 680    |
| 13    | Inventory           | 264   |        |





**Adjustments:**

1. Salary due to his shop assistants on December 31, 2016 is Rs. 800.
2. Rent includes Rs. 25,000 deposited as security (Debit Prepaid Rent).
3. Loan from Mr. Ahmed Ali taken on July 01, 2016 carries simple interest at the rate of 10%.
4. Inventory in the shop on December 31, 2016 is Rs. 35,000.
5. Insurance Expense for the period September 1, 2016 to August 31, 2017.

For Solution See  
[www.accountancyKnowledge.com](http://www.accountancyKnowledge.com)

**Solution 1 : Correction of Trial Balance**

*Purwa Shakeel (Pvt.) Ltd.*

*Trial Balance*

*As on 31<sup>st</sup> December, 2016*

| S. No        | Heads of Accounts    | Ref | Amount (Rs.)       |                    |
|--------------|----------------------|-----|--------------------|--------------------|
|              |                      |     | Debit              | Credit             |
| 1            | Salary               |     |                    |                    |
| 2            | Return Inward        |     |                    |                    |
| 3            | Rent Expense         |     |                    |                    |
| 4            | Sundry Debtors       |     |                    |                    |
| 5            | Loan from Ahmed Ali  |     |                    |                    |
| 6            | Cash in hand         |     |                    |                    |
| 7            | Cash at Bank         |     |                    |                    |
| 8            | Return Outward       |     |                    |                    |
| 9            | Sundry Creditors     |     |                    |                    |
| 10           | Interest Expense     |     |                    |                    |
| 11           | Capital Owner Equity |     |                    |                    |
| 12           | Sales                |     |                    |                    |
| 13           | Purchases            |     |                    |                    |
| 14           | Furniture            |     |                    |                    |
| 15           | Insurance Expenses   |     |                    |                    |
| 16           | Commission (Cr)      |     |                    |                    |
| <b>Total</b> |                      |     | <b>Rs. 203,300</b> | <b>Rs. 203,300</b> |

Solution 2: Adjustments Entries

General Journal

| Date         |    | Account Title and Explanations | Ref | Amount (Rs) |        |
|--------------|----|--------------------------------|-----|-------------|--------|
|              |    |                                |     | Debit       | Credit |
| 2016         |    |                                |     |             |        |
| Dec          | 31 |                                |     |             |        |
|              | 31 |                                |     |             |        |
|              | 31 |                                |     |             |        |
|              | 31 |                                |     |             |        |
|              | 31 |                                |     |             |        |
| <b>Total</b> |    |                                |     |             |        |

**Solution 3: Adjustments Trial Balance**

*Purwa Shakeel (Pvt.) Ltd.*

*Adjusted Trial Balance*

As on 31<sup>st</sup> December, 2016

| S. No        | Heads of Accounts    | Ref | Amount (Rs.) |        |
|--------------|----------------------|-----|--------------|--------|
|              |                      |     | Debit        | Credit |
| 1            | Salary               |     |              |        |
| 2            | Return Inward        |     |              |        |
| 3            | Rent Expense         |     |              |        |
| 4            | Sundry Debtors       |     |              |        |
| 5            | Loan from Ahmed Ali  |     |              |        |
| 6            | Cash in hand         |     |              |        |
| 7            | Cash at Bank         |     |              |        |
| 8            | Return Outward       |     |              |        |
| 9            | Sundry Creditors     |     |              |        |
| 10           | Interest Expense     |     |              |        |
| 11           | Capital Owner Equity |     |              |        |
| 12           | Sales                |     |              |        |
| 13           | Purchases            |     |              |        |
| 14           | Furniture            |     |              |        |
| 15           | Insurance Expenses   |     |              |        |
| 16           | Commission (Cr)      |     |              |        |
| 17           | Salary Payable       |     |              |        |
| 18           | Prepaid Rent         |     |              |        |
| 19           | Interest Payable     |     |              |        |
| 20           | Inventory            |     |              |        |
| 21           | Prepaid Insurance    |     |              |        |
| <b>Total</b> |                      |     |              |        |

**Solution 4: Income Statement (Informal)**

*Purwa Shakeel (Pvt.) Ltd.*  
*Income Statement*

For the Year ended 31<sup>st</sup> December, 2016

| <i>Expenses</i> | <i>Debit</i> | <i>Revenue</i> | <i>Credit</i> |
|-----------------|--------------|----------------|---------------|
|                 |              |                |               |
|                 |              |                |               |
|                 |              |                |               |
|                 |              |                |               |
|                 |              |                |               |
|                 |              |                |               |
|                 |              |                |               |
|                 |              |                |               |
| <b>Total</b>    |              | <b>Total</b>   |               |

**Solution 5: Statement of Owner Equity (Informal)**

*Purwa Shakeel (Pvt.) Ltd.*  
*Statement of Owner Equity*

For the Year ended 31<sup>st</sup> December, 2016

| <i>Description</i> | <i>Debit</i> | <i>Description</i> | <i>Credit</i> |
|--------------------|--------------|--------------------|---------------|
|                    |              |                    |               |
|                    |              |                    |               |
|                    |              |                    |               |
| <b>Total</b>       |              | <b>Total</b>       |               |

**Solution 6: Balance Sheet (Informal)**

*Purwa Shakeel (Pvt.) Ltd.*  
*Balance Sheet*

As on 31<sup>st</sup> December, 2016

| <i>Assets</i> | <i>Debit</i> | <i>Equities</i> | <i>Credit</i> |
|---------------|--------------|-----------------|---------------|
|               |              |                 |               |
|               |              |                 |               |
|               |              |                 |               |
|               |              |                 |               |
|               |              |                 |               |
|               |              |                 |               |
|               |              |                 |               |
| <b>Total</b>  |              | <b>Total</b>    |               |

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## CLOSING AND WORKSHEET

- ❖ As previously stated, revenue increase owner's equity and expenses and withdrawals (Drawings) by owner decrease owner's equity, all accounts relating to expense, revenues and drawing are called temporary accounts
- ❖ Assets (real accounts) and liabilities and Owner equity (Personal accounts) are permanent accounts
- ❖ At the end of financial period, temporary accounts (revenue and expenses) are closing by opening a new temporary account called Income Summary Account
- ❖ When revenue and expenses accounts have been closed than we need to close last nominal account i.e. Income Summary with Owner Equity account. Drawings are also closed with Owner Equity account
- ❖ The balances of Permanent accounts continue to exist beyond the current accounting period. The process of transferring the balances of the temporary accounts into owner's equity permanent account is called closing the accounts
- ❖ The journal entries made for the purpose of closing the temporary accounts are called closing entries
- ❖ It is common practice to close the accounts only once a year at the end of accounting period

### 22.1 Closing Entries for Revenue Accounts

- Revenue accounts have credit balances. Closing the revenue accounts are, therefore, mean transferring its credit balance to the Income Summary account
- This transfer is accomplished by a journal entry debiting the revenue accounts in an amount equal to its credit balance, with an offsetting credit to the Income Summary account
- The debit portion of this entry returns the balances of the revenue accounts to zero; the credit portion transfers to the former balances of the revenue accounts into the Income Summary account

#### General Journal

| Date | Account Title and Explanations                | Ref | Amount (Rs) |        |
|------|---|-----|-------------|--------|
|      |   |     | Debit       | Credit |
|      | Revenue Accounts                              |     | *****       |        |
|      | Income Summary                                |     |             | *****  |
|      | (Revenues closed with Income Summary account) |     |             |        |

### 22.2 Closing for Expense Accounts

- ♣ Expense Accounts have debit balances. Closing an expense account means transferring its debit balance to the Income Summary account.
- ♣ The Journal entry to close an expense account, therefore, consists of a credit to the expense account in an amount equal to its debit balance, with an offsetting debit to the Income Summary

#### General Journal

| Date | Account Title and Explanations                | Ref | Amount (Rs) |        |
|------|---|-----|-------------|--------|
|      |   |     | Debit       | Credit |
|      | Income Summary                                |     | *****       |        |
|      | Expenses Accounts                             |     |             | *****  |
|      | (Expenses closed with Income Summary account) |     |             |        |

### 22.3 Closing Income Summary Account

- ❖ After closing revenue and expenses with Income Summary Account, next step is to close Income Summary account, because it is also nominal account and must close at the end of each account period
- ❖ If Income Summary account has credit balance means it is profit and if Income Summary account reflects debit balance suggested lose by business operation
- ❖ Income Summary account will closed against permanent account of Owner Equity

*For Profit*

#### General Journal

| Date | Account Title and Explanations                     | Ref | Amount (Rs) |        |
|------|--|-----|-------------|--------|
|      |  |     | Debit       | Credit |
|      | Income Summary                                     |     | *****       |        |
|      | Owner's Equity                                     |     |             | *****  |
|      | (Income Summary Profit closed with Owner's Equity) |     |             |        |

*For Loss*

#### General Journal

| Date | Account Title and Explanations                   | Ref | Amount (Rs) |        |
|------|--|-----|-------------|--------|
|      |  |     | Debit       | Credit |
|      | Owner's Equity                                   |     | *****       |        |
|      | Income Summary                                   |     |             | *****  |
|      | (Income Summary Loss closed with Owner's Equity) |     |             |        |

### 22.4 Closing the Owner's Drawing Account

- ✓ Withdrawals of cash or other assets by owner are not considered as an expense of the business and, therefore, are not a factor in determining the income for the period ended
- ✓ Since drawing account is not closed by the Income Summary account but directly to Owner equity account
- ✓ For closing drawing, the closing entry as

#### General Journal

| Date | Account Title and Explanations             | Ref | Amount (Rs) |        |
|------|--|-----|-------------|--------|
|      |  |     | Debit       | Credit |
|      | Owner Equity                               |     | *****       |        |
|      | Drawing                                    |     |             | *****  |
|      | (Drawing closed with Owner Equity account) |     |             |        |

### 22.5 Summary of the Closing Entries

Let us now summarize the process of closing the accounts

1. Close the various Revenue accounts by transferring their balances into the Income Summary account
2. Close the various Expense accounts by transferring its balances in to the Income Summary account
3. Close the Income Summary account by transferring its balance into the Owner equity account
4. Close the owner's drawing account into the Owner equity account. (The balance of the Owner equity account in the ledger will now be the same as the amount of owner's equity appearing in the Balance Sheet)

**Example # 22.1:** The following Adjusted Trial Balance was extracted from the books of Anees & Sons on 31<sup>st</sup> December, 2015. From this you are required to pass closing entries

| Particulars                       | Debit              | Credit             |
|-----------------------------------|--------------------|--------------------|
|                                   | Rs.                | Rs.                |
| Cash                              | 5,000              |                    |
| Accounts receivable               | 9,000              |                    |
| Merchandise inventory on 1.1.2015 | 6,000              |                    |
| Plant and machinery               | 74,000             |                    |
| Land and building                 | 80,000             |                    |
| Furniture and fixtures            | 2,600              |                    |
| Owner's equity                    |                    | 136,000            |
| Accounts payable                  |                    | 3,800              |
| Purchases                         | 10,000             |                    |
| Salary payable                    |                    | 2,800              |
| Sales                             |                    | 70,000             |
| Rent expense                      | 4,600              |                    |
| Drawing                           | 2,000              |                    |
| Insurance prepaid                 | 3,400              |                    |
| Advertising expense               | 4,000              |                    |
| Salaries expense                  | 12,000             |                    |
| <b>Total</b>                      | <b>Rs. 212,600</b> | <b>Rs. 212,600</b> |

#### General Journal

| Date | Account Title and Explanations | Ref | Amount (Rs.) |        |
|------|--------------------------------|-----|--------------|--------|
|      |                                |     | Debit        | Credit |
| 2015 |                                |     |              |        |
|      | (i)                            |     |              |        |

|              |  |  |  |  |
|--------------|--|--|--|--|
| (ii)         |  |  |  |  |
| (iii)        |  |  |  |  |
| (iv)         |  |  |  |  |
| <b>Total</b> |  |  |  |  |

**22.6 Post-Closing Trial Balance**

After the revenue and expense accounts have been closed, it is desirable to prepare post closing trial balance. This trial balance has same total as appears in Balance Sheet

*Example # 22.2:* Prepare post closing trial balance for example # 22.1 after closing

**Anees Fida Swati**  
*Post Closing Trial Balance*  
 As on 31<sup>st</sup> December, 2015

| Heads of Accounts | Debit | Credit |
|-------------------|-------|--------|
|                   | Rs.   | Rs.    |
|                   |       |        |
|                   |       |        |
|                   |       |        |
|                   |       |        |
|                   |       |        |
|                   |       |        |
|                   |       |        |
|                   |       |        |
|                   |       |        |
|                   |       |        |
| <b>Total</b>      |       |        |

**22.7 Worksheet**

- A worksheet often refers to a loose piece of paper used by accountant for showing informal accounting statements
- A worksheet is not a permanent accounting record
- A valuable tool useful to help summarize and move data from the trial balance to the informal financial statements is a work sheet

**Example # 22.3:** COMSATS' Consulting Services (CCS) was established in 1999. The company adjusts and closes its accounts at the end of the current accounting period. At December 31<sup>st</sup>, 2016 the balances in the ledger accounts prior to making adjusting entries. You are required to pass adjusting, closing entries and worksheet.

**Comsats' Consulting Services (CCS)**

Trial Balance

As on December 31<sup>st</sup>, 2016

| S #          | Chart of Accounts                    | Ref | Dr                 | Cr                 |
|--------------|--------------------------------------|-----|--------------------|--------------------|
| 1            | Cash                                 |     | \$ 12,540          |                    |
| 2            | Prepaid Office Rent                  |     | 3,300              |                    |
| 3            | Prepaid Dues and Subscriptions       |     | 960                |                    |
| 4            | Supplies                             |     | 1,300              |                    |
| 5            | Equipment                            |     | 20,000             |                    |
| 6            | Accumulated Depreciation _ Equipment |     |                    | \$ 1,200           |
| 7            | Note Payable                         |     |                    | 5,000              |
| 8            | Unearned Consulting Fee              |     |                    | 35,650             |
| 9            | Owner Equity                         |     |                    | 17,040             |
| 10           | Drawings                             |     | 27,000             |                    |
| 11           | Consulting Fee earned                |     |                    | 90,860             |
| 12           | Salaries Expenses                    |     | 66,900             |                    |
| 13           | Telephone Expenses                   |     | 2,550              |                    |
| 14           | Rent Expenses                        |     | 11,000             |                    |
| 15           | Miscellaneous Expenses               |     | 4,200              |                    |
| <b>Total</b> |                                      |     | <b>Rs. 149,750</b> | <b>Rs. 149,750</b> |

**Other Data**

- (a) In December 1<sup>st</sup>, 2016, the company signed a new rental agreement and paid three months' rent in advance at a rate of Rs. 1,100 per month. This advance payment was debited to the Prepaid Rent account
- (b) The useful life of the equipment has been estimated at 10 years from date of acquisition. NO depreciation expense has been recorded for the current year
- (c) Dues and Subscriptions expired during the period in total amount of Rs. 710
- (d) Consulting Services valued at Rs. 32,550 were rendered during the account year for clients who had made payment in advance
- (e) Salaries earned by employees but not yet paid amounted to Rs. 2,200 at December
- (f) An estimate of supplies on hand was made at December 31. The estimated cost of the unused supplies was Rs. 450
- (g) Accrued interest on Note Payable amounted to Rs. 100 at year-end (Set up accounts for Interest Expense and for Interest Payable)

General Journal

| Date         |       | Account Title and Explanations | Ref | Amount (Rs.) |        |
|--------------|-------|--------------------------------|-----|--------------|--------|
|              |       |                                |     | Debit        | Credit |
| 2016         |       |                                |     |              |        |
| Dec          | (a)   |                                |     |              |        |
|              | (b)   |                                |     |              |        |
|              | (c)   |                                |     |              |        |
|              | (d)   |                                |     |              |        |
|              | (e)   |                                |     |              |        |
|              | (f)   |                                |     |              |        |
|              | (g)   |                                |     |              |        |
|              | (i)   |                                |     |              |        |
|              | (ii)  |                                |     |              |        |
|              | (iii) |                                |     |              |        |
|              | (iv)  |                                |     |              |        |
| <b>Total</b> |       |                                |     |              |        |



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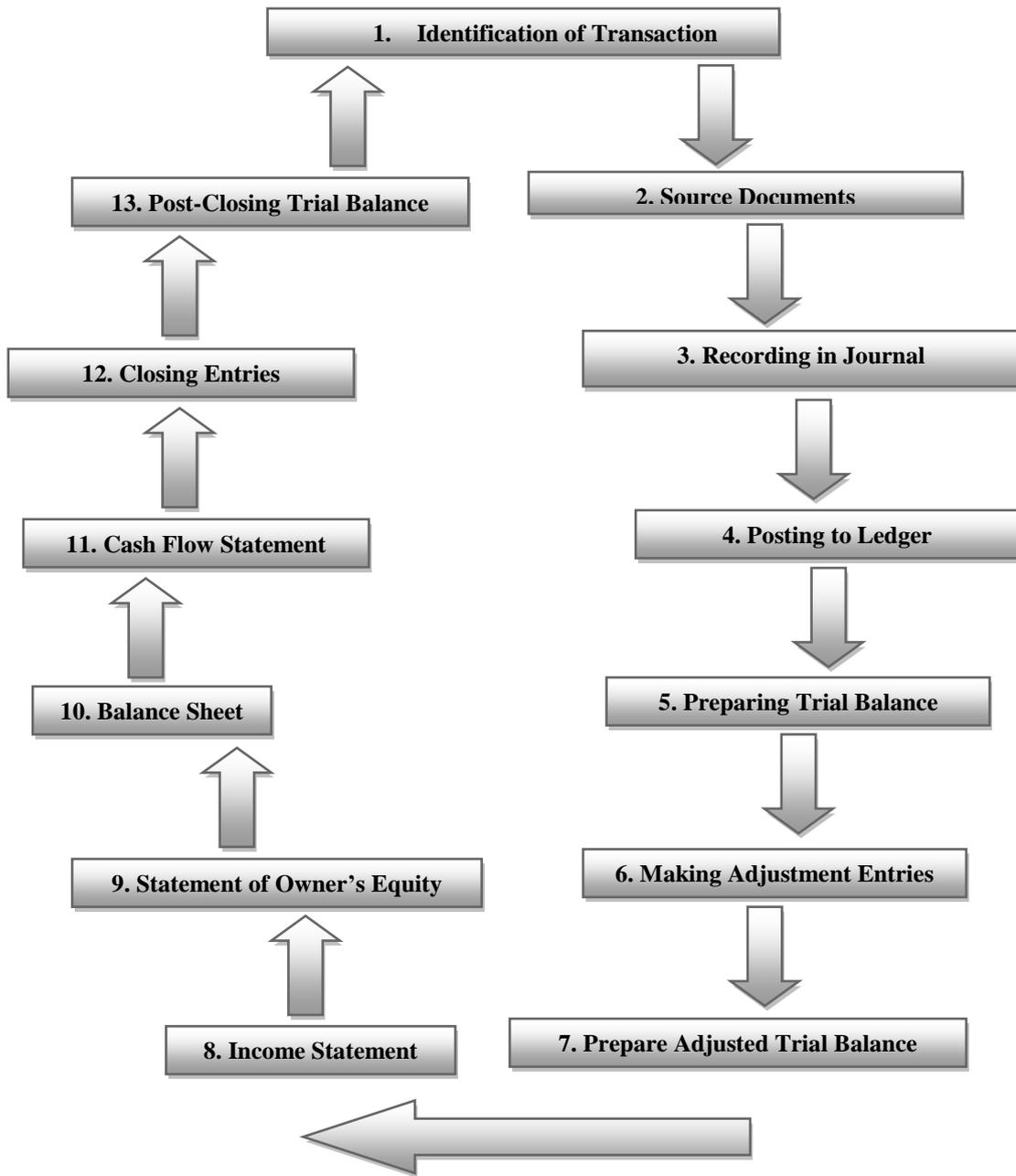
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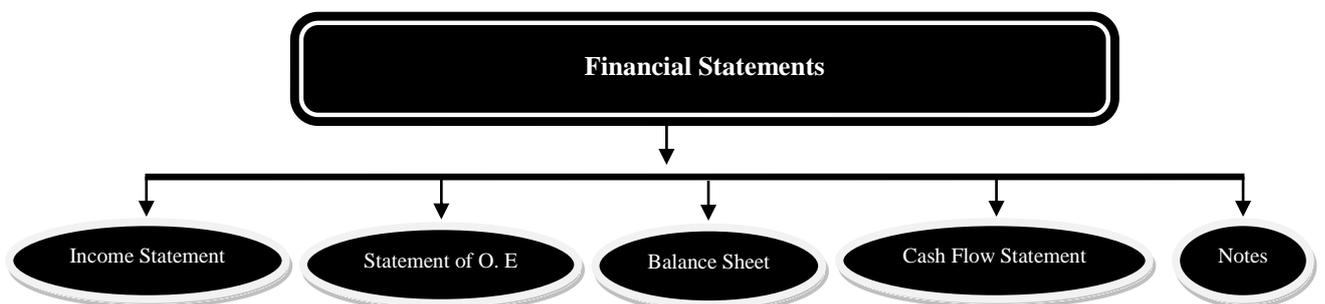
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**Financial Statements**



**23.1 Financial Statements (Non-Corporate)**



**23.1.1 Income Statement**

- An income statement presents the revenues and expenses and resulting net income or net loss for a specific period of time.
- It shows result of operation for a certain time period.
- Income statement is sometime called ‘flow statement’ or ‘period of time’ statement.

| PIONEER ADVERTISING AGENCY           |         |          |
|--------------------------------------|---------|----------|
| Income Statement                     |         |          |
| For the Month Ended October 31, 2010 |         |          |
| Revenues                             |         |          |
| Service revenue                      |         | \$10,600 |
| Expenses                             |         |          |
| Salaries expense                     | \$5,200 |          |
| Advertising supplies expense         | 1,500   |          |
| Rent expense                         | 900     |          |
| Insurance expense                    | 50      |          |
| Interest expense                     | 50      |          |
| Depreciation expense                 | 40      |          |
| Total expenses                       | 7,740   |          |
| Net income                           |         | \$ 2,860 |

**23.3 Statement of Owner’s Equity**

- An owner’s equity statement summarizes the changes in owner’s equity for a specific period of time.
- In case of company this statement is also called statement of shareholder’s equity or statement of retained earnings.

| PIONEER ADVERTISING AGENCY           |          |          |
|--------------------------------------|----------|----------|
| Owner’s Equity Statement             |          |          |
| For the Month Ended October 31, 2010 |          |          |
| C. R. Byrd, Capital, October 1       |          | \$ -0-   |
| Add: Investments                     | \$10,000 |          |
| Net income                           | 2,860    | 12,860   |
|                                      |          | 12,860   |
| Less: Drawings                       |          | 500      |
| C. R. Byrd, Capital, October 31      |          | \$12,360 |

**23.4 Balance Sheet**

- Balance sheet reports the assets, liabilities, and owner’s equity at a specific date.
- This statement show financial position for a specific point in time.
- Balance sheet also called statement of financial position or statement financial condition.

| <b>PIONEER ADVERTISING AGENCY</b><br>Balance Sheet<br>October 31, 2010 |              |                        |
|--|--------------|------------------------|
| <u>Assets</u>  |              |                        |
| Cash   |              | \$15,200               |
| Accounts receivable  |              | 200                    |
| Advertising supplies   |              | 1,000                  |
| Prepaid insurance  |              | 550                    |
| Office equipment   | \$5,000      |                        |
| Less: Accumulated depreciation   | <u>40</u>    | <u>4,960</u>           |
| Total assets   |              | <u><u>\$21,910</u></u> |
| <u>Liabilities and Owner's Equity</u>                                  |              |                        |
| Liabilities  |              |                        |
| Notes payable  | \$5,000      |                        |
| Accounts payable   | 2,500        |                        |
| Interest payable   | 50           |                        |
| Unearned revenue   | 800          |                        |
| Salaries payable   | <u>1,200</u> |                        |
| Total liabilities  |              | \$ 9,550               |
| Owner's equity   |              |                        |
| C. R. Byrd, Capital  |              | <u>12,360</u>          |
| Total liabilities and owner's equity                                   |              | <u><u>\$21,910</u></u> |

**Financial Statements of Joan Robinson, Attorney**

| <b>Joan Robinson, Attorney</b><br>Income Statement<br>Month Ended July 31, 2012 |            |                       |
|---|------------|-----------------------|
| Revenues  |            |                       |
| Service revenue   |            | \$3,500               |
| Expenses  |            |                       |
| Rent expense  | \$800      |                       |
| Salaries and wages expense  | 500        |                       |
| Utilities expense   | 300        |                       |
| Supplies expense  | <u>100</u> |                       |
| Total expenses  |            | <u>1,700</u>          |
| Net income  |            | <u><u>\$1,800</u></u> |

**Joan Robinson, Attorney**  
**Owner's Equity Statement**  
 Month Ended July 31, 2012

|                          |          |          |
|--------------------------|----------|----------|
| Owner's capital, July 1  |          | \$ 0     |
| Add: Investments         | \$11,000 |          |
| Net income               | 1,800    | 12,800   |
|                          |          | 12,800   |
| Less: Drawings           |          | 1,000    |
| Owner's capital, July 31 |          | \$11,800 |

**Joan Robinson, Attorney**  
**Balance Sheet**  
 July 31, 2012

Assets

|                     |  |          |
|---------------------|--|----------|
| Cash                |  | \$10,500 |
| Accounts receivable |  | 2,000    |
| Equipment           |  | 3,000    |
| Total assets        |  | \$15,500 |

Liabilities and Owner's Equity

|                                      |  |          |
|--------------------------------------|--|----------|
| <b>Liabilities</b>                   |  |          |
| Notes payable                        |  | \$ 700   |
| Accounts payable                     |  | 3,000    |
| Total liabilities                    |  | 3,700    |
| <b>Owner's equity</b>                |  |          |
| Owner's capital                      |  | 11,800   |
| Total liabilities and owner's equity |  | \$15,500 |

Format of Financial Statements

| Softbyte<br>Income Statement<br>For the Month Ended September 30, 2012 |            |                        |
|--|------------|------------------------|
| Revenues   |            |                        |
| Service revenue  |            | \$ 4,700               |
| Expenses   |            |                        |
| Salaries and wages expense   | \$900      |                        |
| Rent expense   | 600        |                        |
| Advertising expense  | 250        |                        |
| Utilities expense  | <u>200</u> |                        |
| Total expenses   |            | 1,950                  |
| Net income   |            | <u><b>\$ 2,750</b></u> |

| Softbyte<br>Owner's Equity Statement<br>For the Month Ended September 30, 2012 |              |                        |
|--|--------------|------------------------|
| Owner's capital, September 1   |              | \$ -0-                 |
| Add: Investments   | \$15,000     |                        |
| Net income   | <u>2,750</u> | 17,750                 |
|  |              | 17,750                 |
| Less: Drawings   |              | <u>1,300</u>           |
| Owner's capital, September 30  |              | <u><b>\$16,450</b></u> |

| Softbyte<br>Balance Sheet<br>September 30, 2012 |  |                        |
|---|--|------------------------|
| <b>Assets</b>                                   |  |                        |
| Cash  |  | <b>\$ 8,050</b>        |
| Accounts receivable                             |  | 1,400                  |
| Supplies  |  | 1,600                  |
| Equipment                                       |  | <u>7,000</u>           |
| Total assets                                    |  | <u><b>\$18,050</b></u> |
| <b>Liabilities and Owner's Equity</b>           |  |                        |
| Liabilities                                     |  |                        |
| Accounts payable                                |  | \$ 1,600               |
| Owner's equity                                  |  |                        |
| Owner's capital                                 |  | <u><b>16,450</b></u>   |
| Total liabilities and owner's equity            |  | <u><b>\$18,050</b></u> |

| Softbyte<br>Statement of Cash Flows<br>For the Month Ended September 30, 2012 |                |                        |
|---|----------------|------------------------|
| Cash flows from operating activities  |                |                        |
| Cash receipts from revenues   |                | \$ 3,300               |
| Cash payments for expenses  |                | <u>(1,950)</u>         |
| Net cash provided by operating activities                                     |                | 1,350                  |
| Cash flows from investing activities  |                |                        |
| Purchase of equipment   |                | (7,000)                |
| Cash flows from financing activities  |                |                        |
| Investments by owner  | \$15,000)      |                        |
| Drawings by owner   | <u>(1,300)</u> | 13,700                 |
| Net increase in cash  |                | 8,050                  |
| Cash at the beginning of the period   |                | <u>0</u>               |
| Cash at the end of the period   |                | <u><b>\$ 8,050</b></u> |

Financial Statements of Joan Robinson, Attorney

Adapted Comparative Income Statements for Safeway

Safeway, Inc.  
Comparative Income Statement  
For Years Ended 2008 and 2007  
(amounts in millions)

|   | 2008        | 2007        |
|---|-------------|-------------|
| Sales   | \$ 44,104.0 | \$ 42,286.0 |
| Cost of goods sold                                    | (31,589.2)  | (30,133.1)  |
| Gross profit  | \$ 12,514.8 | \$ 12,152.9 |
| Operating and administrative expense                  | (10,662.1)  | (10,380.8)  |
| Operating profit                                      | \$ 1,852.7  | \$ 1,772.1  |
| Interest expense                                      | (358.7)     | (388.9)     |
| Other income, net                                     | 10.6        | 20.4        |
| Income from continuing operations before income taxes | \$ 1,504.6  | \$ 1,403.6  |
| Income taxes  | (539.3)     | (515.2)     |
| Net income  | \$ 965.3    | \$ 888.4    |
| BASIC EARNINGS PER SHARE:                             | \$ 2.23     | \$ 2.02     |

Illustrated Statement of Retained Earnings for Safeway

Safeway, Inc.  
Illustrated Statement of Retained Earnings  
For the Year Ended January 3, 2009  
(amounts in millions)

|  |                  |
|--|------------------|
| Retained earnings, December 30, 2007 ..... | \$6,829.5        |
| Plus net income for the year .....         | 965.3            |
|  | <u>\$7,794.8</u> |
| Less dividends .....                       | (137.3)          |
| Retained earnings, January 3, 2009 .....   | <u>\$7,657.5</u> |

## Classified Balance Sheets for Safeway

**Safeway Inc.**  
**Comparative Balance Sheet**  
**Year-End 2008 and 2007**  
 (amounts in millions)

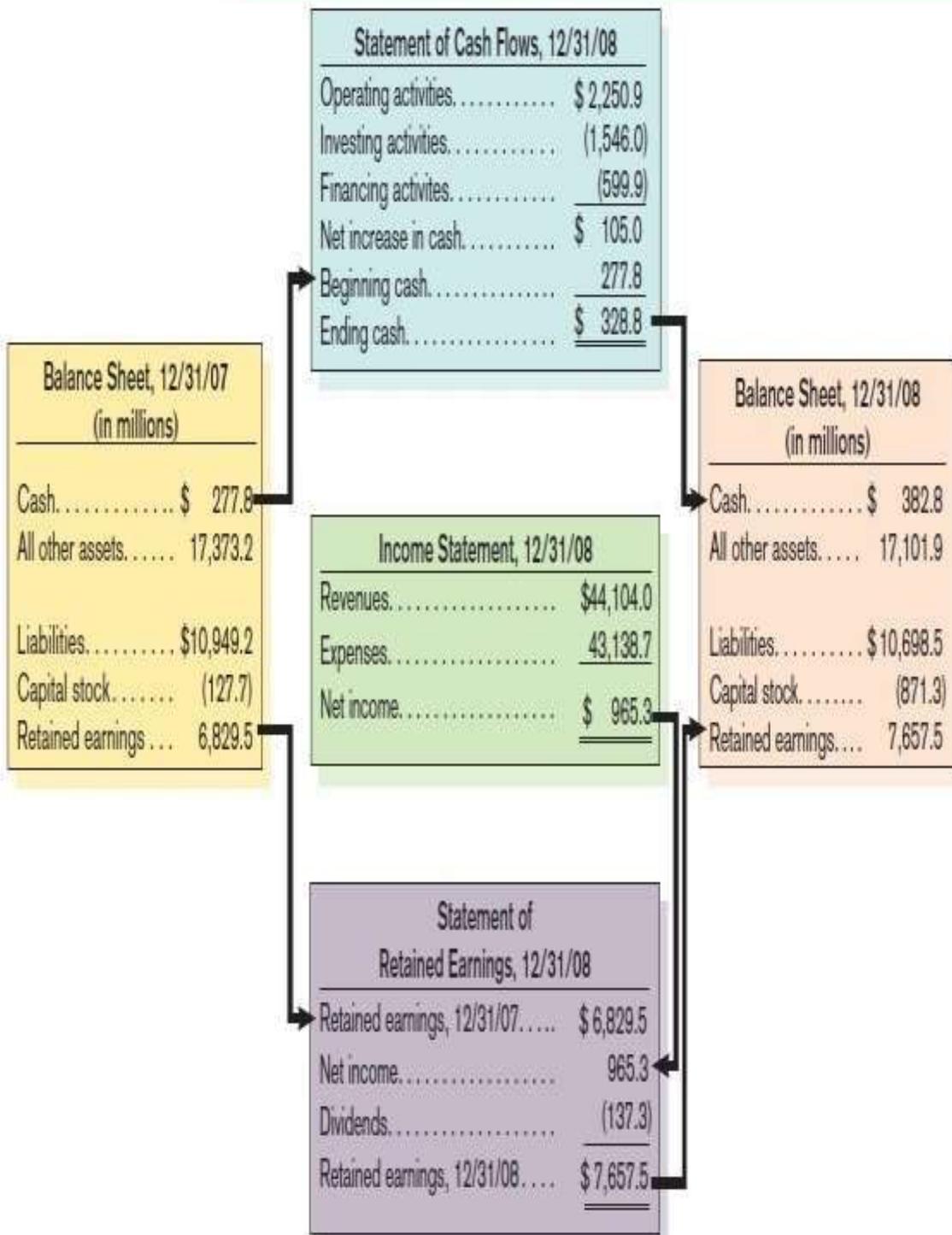
|   | 2008              | 2007              |
|---|-------------------|-------------------|
| <b>ASSETS</b>   |                   |                   |
| Current assets:   |                   |                   |
| Cash and equivalents  | \$ 382.8          | \$ 277.8          |
| Receivables   | 515.1             | 577.9             |
| Merchandise inventories, net of LIFO reserve of \$98.3 and \$63.4                                     | 2,591.4           | 2,797.8           |
| Prepaid expenses and other current assets   | 486.9             | 354.0             |
| Total current assets  | <u>\$ 3,976.2</u> | <u>\$ 4,007.5</u> |
| Property, plant & equipment:  |                   |                   |
| Land  | \$ 1,588.6        | \$ 1,597.1        |
| Plant and equipment   | 18,103.7          | 17,827.1          |
|   | <u>\$19,692.3</u> | <u>\$19,424.2</u> |
| Less accumulated depreciation and amortization  | (9,049.2)         | (8,802.2)         |
| Total property, net   | \$10,643.1        | \$10,622.0        |
| Goodwill  | 2,390.2           | 2,406.3           |
| Other assets  | 475.2             | 615.2             |
| Total assets  | <u>\$17,484.7</u> | <u>\$17,651.0</u> |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>   |                   |                   |
| Current liabilities:  |                   |                   |
| Current portion of long-term debt   | \$ 799.0          | \$ 997.4          |
| Accounts payable  | 2,448.5           | 2,825.4           |
| Accrued salaries and wages  | 450.3             | 506.7             |
| Deferred income taxes   | 107.2             | 88.0              |
| Other accrued liabilities   | 694.2             | 718.9             |
| Total current liabilities   | <u>\$ 4,499.2</u> | <u>\$ 5,136.4</u> |
| Long-term debt:   |                   |                   |
| Notes and debentures  | \$ 4,184.2        | \$ 4,093.5        |
| Obligations under capital leases  | 516.6             | 564.2             |
| Total long-term debt  | <u>\$ 4,700.8</u> | <u>\$ 4,657.7</u> |
| Deferred income taxes   | 249.6             | 254.7             |
| Pension and postretirement benefit obligations  | 597.2             | 236.7             |
| Accrued claims and other liabilities  | 651.7             | 663.7             |
| Total liabilities   | <u>\$10,698.5</u> | <u>\$10,949.2</u> |
| Stockholders' equity:   |                   |                   |
| Common stock: par value \$0.01 per share; 1,500 shares authorized; 590.7 and 589.3 shares outstanding | \$ 5.9            | \$ 5.9            |
| Additional capital stock  | 4,128.3           | 4,038.2           |
| Treasury stock at cost; 161.8 and 149.2 shares  | (4,776.8)         | (4,418.0)         |
| Accumulated other comprehensive (loss) income   | (228.7)           | 246.2             |
| Retained earnings   | 7,657.5           | 6,829.5           |
| Total stockholders' equity  | <u>\$ 6,786.2</u> | <u>\$ 6,701.8</u> |
| Total liabilities and stockholders' equity  | <u>\$17,484.7</u> | <u>\$17,651.0</u> |

## Adapted Statement of Cash Flows for Safeway Inc.

### Safeway, Inc. and Subsidiaries Consolidated Statements of Cash Flows For Year Ended December 2008 and 2007 (amounts in millions)

| CASH FLOWS FROM OPERATING ACTIVITIES        | 2008       | 2007       |
|---|------------|------------|
| Cash collected from customers               | \$44,166.8 | \$42,169.3 |
| Cash paid for                               |            |            |
| Inventory                                   | (31,759.7) | (29,927.4) |
| Operating and administrative expenses       | (9,312.1)  | (9,252.1)  |
| Interest                                    | (379.7)    | (406.3)    |
| Taxes                                       | (464.4)    | (393.0)    |
| NET CASH FLOWS FROM OPERATING ACTIVITIES    | 2,250.9    | 2,190.5    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b> |            |            |
| Cash paid for property additions            | (1,595.7)  | (1,768.7)  |
| Proceeds from sale of property              | 97.8       | 140.0      |
| Other                                       | (48.1)     | (57.7)     |
| NET CASH FLOWS USED BY INVESTING ACTIVITIES | (1,546.0)  | (1,686.4)  |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b> |            |            |
| Additions to short-term borrowings          | —          | 285.0      |
| Payments on short-term borrowings           | (95.0)     | (190.0)    |
| Additions to long-term borrowings           | 2,130.0    | 1,864.6    |
| Payments on long-term borrowing             | (2,165.0)  | (2,220.9)  |
| Purchase of treasury stock                  | (359.5)    | (226.1)    |
| Dividends paid                              | (132.1)    | (111.5)    |
| Other                                       | 21.7       | 156.0      |
| NET CASH FLOWS USED BY FINANCING ACTIVITIES | (599.9)    | (442.9)    |
| INCREASE IN CASH FOR THE PERIOD             | \$ 105.0   | \$ 61.2    |

## How the Financial Statements Tie Together



**STATEMENT OF FINANCIAL POSITION**

AS AT SEPTEMBER 30, 2024

|  | Note | 2024<br>(Rupees in thousand) | 2023              |
|--|------|------------------------------|-------------------|
| <b>ASSETS</b>  |      |                              |                   |
| <b>NON-CURRENT ASSETS</b>  |      |                              |                   |
| Property, plant and equipment  | 5    | 1,406,345                    | 1,430,312         |
| Investment property  | 6    | 148                          | 164               |
| Right-of-use assets  | 7    | 8,686                        | 15,350            |
| Long-term investments  | 8    | 200,233                      | 123,638           |
| Long-term loans  | 9    | 87                           | 236               |
| Long-term deposits   |      | 19,461                       | 19,961            |
|  |      | <u>1,634,960</u>             | <u>1,589,661</u>  |
| <b>Current Assets</b>  |      |                              |                   |
| Biological assets  | 10   | 5,162                        | 2,136             |
| Stores and spares  | 11   | 280,214                      | 303,334           |
| Stock-in-trade   | 12   | 5,019,124                    | 3,836,955         |
| Trade debts  | 13   | 640,984                      | 252,804           |
| Loans and advances   | 14   | 3,147,405                    | 3,690,273         |
| Trade deposits and short term prepayments  | 15   | 76,675                       | 14,615            |
| Short-term investments   | 16   | 1,142,489                    | 2,645,062         |
| Other receivables  | 17   | 36,378                       | 40,907            |
| Interest accrued   | 18   | 1,615                        | 1,930             |
| Income tax refunds due from the government   | 19   | 74,877                       | -                 |
| Cash and bank balances   | 20   | 86,062                       | 67,929            |
|  |      | <u>10,510,985</u>            | <u>10,855,945</u> |
| <b>Total Assets</b>  |      | <u>12,145,945</u>            | <u>12,445,606</u> |
| <b>EQUITY AND LIABILITIES</b>  |      |                              |                   |
| <b>Share Capital and Reserves</b>  |      |                              |                   |
| Authorized capital<br>40,000,000 (2023: 40,000,000) shares of Rs. 10 each                              |      | 400,000                      | 400,000           |
| Issued, subscribed and paid-up capital<br>17,362,300 (2023: 17,362,300) ordinary shares of Rs. 10 each | 21   | 173,623                      | 173,623           |
| Accumulated reserves   | 22   | 7,827,609                    | 6,749,201         |
|  |      | <u>8,001,232</u>             | <u>6,922,824</u>  |
| <b>Non-Current Liabilities</b>   |      |                              |                   |
| Lease liability  | 23   | -                            | 8,695             |
| Market committee fee payable   | 24   | 20,226                       | 19,722            |
| Deferred taxation  | 25   | 43,972                       | 107,364           |
|  |      | <u>64,198</u>                | <u>135,781</u>    |
| <b>Current Liabilities</b>   |      |                              |                   |
| Trade and other payables   | 26   | 1,404,320                    | 2,498,437         |
| Accrued markup   | 27   | 15,398                       | 49,508            |
| Short-term borrowings  | 28   | 2,572,749                    | 2,747,938         |
| Current portion of non-current liabilities   | 29   | 11,531                       | 6,655             |
| Unclaimed dividend   | 30   | 63,671                       | 62,516            |
| Provision for levy and taxation  | 31   | 12,846                       | 21,947            |
|  |      | <u>4,080,515</u>             | <u>5,387,001</u>  |
| <b>Total Equity and Liabilities</b>  |      | <u>12,145,945</u>            | <u>12,445,606</u> |
| <b>Contingencies and Commitments</b>   | 32   |                              |                   |

The annexed notes from 1 to 54 form an integral part of these financial statements.



**Asim Ghani**  
Chief Executive Officer



**Darakshan Zohaib**  
Director



**Samir Hajani**  
Chief Financial Officer

## STATEMENT OF PROFIT OR LOSS

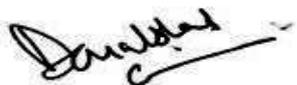
FOR THE YEAR ENDED SEPTEMBER 30, 2024

|   | Note | 2024<br>(Rupees in thousand) | 2023<br>(Restated) |
|---|------|------------------------------|--------------------|
| Sales - net                                   | 33   | 16,507,771                   | 14,569,235         |
| Cost of sales                                 | 34   | (12,896,144)                 | (9,594,352)        |
| <b>Gross profit</b>                           |      | <b>3,611,627</b>             | <b>4,974,883</b>   |
| Distribution cost                             | 35   | (1,213,219)                  | (401,555)          |
| Administrative expenses                       | 36   | (178,932)                    | (169,820)          |
| Other operating expenses                      | 37   | (143,189)                    | (232,089)          |
|   |      | <b>(1,535,340)</b>           | <b>(803,464)</b>   |
| Operating profit                              |      | <b>2,076,287</b>             | 4,171,419          |
| Finance cost                                  | 38   | (508,923)                    | (377,827)          |
| Other income                                  | 39   | 213,190                      | 210,688            |
| <b>Profit before levy and taxation</b>        |      | <b>1,780,554</b>             | 4,004,280          |
| Levy  | 40   | (154,963)                    | (120,079)          |
| <b>Profit before taxation</b>                 |      | <b>1,625,591</b>             | 3,884,201          |
| Taxation                                      | 40   | (74,909)                     | (199,584)          |
| <b>Profit for the year</b>                    |      | <b>1,550,682</b>             | <b>3,684,617</b>   |
| <b>Earnings per share - Basic and diluted</b> | 41   | <b>89.31</b>                 | 212.22             |

The annexed notes from 1 to 54 form an integral part of these financial statements.



**Asim Ghani**  
Chief Executive Officer



**Darakshan Zohaib**  
Director



**Samir Hajani**  
Chief Financial Officer

# STATEMENT OF OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED SEPTEMBER 30, 2024

|   | 2024<br>(Rupees in thousand) | 2023             |
|---|------------------------------|------------------|
| <b>Profit after taxation</b>  | <b>1,550,682</b>             | <b>3,684,617</b> |
| <b>Other comprehensive income for the year</b>  |                              |                  |
| Items that will not be reclassified to statement of profit or loss account in subsequent periods            |                              |                  |
| Gain / (loss) on remeasurement of investments at fair value through other comprehensive income - net of tax | <b>73,170</b>                | (14,665)         |
| (Loss) / gain on remeasurement of defined benefit obligation - net of tax                                   | <b>(7,212)</b>               | 36,204           |
|   | <b>65,958</b>                | 21,539           |
| <b>Total comprehensive income for the year</b>  | <b>1,616,640</b>             | <b>3,706,156</b> |

The annexed notes from 1 to 54 form an integral part of these financial statements.



**Asim Ghani**  
Chief Executive Officer



**Darakshan Zohaib**  
Director



**Samir Hajani**  
Chief Financial Officer

# STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED SEPTEMBER 30, 2024

| Issued, subscribed and paid-up capital   | RESERVES         |                       |                  |  |                  | Total Reserves   | Total Share holder's Equity |
|--|------------------|-----------------------|------------------|--|------------------|------------------|-----------------------------|
|  | Revenue reserves |                       |                  | Capital reserves Unrealized (loss)/gain on investment at fair value through other comprehensive income | Total Reserves   |                  |                             |
|  | General reserve  | Unappropriated profit | Sub total        |  |                  |                  |                             |
| (Rupees in thousand)   |                  |                       |                  |  |                  |                  |                             |
| <b>Balance as at October 1, 2022</b>   | 173,623          | 1,458,000             | 3,102,720        | 4,560,720  | (128,690)        | 4,432,030        | 4,605,653                   |
| <b>Total other comprehensive income for the year</b>   |                  |                       |                  |  |                  |                  |                             |
| <b>Profit after taxation</b>   | -                | -                     | 3,684,617        | 3,684,617  | -                | 3,684,617        | 3,684,617                   |
| <b>Other comprehensive income for the year</b>   |                  |                       |                  |  |                  |                  |                             |
| Loss on remeasurement of investments at fair value through other comprehensive income              | -                | -                     | -                | -  | (14,665)         | (14,665)         | (14,665)                    |
| Gain on remeasurement of defined benefit obligation - net of tax                                   | -                | -                     | 36,204           | 36,204   | -                | 36,204           | 36,204                      |
| <b>Total comprehensive income for the year</b>   | -                | -                     | 3,720,821        | 3,720,821  | (14,665)         | 3,706,156        | 3,706,156                   |
| <b>Transactions with owners</b>  |                  |                       |                  |  |                  |                  |                             |
| Final Dividend 2022: Rs. 30 per share  | -                | -                     | (520,869)        | (520,869)  | -                | (520,869)        | (520,869)                   |
| Interim Dividend 2023: Rs. 10 per share  | -                | -                     | (173,623)        | (173,623)  | -                | (173,623)        | (173,623)                   |
| Interim Dividend 2023: Rs. 15 per share  | -                | -                     | (260,435)        | (260,435)  | -                | (260,435)        | (260,435)                   |
| Interim Dividend 2023: Rs. 25 per share  | -                | -                     | (434,058)        | (434,058)  | -                | (434,058)        | (434,058)                   |
|  | -                | -                     | (1,388,985)      | (1,388,985)  | -                | (1,388,985)      | (1,388,985)                 |
| <b>Balance as at September 30, 2023</b>  | <u>173,623</u>   | <u>1,458,000</u>      | <u>5,434,556</u> | <u>6,892,556</u>   | <u>(143,355)</u> | <u>6,749,201</u> | <u>6,922,824</u>            |
| <b>Balance as at October 1, 2023</b>   | <b>173,623</b>   | <b>1,458,000</b>      | <b>5,434,556</b> | <b>6,892,556</b>   | <b>(143,355)</b> | <b>6,749,201</b> | <b>6,922,824</b>            |
| <b>Total other comprehensive income for the year</b>   |                  |                       |                  |  |                  |                  |                             |
| <b>Profit after taxation</b>   | -                | -                     | 1,550,682        | 1,550,682  | -                | 1,550,682        | 1,550,682                   |
| <b>Other comprehensive income for the year</b>   |                  |                       |                  |  |                  |                  |                             |
| Gain on remeasurement of investments at fair value through other comprehensive income - net of tax | -                | -                     | -                | -  | 73,170           | 73,170           | 73,170                      |
| Loss on remeasurement of defined benefit obligation - net of tax                                   | -                | -                     | (7,212)          | (7,212)  | -                | (7,212)          | (7,212)                     |
| <b>Total comprehensive income for the year</b>   | -                | -                     | 1,543,470        | 1,543,470  | 73,170           | 1,616,640        | 1,616,640                   |
| <b>Transactions with owners</b>  |                  |                       |                  |  |                  |                  |                             |
| Final Dividend 2023: Rs. 6 per share   | -                | -                     | (104,174)        | (104,174)  | -                | (104,174)        | (104,174)                   |
| Interim Dividend 2024: Rs. 15 per share  | -                | -                     | (260,435)        | (260,435)  | -                | (260,435)        | (260,435)                   |
| Interim Dividend 2024: Rs. 10 per share  | -                | -                     | (173,623)        | (173,623)  | -                | (173,623)        | (173,623)                   |
|  | -                | -                     | (538,232)        | (538,232)  | -                | (538,232)        | (538,232)                   |
| <b>Balance as at September 30, 2024</b>  | <u>173,623</u>   | <u>1,458,000</u>      | <u>6,439,794</u> | <u>7,897,794</u>   | <u>(70,185)</u>  | <u>7,827,609</u> | <u>8,001,232</u>            |

The annexed notes from 1 to 54 form an integral part of these financial statements.



**Asim Ghani**  
Chief Executive Officer



**Darakshan Zohaib**  
Director



**Samir Hajani**  
Chief Financial Officer

**STATEMENT OF CASH FLOWS**

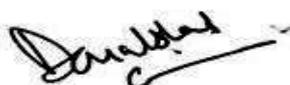
FOR THE YEAR ENDED SEPTEMBER 30, 2024

|  | Note | 2024<br>(Rupees in thousand) | 2023               |
|--|------|------------------------------|--------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>              |      |                              |                    |
| Cash generated from operations                           | 42   | 220,357                      | 3,234,243          |
| Finance cost paid  |      | (537,998)                    | (349,718)          |
| Workers' Welfare Fund paid - net                         |      | (12,056)                     | (9,047)            |
| Workers' Profit Participation Fund paid - net            |      | (135,772)                    | (189,996)          |
| Market committee fees paid                               |      | (4,891)                      | (8,008)            |
| Taxes and levy paid                                      |      | (376,055)                    | (192,814)          |
| Long term deposits paid                                  |      | 500                          | (220)              |
| Long term loans recovered                                |      | 149                          | 1,284              |
|  |      | <b>(1,066,123)</b>           | <b>(748,519)</b>   |
| Net cash (used in) / generated from operating activities |      | <b>(845,766)</b>             | 2,485,724          |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>              |      |                              |                    |
| Addition to property, plant and equipment                |      | (73,809)                     | (65,337)           |
| Proceeds from disposal of property, plant and equipment  |      | 1,593                        | 531                |
| Investments in Mutual Funds, TDRs and T-Bills - net      |      | 1,502,573                    | (995,752)          |
| Interest / markup received                               |      | 19,743                       | 83,363             |
| Dividend received  |      | 136,436                      | 104,892            |
| Net cash generated from / (used in) investing activities |      | <b>1,586,536</b>             | (872,303)          |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>              |      |                              |                    |
| Repayment of long-term financing                         |      | -                            | (22,512)           |
| Lease rental paid  |      | (10,371)                     | (8,545)            |
| Dividend paid  |      | (537,077)                    | (1,374,689)        |
| Short-term borrowings obtained - net                     |      | (175,189)                    | (203,298)          |
| Net cash used in financing activities                    |      | <b>(722,637)</b>             | <b>(1,609,044)</b> |
| Net increase in cash and cash equivalents                |      | 18,133                       | 4,377              |
| Cash and cash equivalents at beginning of the year       |      | 67,929                       | 63,552             |
| <b>Cash and cash equivalents at the end of the year</b>  |      | <b>86,062</b>                | <b>67,929</b>      |

The annexed notes from 1 to 54 form an integral part of these financial statements.



**Asim Ghani**  
Chief Executive Officer



**Darakshan Zohaib**  
Director



**Samir Hajani**  
Chief Financial Officer

# Statement of Financial Position

AS AT JUNE 30, 2024

|                                | Note | 2024<br>----- Rupees in '000 ----- | 2023              |
|--------------------------------|------|------------------------------------|-------------------|
| <b>ASSETS</b>                  |      |                                    |                   |
| <b>Non-current assets</b>      |      |                                    |                   |
| Property, plant and equipment  | 6    | 5,117,878                          | 4,591,636         |
| Intangible assets              | 7    | 2,057                              | 2,742             |
| Investments                    | 8    | -                                  | -                 |
| Long term loans                | 9    | 3,763                              | 3,269             |
| Long term deposits             | 10   | 29,838                             | 29,338            |
|                                |      | 5,153,536                          | 4,626,985         |
| <b>Current assets</b>          |      |                                    |                   |
| Stores, spares and loose tools | 11   | 568,491                            | 322,968           |
| Stock-in-trade                 | 12   | 11,909,129                         | 10,324,114        |
| Trade debts                    | 13   | 3,076,060                          | 2,391,345         |
| Loans and advances             | 14   | 22,446                             | 37,501            |
| Deposits and prepayments       | 15   | 38,547                             | 648,299           |
| Investments                    | 16   | 390,023                            | 266,654           |
| Other receivables              | 17   | 2,317                              | 2,721             |
| Sales tax receivable - net     |      | 131,070                            | 192,141           |
| Taxation - net                 |      | 835,063                            | 277,805           |
| Bank balances                  | 18   | 1,191,592                          | 819,782           |
|                                |      | 18,164,738                         | 15,283,330        |
| <b>Total assets</b>            |      | <b>23,318,274</b>                  | <b>19,910,315</b> |



**Aamir H. Shirazi**  
Chairman



**Ali H. Shirazi**  
President / Chief Executive



**Rizwan Ahmed**  
Chief Financial Officer

# Statement of Financial Position

AS AT JUNE 30, 2024

|   | 2024                       | 2023              |
|---|----------------------------|-------------------|
| Note  | ----- Rupees in '000 ----- |                   |
| <b>EQUITY AND LIABILITIES</b>   |                            |                   |
| <b>Share capital and reserves</b>   |                            |                   |
| Authorised capital<br>150,000,000 (2023: 50,000,000) ordinary<br>shares of Rs.10 each | 1,500,000                  | 500,000           |
| Issued, subscribed and paid-up capital  | 350,170                    | 350,170           |
| Revenue reserves  |                            |                   |
| General reserve   | 5,037,500                  | 5,037,500         |
| Un-appropriated profits   | 2,281,911                  | 1,275,481         |
|   | 7,319,411                  | 6,312,981         |
| Capital reserve   |                            |                   |
| Surplus on revaluation of leasehold land  | 849,586                    | 589,186           |
| <b>Total equity</b>   | <b>8,519,167</b>           | <b>7,252,337</b>  |
| <b>Liabilities</b>  |                            |                   |
| <b>Non current liabilities</b>  |                            |                   |
| Lease liabilities   | 600,934                    | 407,468           |
| Long term borrowings  | 645,507                    | 893,275           |
| Deferred income - government grant  | 17,623                     | 23,273            |
| Staff retirement benefits   | 131,497                    | 108,587           |
| Deferred taxation   | 147,605                    | 201,430           |
|   | 1,543,166                  | 1,634,033         |
| <b>Current liabilities</b>  |                            |                   |
| Trade and other payables  | 3,357,937                  | 5,959,674         |
| Accrued mark-up   | 352,775                    | 168,668           |
| Current portion of lease liabilities  | 55,025                     | 67,022            |
| Current maturity of long term borrowings  | 253,977                    | 171,725           |
| Current portion of deferred income - government grant                                 | 5,650                      | 6,209             |
| Short term borrowings   | 9,168,203                  | 4,371,424         |
| Dividend payable  | -                          | 221,862           |
| Unclaimed dividend  | 62,374                     | 57,361            |
|   | 13,255,941                 | 11,023,945        |
| <b>Total liabilities</b>  | <b>14,799,107</b>          | <b>12,657,978</b> |
| <b>Contingencies and commitments</b>  |                            |                   |
|   |                            |                   |
| <b>Total equity and liabilities</b>   | <b>23,318,274</b>          | <b>19,910,315</b> |

The annexed notes 1 to 49 form an integral part of these financial statements.

  
**Aamir H. Shirazi**  
Chairman

  
**Ali H. Shirazi**  
President / Chief Executive

  
**Rizwan Ahmed**  
Chief Financial Officer

# Statement of Profit or Loss and Other Comprehensive Income

FOR THE YEAR ENDED JUNE 30, 2024

|  | Note | 2024<br>---- Rupees in '000 ---- | 2023              |
|--|------|----------------------------------|-------------------|
| Sales  | 30   | 41,470,592                       | 41,855,868        |
| Cost of sales  | 31   | (35,535,871)                     | (35,403,444)      |
| <b>Gross profit</b>  |      | 5,934,721                        | 6,452,424         |
| Distribution cost  | 32   | (1,402,929)                      | (1,396,427)       |
| Administrative expenses  | 33   | (654,827)                        | (498,565)         |
| Other income   | 34   | 99,883                           | 72,346            |
| Other expenses   | 35   | (187,127)                        | (379,596)         |
| <b>Profit from operations</b>  |      | 3,789,721                        | 4,250,182         |
| Finance cost   | 36   | (1,619,351)                      | (552,066)         |
| <b>Profit before income and final taxes</b>                                    |      | 2,170,370                        | 3,698,116         |
| Final taxes  | 37.1 | (15,129)                         | (10,297)          |
| <b>Profit before income tax</b>  |      | 2,155,241                        | 3,687,819         |
| <b>Income tax</b>  |      |                                  |                   |
| <b>Current tax</b> - for the year including super tax<br>- for the prior years |      | (888,320)<br>14,623              | (1,475,868)<br>61 |
| <b>Deferred tax</b>  | 37.2 | 62,105                           | (10,770)          |
|  | 37.4 | (811,592)                        | (1,486,577)       |
| <b>Profit for the year</b>   |      | 1,343,649                        | 2,201,242         |
| <b>Other comprehensive income / (loss)</b>                                     |      |                                  |                   |
| <b>Items that will not be reclassified to profit or loss</b>                   |      |                                  |                   |
| Surplus on revaluation of land   | 20   | 260,400                          | -                 |
| Re-measurement of staff retirement benefit obligation                          |      | 21,231                           | (7,762)           |
| Impact of deferred tax   |      | (8,280)                          | 3,027             |
| <b>Other comprehensive income / (loss) for the year - net of tax</b>           |      | 273,351                          | (4,735)           |
| <b>Total comprehensive income for the year</b>                                 |      | 1,617,000                        | 2,196,507         |
|  |      | ----- Rupees -----               |                   |
| <b>Earnings per share</b> - basic and diluted                                  | 38   | 38.37                            | 62.86             |

The annexed notes 1 to 49 form an integral part of these financial statements.



**Aamir H. Shirazi**  
Chairman



**Ali H. Shirazi**  
President / Chief Executive



**Rizwan Ahmed**  
Chief Financial Officer

# Statement of Changes in Equity

FOR THE YEAR ENDED JUNE 30, 2024

|   | Issued,<br>subscribed<br>and paid-up<br>capital | Revenue<br>reserves |                           | Capital<br>reserve                                | Total            |
|---|---|---------------------|---------------------------|---|------------------|
|   |   | General<br>reserve  | un-appropriated<br>profit | Surplus on<br>revaluation<br>of leasehold<br>land |                  |
| ----- Rupees in '000 -----  |   |                     |                           |   |                  |
| Balance as at July 1, 2022  | 280,136   | 5,037,500           | 287,061                   | 589,186   | 6,193,883        |
| <b>Transaction with owners, recognised directly in equity</b>                                       |   |                     |                           |   |                  |
| Final cash dividend for the year ended June 30, 2022<br>at the rate of Rs.12.50 per share           | -   | -                   | (350,170)                 | -   | (350,170)        |
| Bonus shares issued for the year ended June 30, 2022<br>in ratio of 1 share for every 4 shares held | 70,034  | -                   | (70,034)                  | -   | -                |
| Interim dividend for the period ended March 31, 2023<br>at the rate of Rs.22.50 per share           | -   | -                   | (787,883)                 | -   | (787,883)        |
| <b>Total comprehensive income for<br/>the year ended June 30, 2023</b>                              |   |                     |                           |   |                  |
| Profit for the year   | -   | -                   | 2,201,242                 | -   | 2,201,242        |
| Other comprehensive loss  | -   | -                   | (4,735)                   | -   | (4,735)          |
|   | -   | -                   | 2,196,507                 | -   | 2,196,507        |
| <b>Balance as at June 30, 2023</b>  | <b>350,170</b>                                  | <b>5,037,500</b>    | <b>1,275,481</b>          | <b>589,186</b>                                    | <b>7,252,337</b> |
| <b>Transaction with owners, recognised directly in equity</b>                                       |   |                     |                           |   |                  |
| Final cash dividend for the year ended June 30, 2023<br>at the rate of Rs.10 per share              | -   | -                   | (350,170)                 | -   | (350,170)        |
| <b>Total comprehensive income for<br/>the year ended June 30, 2024</b>                              |   |                     |                           |   |                  |
| Profit for the year   | -   | -                   | 1,343,649                 | -   | 1,343,649        |
| Other comprehensive income  | -   | -                   | 12,951                    | 260,400   | 273,351          |
|   | -   | -                   | 1,356,600                 | 260,400   | 1,617,000        |
| <b>Balance as at June 30, 2024</b>  | <b>350,170</b>                                  | <b>5,037,500</b>    | <b>2,281,911</b>          | <b>849,586</b>                                    | <b>8,519,167</b> |

The annexed notes 1 to 49 form an integral part of these financial statements.

  
**Aamir H. Shirazi**  
Chairman

  
**Ali H. Shirazi**  
President / Chief Executive

  
**Rizwan Ahmed**  
Chief Financial Officer

# Statement of Cash Flows

FOR THE YEAR ENDED JUNE 30, 2024

2024  
----- Rupees in '000 -----  
2023

## Cash flows from operating activities

|   |                  |                  |
|---|------------------|------------------|
| Profit before income and final taxes                                | 2,170,370        | 3,698,116        |
| <b>Adjustments for non-cash charges and other items:</b>            |                  |                  |
| Depreciation  | 542,602          | 474,183          |
| Amortisation  | 2,520            | 3,817            |
| Provision for gratuity  | 97,599           | 11,241           |
| Provision for compensated leave absences                            | 30,075           | 18,268           |
| Gain on sale of investments at fair value through profit or loss    | -                | (2,346)          |
| Dividend income   | (60,844)         | (36,479)         |
| Mark-up income  | (2)              | (7,118)          |
| Fair value gain on investments at fair value through profit or loss | (1,652)          | (192)            |
| Loss / (gain) on disposal of operating fixed assets                 | 209              | (3,663)          |
| Provision for doubtful debts  | 19,397           | 2,495            |
| Finance cost  | 1,619,351        | 552,066          |
|   | <u>4,419,625</u> | <u>4,710,388</u> |

## Changes in working capital:

|   |                    |                    |
|---|--------------------|--------------------|
| (Increase) / decrease in current assets           |                    |                    |
| - Stores, spares and loose tools                  | (245,523)          | (15,054)           |
| - Stock-in-trade                                  | (1,585,015)        | (5,702,564)        |
| - Trade debts                                     | (704,112)          | (1,543,804)        |
| - Loans and advances                              | 15,055             | (19,606)           |
| - Deposits and prepayments                        | 609,752            | (589,465)          |
| - Other receivables                               | 404                | (261)              |
| - Sales tax receivable - net                      | 61,071             | (266,564)          |
|   | <u>(1,848,368)</u> | <u>(8,137,318)</u> |
| (Decrease) / increase in trade and other payables | (2,659,179)        | 3,306,491          |
|   | <u>(4,507,547)</u> | <u>(4,830,827)</u> |

## Cash used in operations

|  |             |             |
|--|-------------|-------------|
| Finance cost paid  | (87,922)    | (120,439)   |
| Mark-up received   | (1,295,686) | (384,767)   |
|  | 2           | 7,118       |
| Income and final taxes paid (including tax deducted at source) | (1,446,084) | (1,635,099) |
| Gratuity paid  | (18,974)    | (18,255)    |
| Compensated leave absences paid                                | (7,116)     | (1,599)     |
| Long term loans - net  | (494)       | (633)       |
| Long term deposits - net                                       | (500)       | (6,000)     |

## Net cash used in operating activities - carried forward

(2,856,774) (2,159,674)

# Statement of Cash Flows

FOR THE YEAR ENDED JUNE 30, 2024

|  | 2024                     | 2023           |
|--|--------------------------|----------------|
|  | ---- Rupees in '000 ---- |                |
| <b>Net cash used in operating activities - brought forward</b> | (2,856,774)              | (2,159,674)    |
| <b>Cash flows from investing activities</b>                    |                          |                |
| Payments for property, plant and equipment                     | (639,037)                | (618,713)      |
| Proceeds from sale of property, plant and equipment            | 36,461                   | 39,528         |
| Payments for intangible assets                                 | (1,835)                  | (889)          |
| Payments for investments                                       | (121,718)                | (460,799)      |
| Proceeds from sale of investments                              | -                        | 403,833        |
| Dividend received  | 60,844                   | 36,479         |
| <b>Net cash used in investing activities</b>                   | (665,285)                | (600,561)      |
| <b>Cash flows from financing activities</b>                    |                          |                |
| Lease rentals paid   | (164,166)                | (111,325)      |
| Long term borrowings obtained                                  | -                        | 1,062,500      |
| Long term borrowings repaid                                    | (171,725)                | (445,800)      |
| Short term borrowings - net                                    | 4,796,779                | 3,803,058      |
| Dividend paid  | (567,019)                | (950,741)      |
| <b>Net cash generated from financing activities</b>            | 3,893,869                | 3,357,692      |
| <b>Net increase in cash and cash equivalents</b>               | 371,810                  | 597,457        |
| Cash and cash equivalents at beginning of year                 | 819,782                  | 222,325        |
| <b>Cash and cash equivalents at end of year</b>                | <u>1,191,592</u>         | <u>819,782</u> |

The annexed notes 1 to 49 form an integral part of these financial statements.

  
**Aamir H. Shirazi**  
 Chairman

  
**Ali H. Shirazi**  
 President / Chief Executive

  
**Rizwan Ahmed**  
 Chief Financial Officer

# STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31, 2024

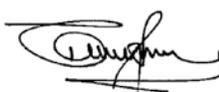
|  | Note | 2024<br>------(Rupees '000)----- | 2023                     |
|--|------|----------------------------------|--------------------------|
| <b>EQUITY AND LIABILITIES</b>          |      |                                  |                          |
| <b>SHARE CAPITAL AND RESERVES</b>      |      |                                  |                          |
| Authorised capital                     | 3    | <u>2,000,000</u>                 | <u>2,000,000</u>         |
| Issued, subscribed and paid-up capital | 4    | 979,003                          | 979,003                  |
| Reserves - capital                     |      | 1,750,481                        | 1,437,162                |
| - revenue                              |      | 20,995,152                       | 15,821,181               |
| <b>Total Equity</b>                    |      | <b>23,724,636</b>                | <b>18,237,346</b>        |
| <b>NON-CURRENT LIABILITIES</b>         |      |                                  |                          |
| Deferred taxation - net                | 5    | 1,052,587                        | 519,569                  |
| Staff retirement benefits              | 6    | 1,184,179                        | 1,049,089                |
| Lease liabilities                      | 7    | 29,545                           | 52,228                   |
| <b>Total Non-Current Liabilities</b>   |      | <b>2,266,311</b>                 | <b>1,620,886</b>         |
| <b>CURRENT LIABILITIES</b>             |      |                                  |                          |
| Trade and other payables               | 8    | 10,951,662                       | 15,091,467               |
| Unclaimed dividends                    |      | 63,715                           | 64,676                   |
| Unpaid dividends                       |      | -                                | 1,029,503                |
| Current maturity of lease liabilities  | 7    | 22,683                           | 105,990                  |
| Provisions                             | 9    | 622,151                          | 543,577                  |
| <b>Total Current Liabilities</b>       |      | <b>11,660,211</b>                | <b>16,835,213</b>        |
| <b>CONTINGENCIES AND COMMITMENTS</b>   |      |                                  |                          |
|  | 10   |                                  |                          |
| <b>TOTAL EQUITY AND LIABILITIES</b>    |      | <b><u>37,651,158</u></b>         | <b><u>36,693,445</u></b> |

|   |      | 2024                     | 2023              |
|---|------|--------------------------|-------------------|
|   | Note | ------(Rupees '000)----- |                   |
| <b>ASSETS</b>                             |      |                          |                   |
| <b>NON-CURRENT ASSETS</b>                 |      |                          |                   |
| Property, plant and equipment             | 11   | 14,252,797               | 13,375,186        |
| Intangible assets                         | 12   | 1,250                    | 12,678            |
| Long-term loans and advances              | 13   | 114,226                  | 95,423            |
| Long-term deposits                        |      | 7,513                    | 7,513             |
| Long-term prepayments                     |      | 13,710                   | 3,427             |
| <b>Total Non-Current Assets</b>           |      | <b>14,389,496</b>        | <b>13,494,227</b> |
| <b>CURRENT ASSETS</b>                     |      |                          |                   |
| Stores and spares                         | 14   | 529,619                  | 462,670           |
| Stock-in-trade                            | 15   | 10,694,515               | 12,826,865        |
| Trade debts                               | 16   | 2,982,679                | 1,649,512         |
| Loans and advances                        | 17   | 938,021                  | 472,735           |
| Trade deposits and short-term prepayments | 18   | 283,813                  | 320,399           |
| Other receivables                         | 19   | 1,182,530                | 2,044,254         |
| Taxation - net                            |      | 468,136                  | 386,071           |
| Cash and cash equivalents                 | 20   | 6,182,349                | 5,036,712         |
| <b>Total Current Assets</b>               |      | <b>23,261,662</b>        | <b>23,199,218</b> |
| <b>TOTAL ASSETS</b>                       |      | <b>37,651,158</b>        | <b>36,693,445</b> |

The annexed notes 1 to 43 form an integral part of these financial statements.

  
 \_\_\_\_\_  
 Chief Executive

  
 \_\_\_\_\_  
 Director

  
 \_\_\_\_\_  
 Chief Financial Officer

# STATEMENT OF PROFIT OR LOSS

FOR THE YEAR ENDED DECEMBER 31, 2024

|   | 2024                     | 2023                  |
|---|--------------------------|-----------------------|
| Note  | ------(Rupees '000)----- | -----<br>(Restated)   |
| Sales - net   | 21 68,177,197            | 55,475,270            |
| Cost of sales   | 22 (48,439,489)          | (43,657,775)          |
| <b>Gross profit</b>   | <b>19,737,708</b>        | <b>11,817,495</b>     |
| Selling and distribution expenses   | 23 (9,302,303)           | (8,039,831)           |
| Administrative expenses   | 24 (1,169,133)           | (1,037,593)           |
| Other charges   | 25 (838,381)             | (1,613,345)           |
| Other income  | 26 723,242               | 1,493,286             |
|   | <u>(10,586,575)</u>      | <u>(9,197,483)</u>    |
| Finance costs   | 27 9,151,133             | 2,620,012             |
|   | <u>(23,614)</u>          | <u>(30,290)</u>       |
| <b>Profit before minimum tax differential, final taxes and income tax</b> | <b>9,127,519</b>         | <b>2,589,722</b>      |
| Minimum tax differential  | (105,530)                | (525,397)             |
| Final taxes   | -                        | (22,505)              |
| <b>Profit before income tax</b>   | <b>9,021,989</b>         | <b>2,041,820</b>      |
| Income tax  | 28 (3,787,756)           | (1,780,043)           |
| <b>Profit for the year</b>  | <b><u>5,234,233</u></b>  | <b><u>261,777</u></b> |
| Earnings per share - basic and diluted                                    | 29 <u>53.46</u>          | <u>2.67</u>           |

The annexed notes 1 to 43 form an integral part of these financial statements.



Chief Executive



Director



Chief Financial Officer

# STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECEMBER 31, 2024

|   | 2024                     | 2023           |
|---|--------------------------|----------------|
| Note  | ------(Rupees '000)----- |                |
| Profit for the year   | 5,234,233                | 261,777        |
| Other comprehensive income for the year   |                          |                |
| <b>Items that will not be reclassified subsequently to the statement of profit or loss:</b> |                          |                |
| - Actuarial (loss) / gain on staff retirement benefits                                      | 6.8 (71,359)             | 680,134        |
| - Tax on actuarial loss / (gain)  | 11,097                   | (189,117)      |
| Other comprehensive (loss) / income - net of tax  | (60,262)                 | 491,017        |
| <b>Total comprehensive income for the year</b>  | <u>5,173,971</u>         | <u>752,794</u> |

The annexed notes 1 to 43 form an integral part of these financial statements.



Chief Executive



Director



Chief Financial Officer

# STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2024

|  | Note | 2024<br>------(Rupees '000)----- | 2023<br>-----      |
|--|------|----------------------------------|--------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>              |      |                                  |                    |
| Cash generated from operations                           | 30   | 8,356,459                        | 3,176,942          |
| Income tax paid  |      | (3,325,706)                      | (2,311,498)        |
| Minimum tax differential paid                            |      | (105,530)                        | (525,397)          |
| Final taxes paid   |      | -                                | (22,505)           |
| Long-term loans and advances<br>- net                    |      | (18,803)                         | (28,914)           |
| Long-term prepayments - net                              |      | (10,283)                         | (2,781)            |
| Contributions to staff retirement benefit funds          | 6.7  | (300,648)                        | (275,552)          |
| Net movement in provisions                               |      | 78,574                           | (72,599)           |
| Net cash generated from / (used in) operating activities |      | <u>4,674,063</u>                 | <u>(62,304)</u>    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>              |      |                                  |                    |
| Additions to property, plant and equipment               |      | (3,022,082)                      | (3,074,518)        |
| Sale proceeds from disposal of operating fixed assets    | 11.5 | 181,547                          | 139,846            |
| Interest income  |      | 472,177                          | 735,631            |
| Net cash used in investing activities                    |      | <u>(2,368,358)</u>               | <u>(2,199,041)</u> |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>              |      |                                  |                    |
| Bank charges paid  | 27   | (11,875)                         | (8,115)            |
| Interest portion of lease liabilities paid               | 7.1  | (11,739)                         | (22,175)           |
| Principal portion of lease liabilities paid              |      | (105,990)                        | (89,069)           |
| Dividends paid   | 31   | (1,030,464)                      | (1,374,413)        |
| Net cash used in financing activities                    |      | <u>(1,160,068)</u>               | <u>(1,493,772)</u> |
| Net increase / (decrease) in cash and cash equivalents   |      | 1,145,637                        | (3,755,117)        |
| Cash and cash equivalents at the beginning of the year   |      | 5,036,712                        | 8,791,829          |
| Cash and cash equivalents at the end of the year         | 20   | <u>6,182,349</u>                 | <u>5,036,712</u>   |

The annexed notes 1 to 43 form an integral part of these financial statements.



Chief Executive



Director



Chief Financial Officer

# STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2024

|   | Issued, subscribed and paid-up capital | Reserves                  |                                  |                  |                        | Total      | Total equity |
|---|--|---------------------------|----------------------------------|------------------|------------------------|------------|--------------|
|   |  | Capital reserves          |                                  | Revenue reserves |                        |            |              |
|   |  | Reserve arising on merger | Share based compensation reserve | General reserve  | Un-appropriated profit |            |              |
| ----- (Rupees '000) -----                                   |  |                           |                                  |                  |                        |            |              |
| Balance as at January 01, 2023                              | 979,003                                | 46,097                    | 1,012,542                        | 5,338,422        | 9,729,965              | 16,127,026 | 17,106,029   |
| Employee benefit cost under IFRS 2 - 'Share-based payments' | -                                      | -                         | 378,523                          | -                | -                      | 378,523    | 378,523      |
| Total comprehensive income for the year ended               |  |                           |                                  |                  |                        |            |              |
| December 31, 2023   |  |                           |                                  |                  |                        |            |              |
| Profit for the year   | -                                      | -                         | -                                | -                | 261,777                | 261,777    | 261,777      |
| Other comprehensive income for the year - net of tax        | -                                      | -                         | -                                | -                | 491,017                | 491,017    | 491,017      |
| Total comprehensive income for the year                     | -                                      | -                         | -                                | -                | 752,794                | 752,794    | 752,794      |
| Balance as at December 31, 2023                             | 979,003                                | 46,097                    | 1,391,065                        | 5,338,422        | 10,482,759             | 17,258,343 | 18,237,346   |
| Balance as at January 01, 2024                              | 979,003                                | 46,097                    | 1,391,065                        | 5,338,422        | 10,482,759             | 17,258,343 | 18,237,346   |
| Employee benefit cost under IFRS 2 - 'Share-based payments' | -                                      | -                         | 313,319                          | -                | -                      | 313,319    | 313,319      |
| Total comprehensive income for the year ended               |  |                           |                                  |                  |                        |            |              |
| December 31, 2024   |  |                           |                                  |                  |                        |            |              |
| Profit for the year   | -                                      | -                         | -                                | -                | 5,234,233              | 5,234,233  | 5,234,233    |
| Other comprehensive loss for the year - net of tax          | -                                      | -                         | -                                | -                | (60,262)               | (60,262)   | (60,262)     |
| Total comprehensive income for the year                     | -                                      | -                         | -                                | -                | 5,173,971              | 5,173,971  | 5,173,971    |
| Balance as at December 31, 2024                             | 979,003                                | 46,097                    | 1,704,384                        | 5,338,422        | 15,656,730             | 22,745,633 | 23,724,636   |

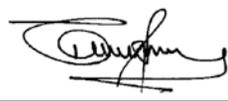
The annexed notes 1 to 43 form an integral part of these financial statements.



Chief Executive



Director



Chief Financial Officer