DIPLOMA IN ISLAMIC BANKING (DIB)

BACKGROUND READING MATERIALS FOR THE SUBJECT
ON
PRINCIPLES OF ACCOUNTING (103)

Table of Contents

103: PRINCIPLES OF ACCOUNTING

Forms of Business Organization

Manufacturing, merchandising or trading, service rendering and so on are usually conducted through the following forms of organizations.

(a) Proprietorship: It is a type of business organization that is owned and run by a single individual. The individual or person who owns this type of business is referred to as proprietor. It is the most common and popular type of business organization because it is easier and cheaper to form. The proprietor takes all the risks and obligations of the business and exercises absolute authority of decision making. Small business say restaurants, laundries, assembling shop, professional services are organized as proprietorship. Legally the business and the owner are not separate entity, they are one and the same. However, accounting views the business as a separate entity to be distinguished from the owner.

(b) Partnership Firm: Partnership is the relationship between the persons who have agreed to share the profit of a business carried on by all and any of them on behalf of all. So it is an unincorporated business entity owned by two or more persons referred as partner. The risks, obligations, benefits and management are shared with the partners. It is created through agreement/contract between the partners and the contract specifies the issues like sharing profit, contribution to capital, nature of business, authority to sign bills/cheques etc. of the firm. A partnership firm is not legally separate from its owners but accounting views the partners' personal activities as separate from the activities of the firm.

(c) Corporation (Joint Stock Company): A business incorporated according to the provision of companies act and owned by the shareholders is called corporation. The ownership of a corporation is divided into the shares of stock that can be easily sold and bought. It has some distinguishing features like continuity of life and existence, ease in transferring ownership, limited liability of the shareholders, opportunities to raise large sums of money by selling shares to a large number of people etc.

Accounting – Meaning

"Accounting is the art of recording, classifying and summarizing in systematic manner and in terms of money, transactions and events which are, in part at least, of a financial character and interpreting the results thereof."

(AICPA-FASB Terminology)

Accounting was regarded as "the process of identifying, measuring and communicating economic information to permit informed judgments and decisions by users of the information" by the American Accounting Association (AAA).

"Accounting is a service activity. It's function is to provide quantitative information, primarily financial in nature about economic entities that is intended to be useful in making economic decision, in making reasoned choices among alternative courses of action. Accounting includes several branches, for example, financial accounting, managerial accounting and governmental accounting."

(The Accounting Principles Board (APB) of the AICPA)

Accounting in modern age is also defined as modern language of business, an information system and a service activity.

Book keeping - Meaning

Book-keeping is the recording of all financial transactions undertaken by an individual or organization. Book-keeping is a part of the broader field of accounting. The organization may be a business, a charitable organization or even a local sports club. Book-keeping is "keeping records of what is bought, sold, owed and owned; what money comes in, what goes out and what is left." A financial transaction is any event that involves money.

Two common book keeping methods used by businesses and other organizations are the single-entry book keeping system and the double-entry book keeping system. Single-entry book keeping uses only income and expense accounts, recorded primarily in a "Revenue and Expense Journal". Single-entry book keeping is adequate for many small businesses. Double-entry book keeping requires posting (recording) each transaction twice, using debits and credits.

A book keeper is usually responsible for writing up the “daybooks”. The daybooks consist of purchase, sales, receipts and payments. The book keeper is responsible for that all transactions are recorded in the correct daybook, suppliers ledger, customer ledger and general ledger. The book keeper brings the books to the trial balance stage. An accountant may prepare the profit and loss statement and balance sheet using the trial balance and ledgers prepared by the book keeper.
Accounting is the recording, classifying and interpretation of the economic facts of business enterprise in such a manner as to permit effective management and to provide information for investors, creditors and the general public, in general, accounting implies the policy and principals underlying the financial records and reports.

Difference between Book-keeping and Accountancy

Accounting is the art of recording, classifying and summarizing in systematic manner and in terms of money, transactions and events which are, in part at least, of a financial character and interpreting the results thereof.”
Accounting in modern age is also defined in the following ways:

- Accounting is the modern language of business.
- Accounting is an Information system.
- Accounting is a service activity.

S/N	Book-keeping	Accountancy
1	Transactions are recorded in the primary accounts Book	Recorded transactions are scrutinized through Trial Balance
2	Transactions are recorded in ledger according to their nature from primary accounts book.	Adjustments and rectifications of errors are accomplished
3	Different types of accounts are added for final result	Profit and loss account or Balance sheet is prepared for determining the conditions of the transaction.
4	Emphasis is given on practical aspect	Emphasis is given on Constructive or theoretical aspect

Users of Accounting Information
The parties who use accounting information to make decisions are of three categories

1. Those who manage a business
    - Management – the management is the caretaker of the business and interested to know the finance, operation, production, marketing, human resource, accounting etc. of the business
    - Owner/stockholders – owners or stockholders are the main internal users because they invest their money in the business and remain very much interested in the financial information.
2. Those outside of business who have a direct financial interest in the business
    - Investors – investors use the financial statements to judge the current position as compared to the past performance and the future potential and risks connected with the potential.
    - Creditors/lenders – they provide credit facilities in the business in the form of trade credits, loans etc. Credit is expected to be repaid as per terms. So the creditors and lenders look at the financial information for judging repayment capacity and liquidity of the business.
    - Suppliers – they extend credit facility in the form of goods or kinds. They are also interested to know the financial position of the business by analyzing financial statements

3. Those people, organization, and agencies that have an indirect financial interest in the business
    - Tax Authority – tax authority is interest in knowing the income and assets of the business for assessing tax.
    - Government – the government wants to know the financial activities reported in the financial statements for tax, VAT, excise duty, levy charges etc.
    - Regulatory Agencies – to ensure effective and productive use of resources of the economy they are interested to judge the financial information.
    - Unions – employees and unions want to see the information regarding the profit and financial position of the business to realize their demands (e.g. increase in salaries, bonus, fringe benefits, etc.).
    - Customers – they are interested to know the cost structure and pricing policies of the business. Discount or other facilities are also the areas of interest for the customers.
    - Economic Planners/Researchers/ Financial Analysts: Financial accounting generates reports and statements by which economic planners/researchers/financial analysts evaluate how well a business has achieved its goals, the results of the business and its financial strength. These help them prepare reports and advise the concerned authorities.
    - Competitors – they want to know the financial information for conducting SWOC analysis.
    - Rating Agencies – to rate the business organizations in terms of transparency, disclosure status, quality of presentation in the reports and so on these agencies rely on the financial statements.

Islamic Accounting

Islamic Accounting can be defined as the accounting process which provides appropriate information (not necessarily limited to financial data) to stakeholders of an entity which will enable them to ensure that the entity ids continuously operating within the bounds of the Islamic Shari'ah and delivering on its socio-economic objectives. Some basic features of Islamic Accounting system:

- Financial Accounting in Islam should be focused on the fair (unbias) reporting of the organization's (a) operational results, (b) flow of funds, and (c) financial position in a way that will explicitly reveal what is permissible (Halal) and forbidden (Haram).
- Islamic accounting system holds the aspect 'Taqwa' i.e. piety in the form of fear of Allah (SWT) in all transactions. It is the fear of Allah (SWT) that prevents the person involved in making financial transactions, keeping record of transactions and accounting of those records, from being imprecise, fraudulent, hiding relevant information, particularly those which contradict with and cross the permissibility limit of Islamic Shari'ah.

Islamic Vs. Conventional Accounting

Some basic differences between Islamic and conventional accounting system are shown below:

Points	Islamic Accounting	Conventional Accounting
1.Definition	Accounting is a process which provides appropriate information (not only financial data) to stakeholders of an entity that will enable them to ensure that the entity is continuously operating within the limits of Islamic Shari'ah and delivering on its socioeconomic objectives.	Accounting is a process which aims to allow information in decision making whose ultimate purpose is to efficiently allocate scares resources available to their most efficient and profitable uses by providing information efficiency in the market without any compliance to Islamic Shari'ah.
2.Operations	It performs everything within the limit of Islamic Shari'ah.	It allows everything to achieve maximum profit.
3.Nature	It is conceptualized based on the Islamic principles.	It is conceptualized based on the principles of capitalism
4.Governance	It is governed by the Holy Qur'an and the Sunnah	It is governed by accounting and commercial laws with secular ethics
5.Normative or Descriptive	There is no difference between normative and descriptive accounting	There is difference between normative and descriptive accounting
6.Orientation	It is always society or community oriented	It is always firm or individual oriented

7.Basis	Unity of Allah (Tawhidism)	Economic orientation
8.Unit of Measurement	Quantity based (Zakat calculation) as well as monetary based	Monetary value based
9.Accounting period	Lunar year for Zakat calculation and periodical measurement	Only periodical measurement for performance
10.Reports	Based on economic and religious events and transactions	Reports only economic events and transactions
11. Consistency	Consistency based on Shari'ah	Consistency based on GAAP
12. Profit	Determine accurate and reasonable profit subject to Shari'ah. Earnings realized during the year from transactions which are not permitted by Shari'ah are kept separately for charitable activities.	Tries to maximize profit.
13.Coservitism	Most favorable to society (justice)	Most favorable to owners and least favorable to society
14.Accountability	Public accountability focusing on the community who participate in exploiting resources.	Personal accountability focusing on individual who control resources.
15. Disclosure of Compensation	Disclosure should be made in the financial statements of any amount realized as compensation.	There is no such provision.
16. Disclosure of earnings & expenditure prohibited in Shari'ah	It discloses the prohibited income and expenses like Riba in the statements.	No such discloser is required.
17. Clearance/ Certification of Shari'ah	The annual financial statement requires the clearance and certificate from Shari'ah Board before going to publish in addition to audit report.	Audit report is enough to publish.

Uses of Accounting

A good accounting system helps:

a) assess the present position or the results of the business, i.e. net profit or loss
b) represent the financial stability of a business – stating the position of its assets and liabilities
c) ascertain the profitability and solvency of the business
d) prepare a comparative analysis of the financial results and the position of the business
e) the management in taking decisions in adverse situations, declaring dividends, change in capital, price fixation etc.
f) the government fix tax rate, subsidies etc.
g) measuring the present and forecasting future earnings
h) the company overcome future uncertainties
i) the company in taking decisions – whether to manufacture a product or to divert the production structure or to buy the same from the market.

Accounting is an Aid to Management

The main object of Accounting is to record financial transaction systematically in the books of accounts and to find out profit-loss and financial position of a business. Ascertainment of profit-loss and financial position, interpretation and analysis of accounts and statements, development of accounting system, collection of statistical and economic data, formulation of financial principles and financial planning and controlling result as per plan etc. are the main function of accounting. In the modern age accounting is directly related with financial management. The function of management are planning, organizing, collecting business elements, motivating, coordinating and budgeting etc.

Accounting helps the management in the following ways:

(a) Planning: Proper planning is very much needed for successful completion of various management activities. These planning – cash planning, sales planning, procurement planning, determining quantity of stock, development of planning, fixing up target – profit et are very much dependent on accounting data and information.

(b) Organization: Accounting plays a very vital role in proper execution of the important function of management-organization. Accounting helps management-organization by providing information like percentage of profit over capital, capital investment position, management efficiency in controlling etc.

(c) Motivation: Labor-employees are to be motivated for achieving expected performance. Financial help is one of the main motivating factors of work. The management is to be aware of financial position of the business for providing financial benefits. Accounting helps the management by providing necessary information for taking proper decision.

(d) Co-ordination: One of the main function of the management is to achieve the final target of the business by coordinating various activities of different departments. Accounting helps in coordinating various activities of different department of the business.

(e) Control: The main function of the modern management are planning and controlling. Controlling is essential for completion of activities according to plan. Accounting can help management much in controlling.

(f) Preparation of final accounts: The management's responsibility is to communicate operating results for a certain period and financial position of a business concern to the owners and parties concerned.

(g) Media of communication: Accounting plays a vital role as a media in communicating various information of different departments, business and management plan of action to various departments.

(h) Budgeting: Preparation of various budgets is essential to run the business successfully. The historical information which is needed in preparation of budget is supplied by accounting.

(i) Professional advice: An efficient and honest accountant helps the management with valuable professional advice for the development of its business. In the modern age with the complexities of business management has also become complex. In this aspect the role of accounting is very important. Accounting is an essential tool of management.

Accounting Principles

Accounting is an information system or it is the language of business. To convey the language in same meaning to all users, accountants all over the world have developed certain rules, procedures, concepts, conventions, which represent a consensus of the profession of good accounting practices and are generally referred to as Generally Accepted Accounting Principles (GAAP). GAAP deals with the framework, rules and guidelines of the financial accounting profession with a purpose of standardizing the accounting concepts, principles and procedures. GAAP refers to the standard framework of guidelines for preparation and disclosure of financial statements. It is also known as accounting standards or standard accounting practices. The term 'principle' refers to fundamental belief or a general truth which once established does not change. Accounting principles can be classified into two categories: (a) Accounting concepts; and (b) Accounting conventions.

Accounting Concepts

Accounting concepts may be considered as basic assumptions or basic conditions or doctrine or experiences upon which the science of accounting is based. It helps to systematize the function.

Name	Theme	Implications
1. Entity Concept	Accounts should be kept for an entity as distinguished from the persons associated with the entity. In other words, for accounting purposes, the activities of a business are treated separately and distinctly from those of its owner(s).	To show true profit/ (loss) and the financial position of the business.
2. Money Measurement Concept	This assumption states that the only basis of measuring and reporting transactions is monetary value. Accounting reports only the facts that can be expressed in terms of money. If facts cannot be expressed in terms of money, they cannot be reported in accounts. Usually, in the common national currency of the country where the business is domiciled and carried on its business operations is used for this.	To make homogeneity of financial data on the financial statements.
3. Dual-Aspect Concept	Each and every business transaction affects at least two aspects or account of the accounting process or in another word Accounting Equation.	To recognize the effect of each transaction in assets, liabilities and owners' equities.
4. Going Concern Concept	This assumption holds that a business will not go out of business in the near future and will continue to carry on its business into perpetuity. That is a business entity will continue to operate indefinite period of time with its objectives and plans.	To provide justification to record fixed assets and other concepts.
5. Cost Concept	This principle states that any resource (asset) acquired by a business entity must be recorded at cost (i.e. the monetary value) given in exchange to acquire the resource. That is, an asset is recorded in the books at the price paid to acquire it and this cost is the basis in all subsequent accounting years for reporting it.	The market value is difficult to estimate and it is subjective for the asset which will be used in the business.
6. Time Period Concept	This concept states that the long life of a business entity can only be reported over a series of shorter time period normally referred to as accounting period. Usually an accounting period is one year (12 months) either "Calendar (January-December)" or "Fiscal (June-July)".	To obtain financial results and position of the business in shorter span of time.

7. Matching Concept	This concept states that costs are reported as expenses in the period in which the associated revenue is reported. Cost has two parts – the portion that is applicable to earn revenues in the current period is called 'expense' and the part that is applicable to earn revenue of future periods is called 'expenditure'. That is expenses incurred to generate revenues and the revenue earned must be "matched" and reported for the period irrespective of the timing of the related cash flows.	To obtain the true financial position of the period in which the efforts are made.
8. Realization Concept	This principle states that revenue must be recognized (i.e. recorded) only when "earned" in the period when the sale is made (when ownership passes) and not when cash is received. There are two conditions (a) revenues are usually recognized in the period in which goods are delivered or services are rendered to customers; and (b) the amount must be reasonably certain to realize.	To avoid the misconception of revenue recognition.
9. Objectivity Concept	This principle states that the accounting function must be carried out in an objective, verifiable, factual and documentary basis. That is, accounting must be carried out on an objective and factual basis.	To implement or exercise verifiability and consensus in accounting practices.

Accounting Conventions

The term 'convention' refers to circumstances, traditions or propositions that guide the accountants at time of preparing financial statements.

Name	**Theme**	**Implications**
1. Consistency	This principle states that in the accounting process, all principles and measurement methods should be applied on a consistent manner from one period to the next to ensure that the financial statements produced are reasonably comparable. That is, once an entity has decided to apply one of the methods or techniques or policies of accounting process, it should be applied all subsequent times in a similar and consistence way.	To ensure meaningful comparison of financial results.
2.Conservatism	This convention has two aspects – (a) recognize revenues (increases in owners' equity) only when they are reasonably certain; and (b) recognize expenses (decrease in owners' equity) as soon as they are reasonably possible. That is, this principle states that reasonable efforts must be made to ensure that assets and revenue are not overstated and liabilities and expenses are not understated.	To protect the unfavorable circumstances.
3. Materiality	Any transaction that has a significant (material) effect in the accounts should be reported detailed. But minor (immaterial ones) does not	To avoid unnecessary costs and labor.

	need to be reported in detailed. This principle states that amounts which are considered relatively insignificant in their impact on decisions are permitted to be recorded at a most cost-effective and convenient manner.	
4. Full Disclosure	Any relevant information that may influence the decision making of the user should be disclosed properly. That is, this principle stipulates that every material fact that will influence the behavior (decision) of end-users of the financial statements must be fully disclosed.	To make accurate and rational decision.
5. Industry Peculiarity	This principle states that the unique characteristics of an industry may dictate use of special accounting methods and measurement techniques in order to produce realistic financial reporting. A good example is the application of Prudential Guidelines in the Banking Industry.	To incorporate regulatory issues of recording and reporting the transactions.

The Qualitative Characteristics of Accounting Information

The qualitative characteristics of accounting information refer to the qualities of useful accounting information and the basic principles that should be used to evaluate the quality of such information. The characteristics that make the information useful are shown below:

(1) Relevance:

Relevance refers to the existence of a close relationship between the financial accounting information and the purposes for which this information is prepared. To be useful, financial accounting information should be relevant to the users. Relevance of accounting information requires the following qualities:

a) Predictive value: It means that the information should enable the user to predict the potential outcome in future like future cash flows, earnings etc.
b) Feedback value: It means that the information should enable the user
c) Timeliness: It means that if information is not available when it is needed or becomes available only so long after the reported events then it becomes of little use in making decisions.

(2) Reliability:

Users of accounting information prefer that such information has a high degree of reliability. This characteristic permits users to depend upon information with confidence. Reliable accounting information should have the following qualities:

a) Representational faithfulness: It means that the information should reflect a faithful representation of what it reports to present and does not contain material errors or distortions.
b) Objectivity: It means that the result reached by a person can be substantially duplicated by another independent person using the same measurement and/or disclosure methods.
c) Neutrality: Lack of neutrality affects the reliability of accounting information. Biased information is not reliable information.

(3) Comparability

Comparable financial accounting information allows users to identify real similarities and differences in the entity's performance in relation to its own performance over time and in relation to performance of other entities.

(4) Consistency:
Accounting information should follow the accounting measurement and disclosure methods from one period to another in same fashion.

(5) Understandability:
Understandability depends on the nature of the information contained in the financial statements, the way the information is presented as well as the background and abilities of external users. For understandability the following should consider:

a) Use of classification that are meaningful to users of financial statements and not just to accountants
b) Information headings
c) Presentation of net figures the users typically want to know

(6) Adequate disclosure
Adequate disclosure means that the financial statements should contain all material information necessary to make them useful to the users. There are two aspects to adequate disclosure viz. optimal aggregation of accounting data under various categories say, total assets, total liabilities & owners' equity and appropriate descriptions and classifications. The amount and headlines must be supplemented by enough additional notes and descriptions.

Accounting Basis

There are major two basis of accounting:

(a) Accrual basis accounting: In accrual basis accounting, revenues and gains are recognized in the period when they are earned regardless when the cash is received. For example, sales revenue is recognized at the point when sales are made or goods are delivered or shipped or services are rendered. Expenses and losses are recognized as incurred, whether or not cash has been paid out. So, accrual basis accounting is concerned with the economic consequence of events or transactions rather than cash receipts and payments. As a result, under this basis of accounting net income does not necessarily reflect the cash position. Adjusting entries are used to bring the accounts up-to-date for economic activities that have been taken place but have not yet been cash paid or received.

(b) Cash basis accounting: The cash basis accounting recognizes only transactions involving actual cash receipts and payments occurring in a given period. It recognizes revenues and gains when cash is received and expenses when cash is paid. No attempt is made to record unpaid expenses or amount owed to or by the business. This system is generally unacceptable because the improper assignment of revenues and expenses recognize is followed here.

Accounting Equation

At any point of time, the sum of the assets of a business entity shown on the balance sheet must be equal to the liabilities (the claims of the outsiders) plus equity of the owner or owners of the business (the claim of the proprietor/insiders). When this balance sheet equality is expressed in the equation form, the resulting equation is called Balance Sheet Equation. It is also known as the Basic/Fundamental Accounting Equation, since all double entry accounting is based on it. The form of equation is as follows:

Assets = Liabilities + Owners equity or

$A = L + OE$
$A= L + C + R - E - D$

Where,
OE = C + R - E- D
A = Assets; L= Liabilities, OE = Owner's Equity, C = Capital, R = Revenue, E = Expense & D= Owner's Drawings

Practical Example: Mr. X starts a business with Tk.50,000 cash and after starting, he buys Furniture on credit. Now the Accounting equation will be as follows:

Assets = Capital + Liabilities
Cash + Furniture = Capital + Accounts Payable
Tk.50,000 + Tk.2,000 = Tk.50,000 + Tk.2,000

Commonly Used Accounts in Equation

- Assets: Resources or things of value **owned** by an entity or business. Examples are cash & bank balance, accounts receivable, inventory, pre-paid expense, office supplies, land & buildings, machinery, equipment, motor vehicles, furniture & fixtures etc.
- Liabilities: These are debts, indebtedness or obligations **owed** to others by a business. Examples are bank short term and long term borrowings, accounts/notes payable, accrued expenses, income tax payable, unearned income, debenture, bond etc.
- Equity
  It represents the ownership interest of the owner(s) in a business. This is represented by the initial capital contributed by the owner (s) plus all subsequent undistributed net profit over time. Examples are share capital, share premium, owner's drawings, retained earnings etc. Besides, revenue and expense accounts are also related to equity as per accounting equation.
- Revenue
  Consideration (inflow of resources) **earned** for goods/products sold or services rendered e.g. sales revenue, other operating and non-operating income.
- Expense
  Consideration (outflow of resources) **incurred** for goods or products bought or service enjoyed, used up or consumed.

Recording of Transactions

The transaction may be recorded in two fashions viz. single entry and double entry system.

1. Single Entry System

Under single entry system only one part of transactions are recorded. Systematic records are not maintained.

2. Double Entry System

The system of accounting in which every transaction in business involves at least two accounts is called the 'Double Entry System'. Under this system every transaction has two aspects i.e. debit aspect and credit aspect and requires at least two accounts in the Ledger. In one account the transaction is entered on the Left hand side i.e on the debit side of the account and on the other account an entry for equal amount is made on the right side of the account i.e. the credit side of the account. Thus every debit must have a corresponding credit and vise-versa. The effect of a transaction may be:

- An Asset A/C increase and another Asset A/C decrease or
- An Asset A/C increase and a Liability A/C increase or
- An Asset A/C decrease and a Liability A/C decrease or
- A Liability A/C increase and another Liability A/C decrease or
- Increase Revenue increases and increase Expense decreases the owner's equity and vise-versa

For example suppose X paid cash salaries to his staff. The two accounts affected are Cash Account and Salaries Account. As cash is going out it, cash account is credited. Salaries is expenditure for the business, salaries account is debited.

Again X bought raw material for the production unit, the two accounts involved are Cash Account and Purchases Account. He paid carriage to bring goods to his factory; the two accounts involved are cash account and carriage account. He sold finished goods to customers on credit; the two accounts involved are the customer's personal account (debtor) and sales account. He further purchased furniture for his office on credit. The two accounts involved are Furniture Account and the personal account of the seller (creditor). Thus we can see that every transaction has two aspects in the double entry system of accountancy.

Advantages:

a) Complete record of all the transactions.
b) Problems in preparing final accounts can be identified and solved.
c) The verification of the accuracy of books
d) Followed universally.

Transaction Summary for Analyzing How Transactions Affect Accounts

Four questions are used to analyze a transaction:

1. What accounts are affected?
2. How is each account classified?
3. How is each account balance changed?
4. How is each amount entered in the accounts

Example:

Prepare a tabular analysis of the transactions, income statement, owner's equity statement and balance sheet of ABC Limited for the month June, 2014:

1. Investment by owner Tk. 20,000
2. Purchase of equipment Tk. 8,000
3. Purchase of supplies on credit Tk. 1500
4. Sales for cash Tk. 2,500
5. Incur advertising expense on credit Tk.500
6. Sale for cash Tk.2,500 and credit sales Tk. 2,000
7. Payment of Expense: Rent Tk.600; Salaries Tk. 1000; and Utilities Tk.200
8. Payments of accounts payable Tk. 400
9. Withdrawal of cash by the owner Tk. 500

Transaction	**Assets**							**=**	**Liabilities**	**+**	**Owners' Equity**	
	Cash	+	Accounts Receivable	+	Office Supplies	+	Equipment	=	Accounts Payable	+	Capital	
1	+20,000							=			+20,000	Investment
2	-8,000						+8,000					
Balance	12,000					+	8,000	=			20,000	
3					+1,500				+1,500			
Balance	12,000			+	1,500	+	8,000	=	1,500	+	20,000	
4	+2,500										+2,500	Sales
Balance	14,500			+	1,500	+	8,000	=	1,500	+	22,500	
5									+500		-500	Adver. Exp
Balance	14,500			+	1,500	+	8,000	=	2,000	+	22,000	
6	+2,500		+2,000								+4,500	Sales
Balance	17,000	+	2,000	+	1,500	+	8,000	=	2,000	+	26,500	
7	-1,800										-600 -1,000 -200	Rent Salary Utilities
Balance	15,200	+	2,000	+	1,500	+	8,000	=	2,000	+	24,700	
8	-400								-400			
Balance	14,800	+	2,000	+	1,500	+	8,000	=	1,600	+	24,700	
9	-500										-500	Drawings
Balance	14,300	+	2,000	+	1,500	+	8,000	=	1,600	+	24,200	
Total	**25,800**							=	**25,800**			

ABC Limited
Income Statement
For the Month ended June 30, 2014

Revenue	**Details**	**Amount**
Sales		7,000
Expenses		
Rent	600	
Salary	1000	
Utilities	200	
Advertisement	500	
		2,300
Net Income		4,700

ABC Limited
Owners' Equity Statement
For the Month ended June 30, 2014

Capital, June 1, 2014		0
Add: Investment	20,000	
Net Income	4,700	
		24,700
Less: Drawings		-500
Capital, June 30, 2014		24,200

ABC Limited
Balance Sheet
As on June 30, 2014

Assets	Amount
Cash	14,300
Accounts Receivable	2,000
Supplies	1,500
Equipment	8,000
Total assets	**25,800**
Liabilities & Owners' Equity	
Liabilities:	
Accounts Payable	1,600
Owners' Equity:	
Capital	24,200
Total Liabilities & Owners' Equity	**25,800**

Exercise

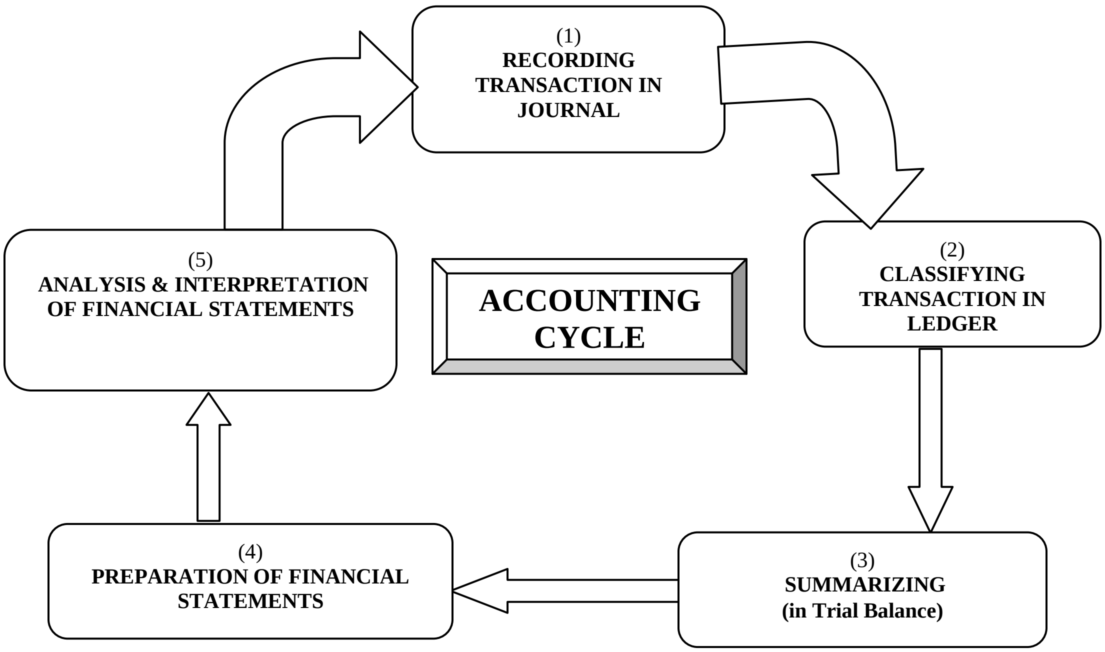
The following transactions were occurred by Mr. X during the month of March, 2014:

1. Mr. X made investment Tk.1,00,000
2. Bought Office equipment for Tk.30,000 on account
3. Paid Tk.10,000 for office supplies
4. Received Tk. 15,000 from sales of goods
5. Paid Office Rent and Salary of Tk. 2,000 and Tk,.5,000 respectively
6. Paid Tk.10,000 against accounts payable
7. Withdraw Tk.3,000 for personal use

Requirements: Show tabular analysis of transactions and prepare the Income Statement, Owner's Equity Statement and Balance Sheet on March 31, 2014.

Accounting Cycle:

Accounting is a device for measuring and communicating financial information to the stakeholders (viz. shareholders, managers, creditors, controlling authority like BSEC, stock exchange, RJSC, tax authority, government etc.) in order to take decisions and evaluate to business performance. The order or sequence in which accounting procedures are performed is known as Accounting Cycle.



The Accounting Cycle is a continuous process and its continuity is maintained by passing an opening Entry at the beginning of a year in order to establish an unbroken link between accounts of the previous year and the current year.

Steps in Accounting Cycle

(a) Journalizing (Step 1): Transactions are collected for journalizing at the time of occurrence from sales invoice, charge tickets, freight bills, notes, signed receipts, and so on. Each transaction must undergo the transaction analysis and is recorded chronologically in the journal, which indicates the date, accounts to be debited and credited, amounts and an explanation.

(b) Posting (Step 2): Each amount entered in the journal is transferred, or posted, to the appropriate account in the ledger.

(c)Trial Balance (Step 3): At the end of the accounting period the balance in each account (i.e. the net debit balance and credit balance) in the ledger account is determined. The balance of each ledger account then is listed on the trial balance. The equality of debit and credit balance is checked.

(d) Financial Statements (Step 4): The information on the trial balance is utilized to develop the periodic financial statements composed of the income statements, balance sheet, cash flow statement and changes in equity statement.

(e) Analysis of Financial Statements (Step 5): The financial results reported in the financial statements are analyzed by using financial ratios, trend analysis, common-size financial statement analysis, cash flow analysis etc.

Types of Account

Traditionally, accounts were divided into two classes viz., Personal Accounts and Impersonal Accounts.

(1) **Personal Account**: Personal Accounts could take the form of -

- (a) **Natural persons**, such as Mr. Khaleque, Mr. Karim etc.
- (b) **Artificial Persons**, such as Eastern Traders Ltd., Islami Bank Bangladesh Ltd. Dhaka Club Ltd. etc.

(c) **Representative Persons**, such as Outstanding Salaries (representing employees), Prepared rent (representing landlords) etc.

(2) **Impersonal Account**: Impersonal Accounts refer to those accounts which are not personal accounts, such as, Cash, Land & Building, Wages, Rent etc.
Impersonal accounts are further sub-divided into Real Accounts and Nominal Accounts.

(a) **Real Account**: Real Accounts refer to accounts in which property and possessions are recorded, such as Machinery, Furniture, Investments, Patent, Trade mark etc.

(b) **Nominal Account**: Nominal Accounts are those accounts which record expenses, losses, gains and income, such as Rent, Salary, Interest, Discounts etc.

Rules for Identifying Debit & Credit:

The term Debit (Dr.) is used in lieu of saying, "place an entry on the left side of an account" and Credit (Cr.) is for "place an entry on the right side of an account". Thus, the term Debit and Credit refer to the 'left side' and 'right side' of an account.

Title of Account
(T- Account)

Dr.	Cr.
Debit: Always the left side of account	Credit : Always the right side of account

The rules for determining 'Dr.' and 'Cr.' in different types of accounts under double entry system of book keeping are known as Golden Rules of Debit and Credit. These are:

1. **Personal Account** (The account which is related to the name of persons and institutions):
Debit - Receiver the value.
Credit - Giver the value.

2. **Real Account** (The account which is related to the properties):
Debit - What comes in.
Credit - What goes out.

3. **Nominal Account** (The account which is related to the revenue income and expenses):
Debit - All expenses and losses.
Credit - All incomes and gains.

Alternative ways to identify Dr. and Cr.

Assets	
Debit for Increase (+)	Credit for Decrease (-)
Normal Balance: Dr.	

Liabilities	
Debit for Decrease (-)	Credit for Increase (+)
	Normal Balance: Cr.

Owner's Equity	
Debit for Decrease (-)	Credit for Increase (+)
	Normal Balance: Cr.

Revenue	
Debit for Decrease (-)	Credit for Increase (+)
	Normal Balance: Cr.

Expense	
Debit for Increase (+)	Credit for Decrease (-)
Normal Balance: Dr.	

Summary

Type of Account	Posting		Normal Balance
	Debit	Credit	
1. Asset & Expense Accounts	Increase (+)	Decrease (-)	Debit
2. Liability, Owners' Equity & Revenue Account	Decrease (-)	Increase (+)	Credit

Assets and Expenses accounts are increased with debits and decreased with credits. Liability, Equity and Revenue accounts are increased with credit and decreased with debit. The normal balance of an account is said to be a debit or a credit, depending on which increase the account balance. Thus, the normal balance of an asset account is a debit, while the normal balance of a liability account is a credit.

The General Ledger

The act of transferring transactions from journal to ledger is called posting. Thus posting is made in the ledger accounts. Account is a storage unit used to classify and summarize transactions of similar nature under an appropriate heading and as per book-keeping rules.

In accounting system, the accounts used by a business entity are kept on separate pages or cards. These are kept together in a book or file called a ledger.

The books which contain accounts is known as General Ledger or general Ledger is a collection of the firm's accounts. While the general journal is organized as a chronological record of transactions, the ledger is organized by account. In casual use the accounts of the general ledger often, take the form of simple two -column T - accounts. In the formal records of the company, they may contain a third or fourth column to display the account balance after each posting.

Different Format of General Ledger:

1. T- accounts

Debit Side				Credit Side			
Date	Particulars	L.F.	Amount	Date	Particulars	L.F.	Amount

2. **Commonly use in Business Concerns**

Date	Particulars/ Explanation	Folio	Debit	Credit	Balance

TRIAL BALANCE

A Trial Balance is a list of the ledger account at a specific date, showing their balance or debit and credit total for each, in debit and credit amount columns. Basically, it is prepared for check that the general ledger is in balance.

A trial balance is a list of accounts with their balances at a given time. In other words, trial balance is a statement containing the various accounts' balances on a particular date.

Form of Trial Balance

Name of Proprietor/Firm/Co.---------------
Trial Balance
As on ---------

Particulars	Dr.	Cr.
Assets A/c (Cash, Bank, Receivables, Land, Building, Furniture etc.)	###	
Liability A/C (A/C Payable, Bills Payable, Borrowing, Capital, Reserve etc.)		##
Expense A/C (Salary, Rent, Advertisement, Other expenses, Depreciation etc.)	###	
Revenue A/C (Sales, Commission, other income/gains etc.)		##

Rules for Preparing Trial Balance

1. Balance of Assets and Expense Accounts will be – Debit.
2. Balance of Liabilities and Revenue Accounts will be – Credit.
3. Closing Stock or Inventory does not appear in the trial balance.

Example on Journal, Ledger & Trial Balance

The beginning balances of different ledger accounts in 2011 are as follows:

Particulars	Debit	Credit
Capital		35,000
Accounts payable		5000
Cash balance	10,000	
Furniture	20,000	

During the month January 2011, the following transactions were performed:

Jan.- 03 Received an amount of Tk.3,000 from receivable.
Jan.- 05 Paid Tk.2,500 to the Service provider which was payable.
Jan.- 10 Advertisement Expenses Tk.3,000 is outstanding .
Jan.- 12 Paid Tk.5,500 for purchase of Furniture & Fixture.
Jan.- 15 Purchased office supplies Tk.1,000.
Jan.- 20 Cash sales Tk.5,000.
Jan.- 22 Credit sales Tk.2,000.
Jan.- 25 Tk.1,000 was withdrawn form the Business for personal use of the Proprietor.

General Journal

Date		Accounts and Explanation	L.F	Debit	Credit
2011 January	03	Cash Dr. Accounts Receivable Cr. (Being the amount Collected against receivable)		3,000.00	 3,000.00
	05	Account Payable Dr. Cash Cr. (Being the amount paid against payable)		2,500.00	 2,500.00
	10	Advertisement Expenses Dr. Accounts Payable Cr. (Being the advertisement expenses incurred on account)		3,000.00	 3,000.00
	12	Furniture & Fixture Dr. Cash Cr. (Being the cash paid for Furniture purchase)		5,500.00	 5,500.00
	15	Office Supplies Expenses Dr. Cash Cr. (Being the office supplies purchased in cash)		1,000.00	 1,000.00
	20	Cash Dr. Sales Account Cr. (Being the goods sold in cash)		5,000.00	 5,000.00
	22	Accounts Receivable Dr. Sales Account Cr. (Being the goods sold on account)		2,000.00	 2.000.00
	25	Drawings Account Dr. Cash Cr. (Being the owner withdrew cash)		1,000.00	 1,000.00

GENERAL LEDGER

Cash Account **Account No. 1**

Date		Explanation	Folio	Debit	Credit	Balance
2011 January	01	Balance b/d				10,000.00Dr.
	03	Accounts Receivable		3,000.00		13,000.00Dr.
	05	Account payable			2,500.00	10,500.00Dr.
	12	Furniture and Fixture			5,500.00	5,000.00Dr.
	15	Office Supplies			1,000.00	4,000.00Dr.
	20	Sales Account		5,000.00		9,000.00Dr.
	25	Drawings			1,000.00	8,000.00Dr.
	31	Balance c/d				8,000.00Dr.

Accounts Receivable **Account No. 2**

Date		Explanation	Folio	Debit	Credit	Balance
2011 January	01	Balance b/d				10,000.00Dr.
	03	Cash			3,000.00	7,000.00Dr.
	22	Sales Account		2,000.00		9,000.00Dr.
	31	Balance c/d				9,000.00Dr.

Furniture and Equipment **Account No. 3**

Date		Explanation	Folio	Debit	Credit	Balance
2011 January	01	Balance b/d				20,000.00Dr.
	12	Cash		5,500.00		25,500.00Dr.
	31	Balance c/d				25,500.00Dr.

Accounts Payable **Account No. 4**

Date		Explanation	Folio	Debit	Credit	Balance
2011 January	01	Balance b/d				5,000.00
	05	Cash		2,500.00		2,500.00
	10	Advertisement Expenses			3,000.00	5,500.00
	31	Balance c/d				5,500.00

Capital **Account No. 5**

Date		Explanation	Folio	Debit	Credit	Balance
2011 January	01	Balance b/d				35,000.00Cr.
	31	Balance c/d				35,000.00Cr.

Drawings **Account No. 6**

Date		Explanation	Folio	Debit	Credit	Balance
2011 January	25	Cash		1,000.00		1,000.00Dr.
	31	Balance c/d				1,000.00Dr.

Sales Account **Account No. 7**

Date		Explanation	Folio	Debit	Credit	Balance
January 2011	20	Cash			5,000.00	5,000.00Cr.
	22	Accounts Receivable			2,000.00	7,000.00Cr.
	31	Balance c/d				7,000.00Cr.

Advertisement Expenses **Account No. 8**

Date		Explanation	Folio	Debit	Credit	Balance
2011 January	10	Account payable		3,000.00		3,000.00Dr.
	31	Balance c/d				3,000.00Dr.

Office Supplies Expenses **Account No .9**

Date		Explanation	Folio	Debit	Credit	Balance
2011 January	15	Cash		1,000.00		1,000.00Dr.
	31	Balance c/d				1,000.00Dr.

Trial Balance

As at January, 2011

Accounts	Debit (Tk.)	Credit (Tk.)
Cash	8,000.00	
Accounts Receivable	9,000.00	
Furniture and Equipment	25,500.00	
Account payable		5,500.00
Drawing	1,000.00	
Capital		35,000.00
Service Revenue		7,000.00
Advertisement expenses	3,000.00	
Office Supplies expenses	1,000.00	
Total	**47,500.00**	**47,500.00**

Example-2

Jb. M. Hasan started a business on July 1, 2012 by investing Tk.2,50,000. During the month of July he did the following transactions:

July 3 : Purchased an equipment on account of Tk.4,60,000.

7 : Purchased materials in cash of Tk.1,00,000.
10 : Paid Tk. 25,000 for rent expenses
11 : Received Tk.1,60,000 from selling goods.
15 : Billed the customers for credit sales of Tk.40,000.
16 : Paid Tk.1,50,000 on the equipment purchased on July 3.
20 : Received Tk.20,000 from the credit sales on July 15.
24 : Withdrew Tk.10,000 from the business.
30 : Paid Tk.5,000 for utility expenses.

Record the transactions in a journal, post the transactions to the ledger accounts and prepare a trial balance.

Janab M. Hasan
General Journal

Date		Accounts and Explanation	L.F	Debit	Credit
2012 July	01	Cash Account … Dr. M. Hasan's Capital Account … Cr. (Being the amount brought in the business as capital)		2,50,000	2,50,000
	03	Equipment Account … Dr. Accounts Payable Account … Cr. (Being the equipment purchased on account).		4,60,000	4,60,000
	07	Purchase Account … Dr. Cash Account … Cr. (Being the materials purchased in cash).		1,00,000	1,00,000
	10	Rent Expenses … Dr. Cash … Cr. (Being the payment is made as rent).		25,000	25,000
	11	Cash Account … Dr. Sales Account … Cr. (Being the amount received for selling of goods).		1,60,000	1,60,000
	15	Accounts Receivable Account … Dr. Sales Account … Cr. (Being sales made on account and billed the customer).		40,000	40,000
	16	Accounts Payable Account … Dr. Cash Account … Cr. (Being the amount paid to the creditors)		1,50,000	1,50,000
	20	Cash Account … Dr. Accounts Receivable Account … Cr. (Being the amount paid by the customers).		20,000	20,000
	24	M. Hasan's Drawings Account … Dr. Cash Account … Cr. (Being the amount withdrew by the owner)		10,000	10000
	30	Utilities Expenses … Dr. Cash Account … Cr. (Being the payment is made for utilities).		5,000	5,000

Cash Account

Date		Explanation	Folio	Debit	Credit	Balance
2012 July	01	Hasan's Capital A/C		2,50,000		2,50,000Dr.
	07	Purchase A/C			1,00,000	1,50,000Dr.
	10	Rent Expense			25,000	1,25,000Dr.
	11	Sales Account		1,60,000		2,85,000Dr.
	16	Accounts Payable			1,50,000	1,35,000Dr.
	20	Accounts Receivable		20,000		1,55,000Dr.
	24	Hasan's Drawings Account			10,000	1,45,000Dr.
	30	Utilities Expense Account			5,000	1,40,000Dr.
	31	Balance c/d				1,40,000Dr.

M. Hasan's Capital Account

Date		Explanation	Folio	Debit	Credit	Balance
2012 July	01	Cash Account			2,50,000	2,50,000Cr.
	31	Balance c/d				2,50,000Cr.

Purchase Account

Date		Explanation	Folio	Debit	Credit	Balance
2012	07	Cash Account		1,00,000		1,00,000Dr.
July	31	Balance c/d				1,00,000Dr.

Sales Account

Date		Explanation	Folio	Debit	Credit	Balance
2012	11	Cash Account			1,60,000	1,60,000Cr.
July	15	Acc Receivable			40,000	40,000Cr.
	31	Balance c/d				2,00,000Cr.

Accounts Receivable Account

Date		Explanation	Folio	Debit	Credit	Balance
2012	15	Sales Account		40,000		40,000Dr.
July	20	Cash Account			20,000	20,000Dr.
	31	Balance c/d				20,000Dr.

Accounts Payable Account

Date		Explanation	Folio	Debit	Credit	Balance
2012	03	Equipment Account			4,60,000	4,60,000Cr.
July	16	Cash Account			1,50,000	3,10,000Cr.
	31	Balance c/d				3,10,000Cr.

Equipment Account

Date		Explanation	Folio	Debit	Credit	Balance
2012	03	Acc Payable A/C		4,60,000		4,60,000Dr.
July	31	Balance c/d				4,60,000Dr.

Rent Account

Date		Explanation	Folio	Debit	Credit	Balance
2012	10	Cash A/C		25,000		25,000Dr.
July	31	Balance c/d				25,000Dr.

Utilities Expenses Account

Date		Explanation	Folio	Debit	Credit	Balance
2012	30	Cash A/C		5,000		5,000Dr.
July	31	Balance c/d				5,000Dr.

Hasan's Drawings Account

Date		Explanation	Folio	Debit	Credit	Balance
2012	24	Cash A/C		10,000		10,000Dr.
July	31	Balance c/d				10,000Dr.

Janab M. Hasan
Trial Balance
As on July 31, 2005

Name of Account	Debit (Tk.)	Credit (Tk.)
Cash Account	1,40,000	
Accounts Receivable Account	20,000	
Purchase Account	1,00,000	
Equipment Account	4,60,000	
Accounts Payable Account		3,10,000
M. Hasan's Capital Account		2,50,000
M. Hasan's Drawings Account	10,000	
Sales Account		2,00,000
Rent Expense Account	25,000	
Utilities Expense Account	5,000	
Total	7,60,000	7,60,000

Example-3

On 1st January 2010 Janab K. Ali started a business by bringing cash Tk.10,00,000 as capital. During the month the following transactions were performed in his business:

Jan. 2 Purchased a used Motor Van for deliveries for Tk.1,00,000. Jb. K. Ali paid Tk.50,000 cash and signed a contract for the remaining balance as credit.

Jan. 3 Sold goods on account Tk.20,000.

Jan. 5 Sold goods for cash Tk.60,000.

Jan. 10 Purchased office supplies for Tk.1,000 on account.

Jan. 15 Made a cash payment of Tk.10,000 on the accounts payable

Jan. 16 Received a cash payment of Tk.15,000 for goods sold on account.

Jan. 18 Paid Tk.5,000 for utilities

Jan 20 Paid Tk.12,000 for employees salaries

Jan. 25 Withdrew Tk.4,000 for personal use.

Jan. 30 Paid Tk.2,000 for rent.

Requirements: Journalize the above transactions, post the said transactions from journal to ledger and prepare a trial balance.

Solution

General Journal

Date		Accounts and Explanation	L.F.	Debit	Credit
2010 January	01	Cash Account …. Dr. K. Ali's Capital Account … Cr. (Being the amount brought in business as capital)		10,00,000	 10,00,000
	02	Motor Van Account … Dr. Accounts Payable Account ….Cr Cash Account ….Cr. (Being the motor van purchased by paying cash and signing payment agreement)		1,00,000	 50,000 50,000
	03	Accounts Receivable Account ….Dr. Sales Account …Cr. (Being the goods sold on credit)		20,000	 20,000
	05	Cash Account … Dr. Sales Account …Cr. (Being the goods sold in cash)		60,000	 60,000
	10	Office Supplies Account …Dr. Accounts Payable Account …Cr. (Being the office supplies purchased on account)		1,000	 1,000
	15	Accounts Payable Account … Dr. Cash Account … Cr. (Being the amount paid against accounts payable)		10,000	 10,000
	16	Cash Account …Dr. Accounts Receivable Account ..Cr. (Being the amount realized against receivable)		15,000	 15,000
	18	Utilities Expense Account …Dr. Cash Account …Cr. (Being the amount paid for utilities)		5,000	 5,000
	20	Salaries Expense Account …Dr. Cash Account …Cr. (Being the amount paid for salaries)		12,000	 12,000
	25	Drawings Account …Dr. Cash Account …Cr. (Being the amount withdrawn by the owner)		4,000	 4,000
	30	Rent Account …Dr. Cash Account …Cr. (Being the amount paid for rent)		2,000	 2,000

The above journal entries affect a total of eleven different accounts and would be posted to the general ledger as follows:

Cash Account						Account No. 1
Date		**Explanation**	**Folio**	**Debit**	**Credit**	**Balance**
2010 January	01	Capital Account		10,00,000		10,00,000Dr.
	02	Cash Account			50,000	9,50,000Dr.
	05	Sales Account		60,000		10,10,000Dr.
	15	Accounts Payable			10,000	10,00,000Dr.
	16	Accounts Receivable		15,000		10,15,000Dr.
	18	Utilities			5,000	10,10,000Dr.
	20	Salaries			12,000	9,98,000Dr.
	25	Drawings			4,000	9,94,000Dr.
	30	Rent			2,000	9,92,000Dr.
	31	**Balance c/d**				**9,92,000Dr.**

Accounts Receivable **Account No. 2**

Date		Explanation	Folio	Debit	Credit	Balance
2010 January	03	Sales		20,000		20,000Dr.
	16	Cash			15,000	5,000Dr.
	31	**Balance c/d**				**5,000Dr.**

Motor Van Account **Account No. 3**

Date		Explanation	Folio	Debit	Credit	Balance
2010 January	02	Cash Account		50,000		50,000Dr.
	02	Accounts Payable		50,000		1,00,000Dr.
	31	**Balance**				**1,00,000Dr.**

Accounts Payable **Account No. 4**

Date		Explanation	Folio	Debit	Credit	Balance
2010 January	02	Motor Van			50,000	50,000Cr.
	10	Office Supplies			1,000	51,000Cr.
	15	Cash		10,000		41,000Cr.
	31	**Balance**				**41,000Cr.**

Capital Account **Account No. 5**

Date		Explanation	Folio	Debit	Credit	Balance
2010 January	01	Cash			10,00,000	10,00,000Cr.
	31	**Balance**				**10,00,000Cr.**

Drawings Account **Account No. 6**

Date		Explanation	Folio	Debit	Credit	Balance
2010 January	25	Cash		4,000		4,000Dr.
	31	**Balance**				**4,000Dr.**

Sales Account **Account No. 7**

Date		Explanation	Folio	Debit	Credit	Balance
2010 January	03	Accounts Receivable			20,000	20,000Cr.
	05	Cash			60,000	80,000Cr.
	31	**Balance**				**80,000Cr.**

Utilities **Account No. 8**

Date		Explanation	Folio	Debit	Credit	Balance
2010 January	18	Cash		5,000		5,000Dr.
	31	**Balance**				**5,000Dr.**

Salaries **Account No. 9**

Date		Explanation	Folio	Debit	Credit	Balance
2010 January	20	Cash		12,000		12,000Dr.
	31	**Balance**				**12,000Dr.**

Office Supplies **Account No .10**

Date		Explanation	Folio	Debit	Credit	Balance
2010 January	10	Accounts Payable		1,000		1,000Dr.
	31	**Balance**				**1,000Dr.**

Rent **Account No. 11**

Date		Explanation	Folio	Debit	Credit	Balance
2010 January	30	Cash		2,000		2,000Dr.
	31	**Balance**				**2,000Dr.**

Trial Balance as at January 31, 2010

Accounts	Debit (Tk.)	Credit (Tk.)
Cash	9,92,000	
Accounts Receivable	5,000	
Motor Van	1,00,000	
Accounts payable		41,000
Drawings	4,000	
Capital		10,00,000
Sales		80,000
Office Supplies	1,000	
Utilities	5,000	
Salaries	12,000	
Rent	2,000	
Total	**11,21,000**	**11,21,000**

Example-4

J. X opened his business on July 1, 2009 by investing Tk.5,00,000 of his personal funds into the business. During the month of July the following transactions occurred:

July 3 : Purchased Tk.4,50,000 of Office Equipment on account.

July 8 : Purchased Tk.1,00,000 of office supplies paying cash.

July 12 : Paid the rent for the month Tk.25,000.

July 13 : Received Tk.l,50,000 cash from selling of goods.

July 17 : Billed the customers a total of Tk.4,00,000 for delivering goods on credit.

July 18 : Made a cash payment of Tk.1,50,000 for the equipment purchased on July 3.

July 21 : Collected Tk.1,20,000 from the corporation billed on July 17.

July 25 : Withdrew Tk.1,00,000 from the business.

July 31 : Paid Tk.5,000 for utility expenses.

Record the transactions in the journal, post the transactions to the ledger accounts and prepare a trial balance.

Solution

General Journal					
Date		Accounts and Explanation	L.F.	Debit	Credit
2009 July	01	Cash Account ….Dr. X's Capital Account ….Cr.		5,00,000	 5,00,000
	03	Office Equipment Account ..Dr. Accounts Payable ..Cr.		4,50,000	 4,50,000
	08	Office Supplies Expense A/C …Dr. Cash Account …Cr.		1,00,000	 1,00,000
	12	Rent Account …Dr. Cash Account …Cr.		25,000	 25,000
	13	Cash Account …Dr. Sales Account …Cr.		1,50,000	 1,50,000
	17	Accounts Receivable A/C …Dr. Sales Account …Cr.		4,00,000	 4,00,000
	18	Accounts Payable A/C …Dr. Cash Account …Cr.		1,50,000	 1,50,000
	21	Cash Account …Dr. Accounts Receivable …Cr.		1,20,000	 1,20,000
	25	Drawings Account …Dr. Cash Account …Cr.		1,00,000	 1,00,000
	31	Utility Expense A/C …Dr. Cash Account …Cr.		5,000	 5,000

General Ledger

Cash						Account No. 1
Date		Explanation	Folio	Debit	Credit	Balance
2009 July	01	Capital		5,00,000		5,00,000
	08	Office Supplies			1,00,000	4,00,000
	12	Rent			25,000	3,75,000
	13	Sales		1,50,000		5,25,000
	18	Accounts Payable			1,50,000	3,75,000
	21	Accounts Receivable		1,20,000		4,95,000
	25	Drawings			1,00,000	3,95,000
	31	Utilities			5,000	3,90,000
	31	**Balance**				**3,90,000**

Accounts Receivable **Account No. 2**

Date		Explanation	Folio	Debit	Credit	Balance
2009 July	17	Sales		4,00,000		4,00,000
	21	Cash			1,20,000	2,80,000
	31	**Balance**				**2,80,000**

Office Equipment **Account No. 3**

Date		Explanation	Folio	Debit	Credit	Balance
2009 July	03	Accounts Payable		4,50,000		4,50,000
	31	**Balance**				**4,50,000**

Accounts Payable **Account No. 4**

Date		Explanation	Folio	Debit	Credit	Balance
2009 July	03	Office Equipment			4,50,000	4,50,000
	18	Cash		1,50,000		3,00,000
	31	**Balance**				**3,00,000**

Capital **Account No. 5**

Date		Explanation	Folio	Debit	Credit	Balance
2009 July	01	Cash			5,00,000	5,00,000
	31	**Balance**				**5,00,000**

Drawing **Account No. 6**

Date		Explanation	Folio	Debit	Credit	Balance
2009 July	25	Cash		1,00,000		1,00,000
	31	**Balance**				**1,00,000**

Sales **Account No. 7**

Date		Explanation	Folio	Debit	Credit	Balance
2009 July	13	Cash			1,50,000	1,50,000
	17	Accounts Receivable			4,00,000	5,50,000
	31	**Balance**				**5,50,000**

Utilities **Account No. 8**

Date		Explanation	Folio	Debit	Credit	Balance
2009 July	31	Cash		5,000		5,000
	31	**Balance**				**5,000**

Office Supplies **Account No . 09**

Date		Explanation	Folio	Debit	Credit	Balance
2009 July	08	Cash		1,00,000		1,00,000
	31	**Balance**				**1,00,000**

Rent **Account No. 10**

Date		Explanation	Folio	Debit	Credit	Balance
2009 July	12	Cash		25,000		25,000
	31	**Balance**				**25,000**

Trial Balance

July 31, 2009

Accounts	Debit (Tk.)	Credit (Tk.)
Cash	3,90,000	
Accounts Receivable	2,80,000	
Office Equipment	4,50,000	
Accounts payable		3,00,000
Drawings	1,00,000	
Capital		5,00,000
Sales		5,50,000
Office Supplies	1,00,000	
Utilities	5,000	
Rent	25,000	
Total	**13,50,000**	**13,50,000**

RECTIFICATION OF ERRORS

A. Errors not affecting the agreement of the Trial Balance
   - (a) Errors of Omission
   - (b) Errors of Commission
   - (c) Compensating Errors
   - (d) Errors of Principle

B. Errors affecting the agreement of Trial Balance
   - (a) Errors in casting & balancing
   - (b) Errors in posting accounts in the ledger from the original books/journal
   - (c) Errors in transferring ledger accounts balances to Trial Balance

C. Based on overall effect errors may be divided into two main classes
   - (a) One sided errors
   - (b) Double sided errors

ENTRIES FOR RECTIFICATION OF ERRORS

1. Cash Tk.560 paid by Jb. M. Hasan posted as Tk.650.
   Jb. M.Hasan's Account --------- Dr. Tk.90
   Suspense Account ----- Cr. Tk.90
2. Tk.10,000 paid for purchase of office furniture was charged to office expense.
   Furniture Account ------------------- Dr. Tk.10,000
   Office Expense Account -------- Cr. Tk.10,000
3. Credit sales to Jb. Ashraf Tk.500 was posted through the credit of his account.
   Jb. Ashraf's Account -------------- Dr. Tk.1,000
   Suspense Account ---- Cr. Tk.1,000
4. Tk. 400 paid to Jb. Rahim was omitted to be debited to his account
   Jb. Rahim's Account ---------- Dr. Tk.400
   Suspense Account ----- Cr. Tk.400

ADJUSTING ENTRIES

The areas that are commonly analyzed to find out whether adjusting entries are needed or not are:

(a) Accrued Revenue: Revenue earned but not yet received and recorded.

(b) Deferred Revenue: Revenue received but not yet earned.

(c) Accrued Expenses: Expenses incurred but not yet paid and recorded.

(d) Deferred Expenses: Payments made in advance i.e. expenses paid but not yet incurred.

(e) Others: (a) sufficient amount should be written-off by the way of depreciation on fixed assets; (b) sufficient provision should be made in respect of bad and doubtful debts; (c) the value of closing stock should be ascertained properly, etc.

Adjusting entries are needed to ensure that the 'revenue recognition' and 'matching principles' are followed. Adjusting entries can be classified as either prepayments or accruals.

<u>Prepayments:</u>

1. Prepaid Expenses: Expenses paid in cash in advance and recorded as assets before they are used or consumed.
2. Unearned Income: Cash received in advance and recorded as liabilities before income is earned.

<u>Accruals:</u>

1. Accrued (Outstanding) Income: Income earned but not yet received in cash or recorded.
2. Accrued (Outstanding) Expenses: Expenses incurred but not yet paid in cash or recorded.

<u>Prepaid Expense</u>

Asset

Debit	Credit
Unadjusted Balance	Adjusting Entry (-)

Expense

Debit	Credit
Adjusting Entry (+)	

<u>Unearned Income</u>

Liability

Debit	Credit
Adjusting Entry (-)	Unadjusted Balance

Income

Debit	Credit
	Adjusting Entry (+)

<u>Accrued Income (Revenue)</u>

Asset

Debit	Credit
Adjusting Entry (+)	

Income

Debit	Credit
	Adjusting Entry (+)

Accrued Expenses

Expenses

Debit	Credit
Adjusting Entry (+)	

Liability

Debit	Credit
	Adjusting Entry (+)

Summary of Adjusting Entries

Types of Adjusting Entries	**Account before Adjustments**	**Adjusting Entries**
1. Prepaid Expenses	Assets overstated Expenses understated	Exp. A/C Dr Assets A/C Cr
2. Unearned Income	Liabilities overstated Income understated	Liab. A/C Dr Income A/C Cr
3. Accrued Income	Assets understated Income understated	Assets A/C Dr. Income A/C Cr.
4. Accrued Expense	Expense understated Liabilities understated	Exp. A/C Dr. Liab. A/C Cr

Example

The following balances have been taken from selected account as on December 31, 2007:

(a) Prepaid Insurance Tk.4,000
(b) Unearned Income Tk.3,000
(c) Equipment Tk.10,000
(d) Service Income Tk.1,500

Additional Information:

1. Prepaid insurance is the cost of 2-year insurance policy effective from January 01, 2007.
2. Depreciation on the equipment is 20%
3. Services provided but not billed at December 31, 2007 of Tk. 500.
4. Half of the unearned income has been earned during the year.

Requirements

Prepare the adjusting entries for the year 2007.

Solution

General Journal
Adjusting Entries

Date	Account Title & Explanation	Ref.	Debit	Credit
Dec. 31, 07	Insurance Expense A/C … Dr. Prepaid Insurance Expense A/C … Cr. (Being the insurance expense expired per year)		2000	 2000
Dec. 31, 07	Depreciation Expense A/C … Dr. Accumulated Dep. – Equip. A/C … Cr. (Being the yearly depreciation charged)		2000	 2000
Dec. 31, 07	Accounts Receivable A/C … Dr. Service Income A/C … Cr. (being the income for services realized)		500	 500
Dec. 31, 07	Unearned Income A/C …. Dr. Service Income A/C … Cr. (Being the unearned income realized.)		1500	 1500

FINANCIAL STATEMENTS OF COMPANIES

The financial statements is the final product of accounting cycle and consist of income statement, balance sheet, statement of retained earnings, statement of changes of equity and cash flow statement. The form of financial statements varies according to the nature of the activity of the organization e.g. manufacturing, trading, service oriented and also according to its legal constitution e.g. sole proprietorship, partnership, limited companies or co-operatives.

INCOME STATEMENT

(For the Manufacturing Concern)

1. NET SALES
   (Gross Sales – Sales returns, allowances, discount, etc.)
2. COST OF GOODS SOLD
   A. Cost of Production
      (i) Opening Work-in-Process (WIP)
      (ii) Add, Raw Materials Used
           (Opening Stock + Net Purchase – Closing Stock)
      (iii) Add, Conversion Cost
         - Wages & factory salaries
         - Gratuity
         - Gas & Electricity
         - Consumable stores & spares
         - Oil & Lubricants
         - Repairs & Maintenance
         - Insurance
         - Uniform & Liveries
         - Depreciation (Plant & Machinery)
      (iv) Less, Closing Stock of WIP
           Cost of Production (i + ii + iii – iv)
   B. Add, Opening Stock of Finished Goods
   C. Cost of Goods Available for Sale (A + B)
   D. Less, Closing Stock of Finished Goods
      Cost of Goods Sold (C – D)
3. GROSS PROFIT (1 minus 2)
4. OPERATING EXPENSES
   A. <u>Administrative & General Expenses</u>
      - Salaries & allowances
      - Rent, Rates, Insurance
      - Travelling & conveyance
      - Audit fees
      - Directors fees
      - Telephone, Telegram, etc.
      - Office supplies
      - Legal expenses
      - Printing & stationary
      - Entertainment
      - Gratuity
      - Insurance
      - Advertisement & publicity
      - Board meeting attendance fees
      - Ceremonial expenses
      - Contribution & Donation
      - Bad Debt & Provision for Bad & Doubtful Debt
      - Depreciation

B. Selling & Distribution Expenses

- Salaries & allowance
- Travelling & conveyance
- Printing, Stationary & other office supply
- Postage, Telegram & Telex
- Fair & Exhibition
- Renovation of Show Rooms & Sales Center
- Sample expenses
- Delivery expenses
- Advertisement
- General expenses

Total Operating Expenses (A+B)

5. OPERATING PROFIT (3 minus 4)
6. NON-OPERATING INCOME/ OTHER INCOME
   - Returns on investments
   - Profit on deposits
   - Sale of scrap
   - Profit on sale of assets
7. NON-OPERATING EXPENSES/ OTHER EXPENSES
   - Exp. for issue of share, debenture, bond, etc.
   - Loss on sale of assets
   - Finance expenses e.g. profit on investment & bank charge.
8. PROFIT BEFORE TAX (5 + 6 – 7)
9. PROVISION FOR TAXATION
10. NET PROFIT AFTER TAX (8 – 9)
11. Add/(Less): Balance Profit/ (Loss) b/f from Previous Year
12. Surplus Available for Appropriation (10 + 11)
13. Less, APPROPRIATIONS
    - Proposed dividend / Dividend paid
    - Bond redemption reserve
    - Dividend equalization reserve
    - General reserve
14. Balance of profit/ Retained Earnings Transferred to Balance Sheet (12 – 13)

Note:

1. Net Purchase = Purchase + Freight in + Custom Duty + Loading & Unloading Charge + Clearing Charge + Transport – Discount & Returns.
2. Cost of Sales for Trading Concern

A. Opening Merchandise Inventory	*******
B. Add, Net Purchase of Merchandise	*******
C. Merchandise Available for Sale (A + B)	*******
D. Less, Closing Merchandise Inventory	(******)
E. Cost of Sale (C – D)	*******

BALANCE SHEET
As on ----------

ASSETS

A. Current Assets
1. Cash in hand & Bank balance
2. Marketable Securities
3. Account Receivable/Bills Receivable (Sundry Debtors)
4. Inventory (Raw materials, WIP, Finished goods & Stores and Spares)
5. Prepaid & Advances
6. Others

Total Current Assets (A1 to A6)

B. Non-Current Assets
1. Land & Building less Depreciation
2. Plant & Machinery less Depreciation
3. Furniture & Fixture less Depreciation
4. Investment –Subsidiary & Associate Co.
5. Others

Total Non-current Assets (B1 to B5)

C. Intangible Assets
1. Goodwill
2. Trade marks & patent
3. Preliminary expenses.
4. Preoperative expenses
5. Accumulated loss balance (if any).

Total Intangible Assets (C1 to C5)

Total Assets (A+B+C)

LIABILITIES & SHAREHOLDERS' EQUITY

Liabilities

A. Current Liabilities
1. Murabaha (TR)/Short term investment
2. Bank Investment Payable (Under 1 year)
3. Accounts Payable/Bills Payable (Sundry Creditors)
4. Provision for Taxes
5. Outstanding Expenses
6. Advance Received
7. Others

Total Current Liabilities (A1 to A7)

B. Non-Current liabilities
1. Term Investment
2. Debenture/Bond, etc

Total Non-current Liabilities (B1 to B2)

C. Total Liabilities (A+B)

D. Shareholders' Equity
1. Paid up capital
2. Share premium
3. General Reserve
4. Retained Earnings

Shareholders' Equity/Net-worth (D1 to D4)

Total Liabilities & Shareholders' Equity (C+D)

EXERCISE ON FINANCIAL STATEMENTS: INCOME STATEMENT & BALANCE SHEET

Prob#01

United Enterprise presents you the following Trial Balance as at 31st December, 2004.

Particulars	Debit (Tk.)	Credit (Tk.)
Capital - Paid up		4,40,000
Bank Investment		1,30,000
Accounts Payable		25,000
Preliminary Expense.	25,000	
Land	1,00,000	
Building	2,00,000	
Office Equipment	40,000	
Machinery	2,20,000	
Inventory [R.M-35,000, WIP-20,000 & F.G-10,000]	65,000	
Purchase of raw materials	3,30,000	
Sales		6,40,000
Salaries	30,000	
General Expense	15,000	
Telephone & Telegraph	13,000	
Auditor's Fees	12,000	
Wages	40,000	
Office Rent	20,000	
Manufacturing overhead	25,000	
Advertising and Selling Exp.	20,000	
Prepayment & Advance	50,000	
Accounts Receivable	50,000	
Securities (Marketable)	90,000	
Bank balance	25,000	
S.T. Investment from Bank –Murabaha (TR)		10,000
General Reserve		80,000
Balance of Profit & Loss A/C (Previous year)		45,000
Total	**13,70,000**	**13,70,000**

Please prepare an income statement and balance sheet for the year ended 31st December 2004 by considering – (a) Closing inventory Tk.40,000 (Raw Materials Tk.15,000, Work-in-Process Tk.12,000 & Finished Goods Tk.13,000); (b) Depreciation on factory building Tk.20,000; Machinery Tk.22,000; and Office Equipment Tk.4,000 (c) Provision for taxation Tk.5,000

Solution Prob.#1

UNITED ENTERPRISE
INCOME STATEMENT
For the Year Ended 31st December, 2004

Particulars		Details (Tk)	Amount (Tk)
1. Net Sales			6,40,000
2. Cost of Goods Sold			
A. Cost of Production			
i. Opening Stock of Work-in-Process		20,000	
ii. Cost of Raw Materials Used		3,50,000	
[35,000 + 330,000 – 15,000]			
iii. Conversion Costs			
a) wages	40,000		
b) Manufacturing Overhead	25,000		
c) Dep – Factory Buildings	20,000		
d) Dep – Machinery	22,000	1,07,000	
		4,77,000	
iv. Less, Closing Stock of WIP		12,000	
Cost of Production (i+ii+iii – iv)		4,65,000	
B. Add, Opening Stock of Finished Goods		10,000	
C. Cost of Goods Available for Sales (A+B)		4,75,000	
D. Less, Closing Stock of Finished Goods		13,000	
Cost of Goods Sold (C – D)			4,62,000
3. Gross Profit (1-2)			1,78,000
4. Operating Expenses			
a. Salaries		30,000	
b. General Expenses		15,000	
c. Tele. & Telegram		13,000	
d. Auditors' Fees		12,000	
e. Office rent		20,000	
f. Advertisement & Selling Exp.		20,000	
g. Depreciation – Office Equip.		4,000	
			1,14,000
5. Operating Profit (3 – 4)			64,000
6. Other Income			--
7. Other Expense			--
8. Profit before Taxes (5+6 - 7)			64,000
9. Provision for Taxes			5,000
10. Net Profit after Tax (8 – 9)			59,000
11. Add, Balance of Profit B/F from previous year			45,000
12. Surplus available for appropriation (10 + 11)			1,04,000
13. Appropriation			--
14. Retained Earnings (12 -13)			1,04,000

UNITED ENTERPRISE
BALANCE SHEET
As at 31st December, 2004

Particulars	Details (Tk)	Amount (Tk)
ASSETS		
A. Current Assets		
- Bank Balance	25,000	
- Securities (Marketable)	90,000	
- Accounts Receivable	50,000	
- Inventory	40,000	
- Prepayment & Advance	50,000	
Sub-total		2,55,000
B. Non-Current Assets		
- Land	1,00,000	
- Building (2,00,000 – Dep.20,000)	1,80,000	
- Machinery (2,20,000 – Dep.22,000)	1,98,000	
- Office Equipment (40,000 – Dep.4,000)	36,000	
Sub-total		5,14,000
C. Intangible Assets		
- Preliminary Expenses		25,000
Total Assets		**7,94,000**
LIABILITIES		
A. Current Liability		
- Accounts Payable	25,000	
- S.T. Investment	10,000	
- Provision for Taxes	5,000	
Sub-total		**40,000**
B. Non-Current Liability		
- Bank Investment		1,30,000
Total Liabilities		**1,70,000**
SHAREHOLDERS' EQUITY		
Paid-up Capital		4,40,000
General Reserve		80,000
Retained Earnings		1,04,000
Total Shareholders' Equity		6,24,000
Total Liabilities & Shareholders' Equity		**7,94,000**

Pro.# 02.

The New Industries Ltd. presents you with the following Trial Balance as at 30th June 2006:

Particulars	Debit	Credit
Share capital		4,00,000
Share premium		40,000
General reserve		1,00,000
Land & Building (Cost Tk.4,00,000)	3,10,000	
Plant & Machinery (Cost Tk.4,50,000)	3,40,000	
Opening Inventory (R.M-15000, WIP-10000 & F.G-10000)	35,000	
Office supplies expense	15,000	
Raw Materials Purchase	3,30,000	
Salaries	80,000	
Travelling	15,000	
Telephone bills	3,000	
Insurance expense (Admn.)	2,000	
Wages	60,000	
Manufacturing Overhead	8,000	
Transportation in	5,000	
Advertising	20,000	
Furniture	60,000	
Investment	90,000	
L.T. Investment from Bank		2,00,000
Bills Payable		25,000
Sales		6,00,000
Accounts payable		5,000
S.T Investment – Murabaha (TR)		5,000
Profit received from investment		5,000
Profit/Rent paid on Investment	12,000	
Cash in hand	10,000	
Cash at bank	5,000	
Profit & Loss Account		20,000
Total	**14,00,000**	**14,00,000**

Additional information:

1) The closing inventory was Tk.55,000 [Raw Materials Tk.30,000, Work-in-Process Tk.20,000 & Finished Goods Tk.5,000]
2) Depreciation on: (a) Plant & Machinery @ 10% and (b) Building @ 2% at their original cost (60% for factory and 40% for administration).
3) Transfer to: Provision for taxation Tk.500; Proposed dividend Tk.1,500 and General reserve Tk.1,000.

Please prepare an income statement and balance sheet for the year ended 30th June 2006.

Solution Prob#02

THE NEW INDUSTRIES LTD.
INCOME STATEMENT
For the Year Ended 30th June, 2006

Particulars	Details (Tk)	Amount (Tk)
1. Net Sales		6,00,000
2. Cost of Goods Sold		
A. Cost of Production		
i. Opening Stock of Work-in-Process	10,000	
ii. Cost of Raw Materials Used [15,000 + 3,30,000+5,000 – 30,000]	3,20,000	
iii. Conversion Costs		
a) Wages 60,000		
b) Manufacturing Overhead 8,000		
c) Dep – Factory Buildings 4,800		
d) Dep – Machinery 27,000	99,800	
	4,29,800	
iv. Less, Closing Stock of WIP	20,000	
Cost of Production (i+ii+iii – iv)	4,09,800	
B. Add, Opening Stock of Finished Goods	10,000	
C. Cost of Goods Available for Sales (A+B)	4,19,800	
D. Less, Closing Stock of Finished Goods	5,000	
Cost of Goods Sold (C – D)		4,14,800
3. Gross Profit (1-2)		1,85,200
4. Operating Expenses		
a. Salaries	80,000	
b. Traveling	15,000	
c. Tele. Bills	3,000	
d. Office Supplies	15,000	
e. Insurance	2,000	
f. Advertisement	20,000	
g. Depreciation – Building & Machinery	21,200	
		1,56,200
5. Operating Profit (3 – 4)		29,000
6. Add, Other Income (Profit on investment)		5,000
7. Less, Other Expense (Profit/Rent on investment)		12,000
8. Profit before Taxes (5+6 - 7)		22,000
9. Provision for Taxes		500
10. Net Profit after Tax (8 – 9)		21,500
11. Add, Balance of Profit B/F from previous year		20,000
12. Surplus available for appropriation (10 + 11)		41,500
13. Less, Appropriation		
- Proposed Dividend	1,500	
- General Reserve	1,000	
		2,500
14. Retained Earnings (12 -13)		39,000

THE NEW INDUSTRIES LTD.
BALANCE SHEET

As on 30th June, 2006

Particulars	Details (Tk)	Amount (Tk)
ASSETS		
D. Current Assets		
- Cash in hand	10,000	
- Cash at Bank	5,000	
- Inventory	55,000	
Sub-total		70,000
E. Non-Current Assets		
- Land & Building (3,10,000 – Dep.8,000)	3,02,000	
- Plant & Machinery (3,40,000 – Dep.45,000)	2,95,000	
- Furniture	60,000	
- Investment	90,000	
Sub-total		7,47,000
Total Assets		**8,17,000**
LIABILITIES		
C. Current Liability		
- Accounts Payable	5,000	
- Bills Payable	25,000	
- S.T. Investment – Murabaha (TR)	5,000	
- Provision for Taxes	500	
- Proposed Dividend	1,500	
Sub-total		37,000
D. Non-Current Liability		
- L.T. Bank Investment		2,00,000
Total Liabilities		**2,37,000**
SHAREHOLDERS' EQUITY		
Paid-up Capital		4,00,000
Share Premium Account		40,000
General Reserve (1,00,000 + Transferred 1000)		1,01,000
Retained Earnings		39,000
Total Shareholders' Equity		**5,80,000**
Total Liabilities & Shareholders' Equity		**8,17,000**

Problem # 03

From the following Trial Balance of M/S Meem Ltd. at 31 December, 2007, prepare the income statement and balance sheet.

Particulars	Debit (Tk)	Credit (Tk)
Share capital		1,00,000
Balance of Retained Earnings		30,000
Land & Building	60,000	
Machinery	55,000	
Furniture	5,000	
Accumulated depreciation on machinery		10,000
Accumulated depreciation on buildings		5,000
Purchase	2,00,000	
Sales		3,21,000
Salary	33,000	
General Expense	20,000	
Wages	30,000	
Office Rent	8,000	
Electricity & Gas	2,000	
Bad Debt	500	
Provision for Bad Debt		1,000
Bills Receivable	20,000	
Bills Payable		10,000
Non-operating Income		8,500
Non-operating Expense	2,000	
Stock in Trade (R.M 5,000; WIP 12,000 & F.G 8,000)	25,000	
Cash in Hand	7,000	
Cash at Bank	18,000	
Total	**4,85,500**	**4,85,500**

Additional Information:

a. Stock in trade as on 31-Dec-2007 was Tk. 28,000 (Raw Materials Tk.8,000; Work-In-Process Tk.10,000 & Finished Goods Tk.10,000).
b. Salaries due but not paid as on 31-Dec.-2007 of Tk.500.
c. Rent paid in advance during the year Tk.400.
d. Dividend of Tk.10,000 is proposed for the year.
e. The provision for bad debt to be created Tk.900.
f. The depreciation is to be charged @ 10% p.a. on Machinery and 5% p.a. on buildings.
g. Provide provision for taxation Tk.5,000.

Problem # 4

The following is the Trial Balance of XYZ Co. Ltd. at 31 December, 2007. Prepare the income statement and balance sheet for year 2007.

	Debit (Tk)	Credit (Tk)
Capital		100,000
Land & Buildings	50,000	
Plant & Machinery	50,000	
Furniture	40,000	
Marketable Securities	22,000	
Purchase	110,000	
Bank Investment (Long Term)		15,000
Discount Received		11,300
Sales		210,000
Bills Receivable	20,000	
Bank Investment (Maturity 12-month)		20,000
Bills Payable		3,000
Provision for bad & doubtful debt		1,100
Retained Earnings		10,000
Inventory (R.M Tk.15,000; WIP Tk.13,000 & F.G Tk12,000)	40,000	
Return Inwards	1,500	
Wages	10,000	
Salaries	9,000	
Office Expense	5,000	
Carriage inwards	1,000	
Discount Allowed	3,000	
Insurance Expense	2,900	
Cash Balance	6,000	
Total	**370,400**	**370,400**

Additional Information:

a. Inventory as on 31.12.07 is Tk.50,000 (Raw Materials Tk.32,000; Work-in-Process Tk.10,000 & Finished Goods Tk.8,000)
b. Provide outstanding liabilities for wages Tk.500; and rent Tk. 3,000.
c. Depreciate land and building @ 2.5%; plant and machinery @ 10% and furniture @ 20%.
d. Insurance expense includes Tk.200 paid in advance
e. Tax provision is 2,500.
f. Ten percent of final profit is to be kept in a reserve account.
g. Provide provision for bad and doubtful debt Tk.500.

PREPARATION OF CASH BOOK

Introduction

The books maintained for the purpose of book-keeping can be divided into –

A. Financial Books or Books of Accounts – these comprise all the books that are integral part of the system of book-keeping. These are sub-divided into two classes (a) principal books, namely, Ledgers; and (b) subsidiary books or books of original entry or books of primary entry such as cash book, purchase book sales book, general journal etc.
B. Memorandum Books – these are books in which are entered the numerous details connected with the business operations and details cannot conveniently recorded in the financial books. For example, shares register, employees register, dispatch register etc.

Subdivision of Journal

The various books into which the journal may be subdivided are:

(a) Cash Book for recording all cash receipts and payment and also discount allowed and received.
(b) Purchase Book for recording all goods purchased on credit and cash.
(c) Sales Book for recording all goods sold on credit and cash.
(d) Purchase Returns Book for recording all purchases return to creditors.
(e) Sales Returns Book for recording all sales returned by the customers.
(f) Bills/Accounts Receivable Book for recording all receivables.
(g) Bills/Account Payable Book for recording all payables.
(h) General Journal or Journal Proper for recording those transactions which for there is no separate book.

Cash Book

This is a book of original entry, the object of which is to keep a record of all receipts and payments of money. The Cash Book is kept in the form of ledger account, the receipts being put on the Debit Side and the payments on the Credit Side. This book serves a double purpose. It is both a book of original record and a part of the ledger. It is a book of original record because all cash and bank transactions are recorded in it as and when they take place, and it is also a part of the ledger because it contains the Cash and Bank Accounts taken out of the Ledger bound separately. The balances of Cash Book are included in the Trail Balance and the Balance Sheet.

Types of Cash Book

There are four principal types of Cash Book viz. (a) Single Column Cash Book (Cash column only on either side); (b) Double Column Cash Book (Cash/Bank and Discount Columns on either side); (c) Treble Column Cash Book (Cash, Bank and Discount Columns on either side); and (d) Petty Cash Book.

Specimen of Treble/Triple Column Cash Book

Dr. Cr.

Date	Particulars	Dis.	Cash	Bank	Date	Particulars	Dis.	Cash	Bank

Common Entry under Cash Book

1. When beginning balances are recorded in the cash book
2. When cash & Cheque receipt is recorded in the cash book
3. When cash payment is recorded in the cash book
4. When payment by cheque is recorded in the cash book
5. When cash is deposited into bank and withdrawn from the bank
6. When cheque/bill is sent to the bank for collection
7. When cheque/bill previously sent to the bank for collection is dishonored
8. When payment of bills is made through bank
9. When a debtor makes direct payment into the bank
10. When cash is withdrawn by the owner for personal use
11. When cash is paid to the petty cashier for expenses
12. When payment is made to petty cashier through cheque
13. When bank profit receipt is recorded in the cash book
14. When bank charge is recorded in the cash book
15. When profit is charged on investment by the bank
16. When cash discount is allowed to debtors

17. When cash discount is received from the creditors

Example

From the following information prepare a treble column Cash Book in 2013:

Mar 01	The company has cash in hand Tk.5,000 and cash at bank Tk.10,000.
Mar.05	An amount of Tk.1000 received from Jb. Masud
Mar.06	An amount of Tk.500 paid to Jb. Harun
Mar. 07	A cheque of Tk.4,000 is received from Jb. Hanif
Mar. 10	A cheque of Tk.6,000 is received from Jb. Raqib and deposited into the bank on the same day.
Mar.11	An amount of Tk.3,000 paid to Jb. Rahim by cheque
Mar.12	An amount of Tk.5,000 deposited into bank
Mar.13	An amount of Tk.2,500 is withdrawn from the bank
Mar.14	A bill receivable of Tk.1,500 is deposited into bank for collection
Mar.15	A bill receivable deposited for collection has been returned for dishonor
Mar.16	A bill of Tk.500 paid by the bank on behalf of us
Mar.17	One debtor Jb. Hasib made direct deposit into the bank Tk.1,000
Mar.18	A cheque of Tk.1,000 deposited into bank for collection is dishonored
Mar.19	An amount of Tk.400 is withdrawn by the owner for personal use
Mar.20	An amount of Tk.800 is paid to the petty cashier
Mar.21	An amount of Tk.300 is paid to the petty cashier through cheque
Mar.22	Bank directly credited profit into the account Tk.200
Mar.23	Bank debited Tk.150 as bank charge
Mar.28	An amount of Tk.3,450 is realized from Rahim against the claim of Tk.3,500
Mar.30	An amount of Tk.2,400 paid to Jb.Jamil for settlement of a claim of Tk.2,500

Dr. **Cash Book** **Cr.**

Date	Particulars	Dis.	Cash	Bank	Date	Particulars	Dis.	Cash	Bank
2013					2013				
Mar.1	To Balance b/d		5,000	10,000	Mar.6	By Jb. Harun's A/C		500	
Mar.5	To Masud's A/C		1,000		Mar.11	By Rahim's A/C			3,000
Mar.7	To Hanif's A/C		4,000		Mar.12	By Bank ©		5,000	
Mar.10	To Raqib's A/C			6,000	Mar.13	By cash ©			2,500
Mar.12	To Cash ©			5,000	Mar.15	By B/R Dishonored			1,500
Mar.13	To Bank ©		2,500		Mar.16	By Bills Payable			500
Mar.14	To Bill Receivable			1,500	Mar.18	By Drawer's A/C			1,000
Mar.17	To Jb. Hasib's A/C			1,000	Mar.19	By Drawings		400	
Mar.22	To Bank Profit			200	Mar.20	By Petty Cash Book		800	
Mar.28	To Rahim's A/C	50	3,450		Mar.21	By Petty Cash Book			300
					Mar.23	By Bank Charge			150
					Mar.30	By Jb. Jamil's A/C	100	2,400	
						By balance c/d		6,850	14,750
			15,950	**23,700**				**15,950**	**23,700**

Example

From the following transactions, prepare a three columns Cash Book for the month January, 2009.

Jan.1	Cash in hand Tk.2,000; Cash at Bank Tk.4,000.
" 5	Received from Jb. Khan Tk.1,000 and allowed him discount Tk.50.
" 9	Paid for stationery Tk.200.
" 10	Paid to Jb. Karim by cheque Tk.1000 and received discount Tk.100.
" 11	Cash Sales Tk.4,000.
" 15	Deposited into bank Tk.400.
" 16	Paid for purchase of goods by cheque Tk.600.
" 18	Withdrew from Bank for Office use Tk.1000.
" 20	Withdrew from Bank for personal use Tk.600.
" 25	Paid rent in cash Tk.400 and by cheque Tk.600
" 28	Received commission by cheque Tk.600.
" 30	Bank profit credited Tk.100 and Bank charge debited Tk.200.

Solution:

Dr. CASH BOOK Cr.

Date	Particulars	Dis.	Cash	Bank	Date	Particulars	Dis.	Cash	Bank
2009					2009				
Jan.1	To Balance b/d		2,000	4,000	Jan.9	By Stationery A/C		200	
Jan.5	To Jb. Khan A/C	50	1,000		Jan.10	By Jb. Karim A/C	100		1,000
Jan.11	To Sales A/C		4,000		Jan.15	By Bank A/C ©		400	
Jan.15	To Cash A/C ©			400	Jan.16	By Purchase A/C			600
Jan.18	To Bank A/C ©		1,000		Jan.18	By Cash A/C ©			1,000
Jan.25	To Commission A/C		600		Jan.20	By Drawings A/C			600
Jan.30	To Bank Profit A/C			100	Jan.25	By Rent A/C		400	600
					Jan.30	By Bank Charge A/C			200
					Jan.31	By Balance c/d		7,600	500
		50	8,600	4,500			100	8,600	4,500

From the following transaction, prepare a three column cash book for the month of January, 2010

2010

Jan I : Cash in hand Tk. 1000 and cash at bank Tk. 2000

Jan 5 : Received from Mr. X Tk. 500 and allowed him discount Tk. 10

Jan 6: Paid to Mr. Y by cheque Tk. 500 and Received discount Tk.20

Jan I2 : Cash sales Tk. 5000

Jan I2 : Deposit into bank Tk.200 (Contra item)

Jan I5 : Paid for Purchase of goods by cheque Tk.300

Jan I6: Withdrew from Bank for office use Tk.500

Jan 20 : Paid rent in cash Tk.200 and by cheque Tk.300

Jan 30: Bank profit credited tk.100 and Bank charges debited Tk.50

Cash Book

Debit **Credit**

Date	Particulars	L/F	Dis.	Cash	Bank	Date	Particulars	L/F	Dis.	Cash	Bank
2012						**2012**					
1-Jan	To Balance B/d			1,000	2,000	6-Jan	By Mr. Y A/c		20		500
5-Jan	To Mr. X's A/c		10	500		12-Jan	By Bank A/c (c)			200	
12-Jan	To Sales A/c			5000		15-Jan	By Purchase A/c				300
12-Jan	To Cash A/c (c)				200	16--Jan	By Cash A/c (c)				500
16-Jan	To Bank A/c (c)		10	500		20-Jan	By Rent A/c			200	300
30-Jan	To Bank Profit				100	30-Jan	By Bank Charge A/c				50
						31-Jan	By Balance C/d			6600	650
			20	**7,000**	**2,300**				**20**	**7000**	**2300**

Exercise

Enter the following transactions in a treble column Cash Book of M/s Abed & Co.

2013

Feb.01: Cash in hand Tk.5,000 and Cash at bank Tk.7,000

Feb.02: Received from K. Ali Tk.15,000, allowed him discount Tk.1,000

Feb.04: Paid salaries by cash Tk.2,000 and cash sales made Tk.12,000

Feb.05: Paid Mr. Kabir by cheque Tk.3,000 and cash purchased Tk.4,000

Feb.10: Paid Q. Ahmed by cheque Tk.2,500 and discount received Tk.100

Feb.12: Withdraw from bank for office use Tk.1,000

Feb.18: Deposited into bank Tk.1,500

Feb.22: Received a cheque from Alam & Sons Tk. 2,000 and deposited the same into bank

Feb.27: Bank notified that Alam & Sons's cheque has been dishonored

Feb.28: Bank charge debited Tk.200

PREPARATION OF BANK RECONCILIATION STATEMENT

A company's Cash Book contains a record of the transactions related to bank that involve its checking account. The bank also creates a record of the company's checking account when it processes the company's deposits, service charges, and other items. Soon after each month ends the bank usually mails a bank statement to the company. The bank statement lists the activity in the bank account during the recent month as well as the balance in the bank account.

When the company receives its bank statement, the company should verify that the amounts on the bank statement are consistent or compatible with the amounts in the company's Cash account in its general ledger and vice versa. This process of confirming the amounts is referred to *as reconciling the bank statement, bank statement reconciliation, bank reconciliation, or doing a "bank rec."* The benefit of reconciling the bank statement is knowing that the amount of Cash reported by the company (company's books) is consistent with the amount of cash shown in the bank's records.

Because most companies write hundreds of transaction each month and make many deposits, reconciling the amounts on the company's books with the amounts on the bank statement can be time consuming. The process is complicated because some items appear in the company's Cash account in one month, but appear on the bank statement in a different month.

For example, cheques written near the end of August are deducted immediately on the company's books, but those cheques will likely clear the bank account in early September. Sometimes the bank decreases the company's bank account without informing the company of the amount.

For example, a bank service charge might be deducted on the bank statement on August 31, but the company will not learn of the amount until the company receives the bank statement in early September. From these two examples, you can understand why there will likely be a difference in the *balance on the bank statement vs. the balance in the Cash account on the company's books*. It is also possible (perhaps likely) that neither balance is the true balance. Both balances may need adjustment in order to report the true amount of cash.
After adjusting the balance per bank to be the true balance and after adjusting the balance per Books to also be the same true balance.

General Rules:
If the reconciliation statement starts with the 'Balance as per Cash Book':
- Add (Plus) all the 'credit' transactions of Cash Book /Pass Book with the balance
- Subtract (Minus) all the 'debit' transactions of Cash Book /Pass Book with the balance

RECONCILIATION STATEMENT
Name of the Trade /Business …………
Bank Reconciliation Statement
As at ------- 200—

Particulars	Amount (Tk.)	Amount (Tk)
Bank balance as per Cash Book or Bank Overdraft Add: 1. Cheques issued or drawn but not presented to the Bnak in time for payment. 2. Profit on bank balance 3. Cash or cheques paid or deposited by the customers directly into the Bank 4. B/R, income from securities, dividend, insurance claims, etc. collected or realized by the Bank directly **5. Items already credited to Cash Book but not debited to Pass Book** **6. Items already credited to Pass Book, but not debited to Cash Book**	---	

Less: 1. Bills/Cheques deposited into Bank, but not yet collected or cleared. 2. Bills/Cheques deposited into Bnak, but returned dishonoured 3. Bank charge, commission, profit on overdraft, etc. not yet credited to Cash Book 4. B/P, Insurance premium, utility bills etc. paid by the Bnak **5. Items already debited to Cash Book, but not credited to Pass Book** **6. Items already debited to Pass Book, but not credited to Cash Book** **Bank Balance as per Pass Book or Bank Overdraft as per Cash Book**		

Example

On 31st December, 2007, the Cash Book of M/s. Ali Ahad & Sons showed a balance of Tk.5,000 at Bank. They had sent cheques amounting to Tk.10,000 to the Bank before 31st December, but it appears from the Pass Book that cheques worth only Tk.5,500 had been credited before that date. Similarly, out of cheques for Tk.6,025 issued during the month of December, cheques for Tk.3,575 were presented and paid on the 5th January, 2008. The following payments were shown in the Pass Book:

(a) Tk.500 premium paid on the Life Policy according to standing instructions;
(b) Bills Payable paid worth Tk.1250; and
(c) Tk.2,000 against a Promissory Note as per instructions.

The Pass Book showed the Bank had collected Tk.600 as dividend on investment in securities. Tk.850 worth matured bills receivable collected. The Bank had charged bank charges Tk.125. There was no entry in the Cash Book for the payments and receipts. Prepare the Bank Reconciliation Statement.

Bank Reconciliation Statement
As at 31 December, 2007

Particulars	Details (Tk)	Amount (Tk)
Balance as per Cash Book		**5,000**
Add:		
(a) Cheques issued but not yet presented	3,575	
(b) Profit on investment in securities entered in the Pass Book but not yet entered in the Cash Book	6,00	
(c) Bills Receivable collected by the Bank but not yet entered in the Cash Book	850	
		5,025
		10,025
Less:		
(a) Cheques paid into but not yet credited by the Bank (Tk.10,000 – Tk. 5,500)	4,500	
(b) Payments made by the Bank, entered in the Pass Book but not yet entered in the Cash Book: - Premium Tk. 500 - Bills Payable Tk.1,250 - Promissory Note Tk.2,000	3,750	
(c) Bank charges entered in the Pass Book but no entry is made in the Cash Book	125	
		8,375
Balance as per Pass Book		**1,650**

FIXED ASSETS AND DEPRECIATION

Depreciation

All fixed assets, except land, depreciate. Fixed assets are those assets which are held for more than one year and are uses in business operations for long. The term 'Depreciation' is used when expired utility of a physical asset (say, plant, machinery, buildings, equipment, furniture, etc.) is to be recorded. Depreciation is the systematic allocation of the depreciable amount (i.e. the difference between original cost and accumulated depreciation) of an asset over its useful life. According to AICPA, the accounting for depreciation is 'a system of accounting which aims to distribute the cost or other basic values to tangible capital assets less salvage value (if any) over the estimated useful life of the unit in a systematic and rational manner. It is a process of allocation and not valuation.' Depreciation merely reduces the value of fixed asset accounts; it does not reduce the cash account or affect cash flows. The purpose of recording depreciation is to show the decline of usefulness of an asset, not a decline in its market value.

The major causes of depreciation are (1) Physical Deterioration - Except land, all other fixed assets have limited useful life and physical deterioration occurs due to the wear and tear and the action of the elements or continuous use; (2) Inadequacy for Future Needs- the inadequacy of an asset is its inability to produce enough products or provide enough services to meet current demands; (3) Obsolescence - the obsolescence of an asset is its decline in usefulness due to inventions, technological progress, improvement in production process, change in market demand, and legal & other restrictions; (4) Matching of Cost against Revenue: This principle states that all costs incurred within an accounting period must be set off against all revenue generated in that period. Fixed assets are used to generate revenue, so the part of the cost used in earning that revenue is charged to income statement to arrive at the true figure of net income. This is same as we pay salaries to staffs, who work for the business, so also we provide for depreciation for the services rendered by the fixed assets; and (5) Presentation of Balance Sheet: The function of balance sheet is to show a true and fair view of the state of affairs of the business. If no depreciation is charged and the assets are shown in the balance sheet at their original cost, balance sheet will not present the correct position of the business because the assets will appear overstated.

Depletion

'Depletion' is an accounting term used most often in the assets like minerals, petroleum, gas well, oil, geothermal deposits, timber or other similar resources. Depletion is different from depreciation in that depreciation implies a reduction in the service capacity of a physical asset whereas depletion implies removal of a natural resource, i.e., a physical shrinkage or lessening of an estimated available quantity. For example, if a mine is purchased for Tk.5,00,000 and it is estimated that the total quantity of mineral in mine is 15,00,000 tons. The depletion per ton of output comes to Tk.0.33 (i.e. Tk.5,00,000/15,00,000). If the output in the first year is 40,000 tons, the depletion to be written off in the first year will be Tk. 13,200 (i.e. 40,000×0.33). In the second year the output is 70,000 tones. The depletion to be written off will be Tk. 23,100 (i.e. 70,000×0.33).

Amortization

The term 'Amortization' is used for describing the process of writing down the long term investments in intangible assets such as leaseholds, patents, copyrights, trade marks, goodwill, preliminary expense etc.

FACTORS AFFECTING DEPRECIATION

Five major factors in computing depreciation

- The original Cost (acquisition cost) of the asset: According to the cost concept of accounting, all reasonable and necessary costs incurred in acquiring a fixed asset placing it in its operational settings and preparing it for use should be recorded to a particular asset account.
- The estimated salvage value (or residual value) at the end of its life: Salvage value/residual value is the amount to be recovered from the sale of the asset after its estimated useful life less any estimated cost of dismantling, disposal and selling etc. This value must be deducted from acquisition cost to compute depreciation expense. When the residual value is likely to be small in relation to cost, it may be regarded as nil. When the asset is eventually disposed of, any profit or loss arising out of disposal is regarded as depreciation over or under provided.
- The estimated useful life of the asset: This is also termed as economic life of the asset. This may be calculated in terms of years, months, hours, units of production or other operating measures e.g. kilometer in case of vehicle.
- Installation Cost: The amount to be expended to make the assets workable say, transport cost, installation cost, sale tax, training cost, assembling cost etc. to be added with the acquisition cost of the asset.
- Method of Depreciation: Method to be used in depreciating the asset should be selected considering the nature of the asset. For example, a firm may use straight line method on some assets and a diminishing balance method for other assets. It depends of the option of the management which method should best be used for a certain fixed asset.

METHODS OF DEPRECIATION

The following are the various methods for providing depreciation

A. Uniform charge methods

(a) Straight Line Method or Fixed Installment Method
(b) Units-of-Production Method
(c) Machine Hour Rate Method

B. Declining charge or accelerated depreciation method

(a) Diminishing balance method
(b) Double declining balance method
(c) Sum-of-the-Years' Digit Method
(d) Accelerated Cost Recovery System (ACRS)
(e) Modified Accelerated Cost Recovery System (MACRS)

C. Other methods

(a) Annuity Method
(b) Depreciation Fund Method
(c) Insurance Policy Method
(d) Revaluation Method
(e) Replacement Cost Method
(f) Repairs, Maintenance and Depreciation Fund method

Illustration

1. Straight Line Depreciation: It is appropriate for the assets where equal benefit is received in each year over the life of the asset. It is also known as Fixed Installment, Equal Installment or Fixed Percentage on Original Cost method. In this method, a fixed or equal amount of depreciation expense is written off every year throughout the effective life of the asset in order to reduce the assets to zero or its residual value. Under this method depreciation is calculated as follows:

$$\text{Depreciation} = \frac{\text{Cost} - \text{Salvage Value}}{\text{No. of Years in Useful Life}}$$

Example:

Say, Cost = Tk.10,000, Salvage value = Tk.1,000 and Years of Useful Life = 3 Years.

So, Dep. per year = (Tk.10,000 – Tk.1,000)/3 =Tk.3,000

2. Units of Production (output) Depreciation: In this method, depreciation is computed in proportion to the use of the asset for production. Firstly, this method assigns an equal amount of depreciation to each unit of product manufactured or service rendered by an asset. That is, the depreciation per unit is computed by dividing the total depreciable costs by the estimated total units of production capacity that has been projected for the asset. Here useful life is expressed in terms of total units of production rather than time period. The per unit depreciation rate is computed as follows:

$$\text{Depreciation per Unit} = \frac{\text{Cost - Salvage Value}}{\text{Estimated Units of Production over the Life of the Asset}}$$

Depreciation per period = Dep. per unit X No. of Units Produced

Example:

Cost = Tk.l0,000, Salvage Value = Tk.l000, Units of product that can be produced over the life of the asset = 40,00,000 units and Life = 3 Years.

$$\text{So, Dep. per unit} = \frac{\text{Tk. } (10{,}000 - 1{,}000)}{40{,}00{,}000 \text{ Units}}$$

= 0.00225

Table: Calculation of Depreciation under Unit of Production Method

Year	Depreciation Base	Depreciation per unit	Actual Production Level Per Year	Depreciation per year
1	Tk.9,000	0.00225	10,00,000 units	Tk.2,250
2	Tk.9,000	0.00225	15,00,000 units	Tk.3,375
3	Tk.9,000	0.00225	15,00,000 units	Tk.3,375
			Total	Tk.9,000

3.Sum-of-the Years' Digit Method: This method is assumed that the asset is more productive in the earlier years and thus more depreciation should be taken in the earlier years. This method is similar to Diminishing Balance Method where depreciation is computed for each accounting year by multiplying the depreciable cost by a fraction that is successively smaller each year. The fraction is determined by using the sum of the digits that make up the estimated useful life as the denominator, and the numerator is the specific year of life in the inverse order. Any year's depreciation expense would be:

$$\text{Depreciation per period} = (\text{Cost - Salvage Value}) \times \frac{\text{Years in reverse order}}{\text{Some-of-the years' digits (SYD)}}$$

$$SYD = \frac{n\,(n+1)}{2}$$ Where n is the no. of periods in the asset's life.

Example

From previous problem. Here, SYD = (1+2+3) = 6 3(3+1) = 6

or SYD = $\frac{3\ (3+1)}{2}$ = 6

Dep. 1st Year = (10,000 –1000) x $\frac{3}{6}$ = Tk. 4500

Dep. 2nd Year =(10,000 –1000) x $\frac{2}{6}$ = Tk. 3000

Dep. 2nd Year =(10,000 –1000) x $\frac{1}{6}$ = Tk. 1500

Table: Calculation of Depreciation under SYD method

Year	Depreciation Base	Year in reverse order	Depreciation Fraction	Amount of Depreciation
(a)	(b)	(c)	(d)	(e)=(b)×(d)
1	Tk.9,000	3	3/6	Tk.4,500
2	Tk.9,000	2	2/6	Tk.3,000
3	Tk.9,000	1	1/6	Tk.1,500
			Total	**9,000**

4. Double Declining Balance Method: This method produces a decreasing annual depreciation expense over the life of the asset.

Here, (a) Salvage Value is ignored in calculating annual depreciation. But it is considered at the last year of the asset's Life. Depreciation stops when the asset's book value equals its estimated salvage value.

(b) Net Book Value (Cost - Accumulated Dep.) of the asset is considered.

$$\text{Depreciation per Year} = \frac{\text{Net Book Value X 2}}{\text{Number of Years in useful Life}}$$

or, Dep. Per Year = (2 X SLR) × (Cost - Accumulated Dep.)

$$\text{Here, straight Line Rate (SLR)} = \frac{100\%}{\text{Number of Years Estimated Life}}$$

Example

From previous information Depreciation Rate per Year = (2 X 33.333) = 67%

Dep. 1st Year = $\frac{10{,}000 \text{ X } 2}{}$ =Tk. 6,667

Dep. 2nd Year = $\frac{(10{,}000 - 6{,}667) \times 2}{3}$ = Tk.2,222

Dep. 3rd Year = (10,000-8,889) - Salvage Value Tk.1,000
= Tk. 1,111 – Salvage Value Tk.1,000 = Tk. 111 (Balancing Figure)

Table: Calculation of Depreciation under Double Declining Balance Method

Year	Depreciation Base	Depreciation per year @ 67%	Accumulated Depreciation	Book Value
1	Tk.10,000	Tk.6,667	Tk.6,667	Tk.3,333
2	Tk.3,333	Tk.2,222	Tk.8,889	Tk.1,111
3	Tk.1,111	Tk.111	Tk.9000	Tk.1,000

Note: Annual Depreciation for 3rd Year = (Tk.1,111 – Salvage Value Tk.1,000) =Tk.111

5.Machine Hour Rate Method: In this method, Instead of estimating the useful life of an asset in years, it is estimated in hours. It assigns an equal amount of depreciation to each hour in life of an asset. This method takes into account the running time of the asset for the purpose of calculating depreciation. Inthis case hourly rate of depreciation is calculated as follows:

$$\text{Depreciation per hour} = \frac{\text{Cost - Salvage Value}}{\text{Estimated hours over the Life of the Asset}}$$

Depreciation per period = Dep. per hour X No. of running hours

Example:

Cost = Tk.l0,000, Salvage Value = Tk.l000, and the estimated effective life = 30,000 hours

$$\text{So, Dep. per hour} = \frac{\text{Tk. } (10{,}000 - 1{,}000)}{30{,}000 \text{ hours}}$$

= Tk. 0.30

If no. of hours runs in 1st Year = 10,000

Dep. for 1st Year = Tk.0.30 X 10,000 hours
= Tk.3000

Table: Calculation of Depreciation under Machine Hour Rate Method

Year	Depreciation Base	Depreciation per hour	Machine runs Per Year	Depreciation per year
1	Tk.9,000	0.30	10,000 hours	Tk.3,000
2	Tk.9,000	0.30	15,000 hours	Tk.4,500
3	Tk.9,000	0.30	5,000 hours	Tk.1,500
			Total	Tk.9,000

6. Diminishing Balance Method: This method is also known as Reducing Balance or Declining Balance Method. Under this method, the amount depreciation is calculated as a fixed percentage of the reducing balance of the asset standing in the books at the beginning of the accounting year, so as to bring down the asset to its salvage value. This method is suitable for those assets whose repairing charge increase as they become old. Writing-off the major portion of the asset in the earlier years also minimizes the impact of obsolescence. For example, the cost of the machine is Tk.80,000, rate of depreciation 10%, salvage value Tk.20,000 and estimated economic life is 4 years.

Table: Calculation of Depreciation under Diminishing Balance Method

Year	Depreciation Base	Depreciation per year @ 25%	Accumulated Depreciation	Book Value
1	Tk.80,000	Tk.20,000	Tk.20,000	Tk.60,000
2	Tk.60,000	Tk.15,000	Tk.35,000	Tk.45,000
3	Tk.45,000	Tk.11,250	Tk.46,250	Tk.33,750
4	Tk.33,750	Tk.13,750	Tk.60,000	Tk.20,000

Exercise:

1) A new machine was purchased for Tk.1,20,000 and paid installation charge amounting to Tk.10,000. The useful life is 5 years and residual value is Tk.40,000. Find out the depreciation as per Straight Line Method, SYD Method & Diminishing Balance Method.
2) A machine having a scrap value Tk.3,000 was purchased for Tk. 28,000 and it has effective life of 40,000 hours. If in a particular year the machine runs for 2,100 hours then calculate the amount of depreciation of that particular year.
3) A company purchased a machine on 30th June 2010 for Tk.18,000. It is also expected that the asset will have a productive life of 8 years and a salvage value of Tk.400. It is also estimated that the asset can effectively produce 2,20,000 units during 8 years life. Assuming the company has established a calendar year-end.
    a. Required:
    b. (i), Determine the depreciation for the year end 31st December, 2010, 2011 and 2012 by using the sum of the years digits method.
    c. (ii) Determine the depreciation under production of unit method assuming the units produced each year are: 14,000 units for 2010; 27,000 units for 2011 and 27,500 units for 2012.

MEASURING AND REPORTING INVENTORIES

Definition of Inventory

Inventories are assets that are being (a) held in the form of finished goods with the intention of selling in the ordinary course of business, or (b) processed for such sale, or (c) held in the form of materials or supplies to be consumed in the production process.

Inventory Classification

- A manufacturing company will normally have three types of inventory –raw materials (include stock in hand and goods in transit if the seller has the title), work-in-process and finished goods (include stock in hand and stock of goods out on assignment).
- A merchandising company will have only finished goods inventory.

Inventory is classified as current asset and the balance of inventory is appeared on the balance sheet. The cost of inventory sold is transferred to income statement.

Inventory Accounting System

The process of inventory accounting system is one of the most important aspects in preparing the financial statements. The accuracy of financial statements to some extend depends on the proper valuation of inventories on the balance sheet and proper matching of inventory costs against revenue on the income statement. Thus the inventory system involves –

(1) Proper Selection of Inventory System
  - ➢ Just-in-time (JIT) inventory Order System – help to reduce the inventory levels for preventing excessive accumulation of inventory items
  - ➢ Perpetual System – maintains a continuous record of inventory changes
  - ➢ Periodic System – updates inventory records in the ledger only periodically

(2) Proper Selection Cost Flow Formula
  - ➢ Specific Identification
  - ➢ First-in, First-out (FIFO)
  - ➢ Last-in, First-out (LIFO)
  - ➢ Average Cost (Weighted Average or Moving Average)

Note:

The IFRS and GAAP recognize only three acceptable cost formulas, namely, Specific Identification, First-in, First-out (FIFO) and Weighted Average Cost.

Perpetual System

An accounting system of maintaining up-to-date inventory records that accurately reflects the level of goods on hand. The current balance of inventory is sustained daily basis by the addition of the inventory to the account when goods are received and the deduction from the account when they are used or issued. This method, as oppose to the yearly or monthly calculation, allows for a company to have more timely and accurate data on inventories. The major features are:

- ❖ Perpetual inventory system updates inventory accounts after each purchase or sale or issue
- ❖ Inventory subsidiary ledger is updated after each transaction
- ❖ Quantity of inventories are updated continuously

Periodic System

A system of inventory valuation for the purpose of financial reporting where physical count of inventory is performed at a specific interval. This method of inventory valuation keeps records of inventory at the beginning of the period, the purchases made and sales during the same period and reports on the financial statements after certain interval say, monthly, quarterly or yearly basis. The major features are:

- ❖ Periodic inventory system records inventory purchase or sale in ‘Purchase Account”
- ❖ Purchase Account is updated continuously, however, Inventory Account is updated on a periodic basis, at the end of each accounting period say monthly, quarterly or yearly.

- Inventory subsidiary ledger is not updated after each purchase or sale of inventory.
- The quantity of inventory is not updated continuously rather it is updated on a periodic basis.

Specific Identification Method

Under this method each item purchased and sold is individually identified. It is helpful for goods that are not ordinarily interchangeable and that are produced and segregated for specific requirements.

Advantages: (a) matches actual costs with revenue; and (b) ending inventory reported at specific cost.

Disadvantages: (a) may be difficult to implement and maintain; (b) may lead to income manipulation; and (c) may be difficult to allocate certain costs to specific inventory items.

First-in, First-out (FIFO) Method:

The First-in First-out (FIFO) method of assigning cost assumes that the first items purchased (first in) were the first sold (first out). That is under this approach the inventories purchased or acquired first are sold or used or dispose of first.

Therefore (I) Materials issues are priced at the oldest costs; (II) Charge to production for material cost is at the oldest prices of materials in stocks; and (III) Closing stock is valued at the latest price paid. Since the last items purchased are the ones on hand at the end of period; and (IV) Does not permit manipulation of net income.

In periods of rising prices, the FIFO method produces higher profits and results in higher tax liability because lower cost is charged to production. Conversely, *in periods of falling prices*, the FIFO method produces lower profits and results lower taxes because they are derived from a higher cost of goods sold.

Disadvantages are (a) current costs not matched to current revenues as oldest cost of inventory is used with current revenue; (b) when prices are changing rapidly, gross profit and net income are distorted.

Last-in, Last-out (LIFO) Method

This method operates just reverse order of FIFO method. The Last-in Last-out (LIFO) method of assigning inventory cost assumes that the last items purchased (last in) are the first items sold (first out).

Therefore (I) Materials issues are priced at the actual costs, (II) Charge to production for materials cost is at the latest prices paid; and (III) Closing stock valuation is at the oldest prices paid and is completely out of line with the current prices. Thus when an inventory is valued by the LIFO method the company also should disclose the current replacement cost of the inventory in a note to the financial statement.

In times of rising prices, profits and taxes would be lower than under FIFO method. In periods of falling, the closing stock would be valued at higher price and thus the profits and taxes would also be higher.

Disadvantages are (a) it does not represent actual inventory flows reliably; (b) costs assigned to ending inventory do not represent recent cost of inventory on hand; and (c) can distort reported income on the income statement. That's why it is not acceptable to IFRS.

Weighted Average Method

This method gives due weight to the quantities held at each price when calculating the average price. The weighted average price is calculated by dividing the <u>total cost</u> of material in stock (from which the material to be issued) by the <u>total quantity</u> of material in that stock. The simple formula is that weighted average price at any time is the <u>balance value</u> figure divided by the <u>balance units</u> figure. For example, the issue price on July15, 1999 is: (18,400 / 900) = 20.444.

A shortcoming in the weighted average cost method is that changes in current replacement costs of inventory are concealed because these costs are averaged with older costs. Thus neither the valuation of ending inventory nor the cost of goods sold will quickly reflect in the current replacement cost of inventories.

Justification for using weighted average cost are (a) Reasonable to cost inventory based on an average cost; (b) costs assigned closely follows the actual physical flow of inventory; (c) simple to apply, objective, less subject to income manipulation; (d) ending inventory cost on the balance sheet is made up of average costs; and (e) this method is used with perpetual records both quantity and amount.

Some Relations

I. Cost of Goods Sold.= Cost of Beginning Inventory + Cost of Goods Purchased – Cost of Ending Inventory

II. Cost of Ending Inventory = Cost of Beginning Inventory + Cost of Goods Purchased - Cost of Goods Sold

FORMAT OF STORE LEDGER SYSTEM

Date	Transactions	*Receive*				*Issue*				*Balance*		
		Ref	Qty.	Rate	Amt.	Ref	Qty	Rate	Amt	Qty	Rate	Amt

Example 01:

2012

1 July	Opening stock	500 units @ Tk.20 each
10 July	Purchase	400 units @ Tk.21 each
15 July	Issue	600 units
20 July	Purchase	800 units @ Tk.24 each
25 July	Issue	500 units.

Determine the cost of ending inventory and cost of goods sold by using the following methods: (a) FIFO; & (b) Weighted Average methods.

STORE LEDGER UNDER **FIFO** METHOD

Date	Transa-ctions	*Receive*				*Issue*				*Balance*		
		Ref	Qty.	Rate	Amt.	Ref	Qty	Rate	Amt	Qty	Rate	Amt
2012												
July 01	Balance									500	20	**10,000**
July 10	Purchase		400	21	8,400					500	20	
July 15	Issue						500	20		400	21	18,400
							100	21	12,100	300	21	6,300
July 20	Purchase		800	24	19,200					300	21	
										800	24	25,500
July 25	Issue						300	21				
							200	24	11,100	600	24	**14,400**
			Purchase =		**27,600**	Cost of Goods Sold =			**23,200**			

STORE LEDGER UNDER **WEIGHTED AVERAGE** METHOD

Date	Transa-ctions	*Receive*				*Issue*				*Balance*		
		Ref	Qty.	Rate	Amt.	Ref	Qty	Rate	Amt	Qty	Rate	Amt
2012												
July 01	Balance									500	20	**10,000**
July 10	Purchase		400	21	8,400					900	20.44	18,400
July 15	Issue						600	20.44	12,264	300	20.44	6,136
July 20	Purchase		800	24	19,200					1100	23.03	25,336
July 25	Issue						500	23.03	11,515	600	23.03	**13,821**
			Purchase =		**27,600**	Cost of Goods Sold =			**23,779**			

Exercise 01

The following information are given to you-

2012

July 01 Balance on hand 20 units @ Tk.40 each

July 10 Sale 8 units

July 25 Purchased 20 units @ Tk.45

July 31 Sale 15 units

Determine the cost of ending inventory and cost of goods sold by using the following methods: (a) FIFO; (b) Weighted Average Cost.

Exercise 02

A company has the following data for the month of May, 2012:

Inventory, May	01	200 units @ Tk. 4.00
Purchase:	10	500 units @ Tk. 4.50
	20	400 units @ Tk. 4.75
	30	300 units @ Tk.5.00
Sales:	15	500 units
	25	400 units

Prepare an inventory record and compute the cost of goods sold and the value of ending inventory for May under perpetual inventory system using FIFO and Weighted Average Cost.

Exercise 03

A company has the following data for the month of September, 2012:

Inventory, September	01	20 units @ Tk. 450
Purchase:	06	50 units @ Tk. 465
	20	50 units @ Tk. 480
Sales:	04	12 units
	10	26 units
	30	42 units

Prepare an inventory record and compute the cost of goods sold and the value of ending inventory for September under perpetual inventory system using FIFO and Weighted Average Cost.

FINANCIAL STATEMENTS OF BANK

The banks and financial institutions are to follow the guidelines of the Bank Companies Act, 1991 at the time of preparing the financial statements. According to the Bank Companies Act, 1991 (Amendment, BRPD Circular No.3/2000 to adopt IAS 30), a complete set of financial statements comprises:

a. Profit and Loss Account
b. Balance Sheet
c. Statement of Off-Balance Sheet Items
d. Statement of Changes in Equity
e. Cash Flow Statement
f. Liquidity Statement (Assets & Liability Maturity Statement)
g. Explanatory Notes to the Financial Statements

Profit and Loss Account for the year ended December 31, ...

INCOME AND EXPENDITURE	*Note*	Amount in Taka as at Dec.,31	
		Current FY	**Previous FY**
Investment Income Profit Paid on Deposits			
Net Investment Income			
Income from Investments in Shares/Securities Commission, Exchange and Brokerage Other Operating Income			
Total Operating Income			
Operating Expenses Salary & allowances Rent, Taxes, Insurance, Electricity etc. Legal Expenses Postage, Stamps, Telecommunication etc. Stationery, Printing, Advertisement etc. Chief Executive's Salary & Fees Directors' Fees & Expenses Auditors' Fees Charges on Investment Losses Depreciation and Repair of Bank's Assets Other expenses			
Total Operating Expenses			
Profit/(Loss) before provision against Classified Assets Provision for Investments Provision for diminution in value of Investments in Shares Other Provisions			
Total Provision			
Total Profit/(Loss) before Taxes			
Provision for Tax (Current Tax plus Deferred Tax, if any) **Net Profit/(Loss) after Tax** Retained Earnings from Previous Year Add: Net Profit after Tax **Profit Available for Distribution** **Less: Appropriations** Statutory Reserve General Reserve Proposed Dividends			
Retained Earnings			
Earning per Ordinary Share (EPS)			

N.B: The accompanying notes form an integral part of the Financial Statements.

Balance Sheet as at December 31, ...

PROPERTY AND ASSETS	Note	Amount in Taka as at Dec.,31	
		Current FY	**Previous FY**
Cash *			
Cash in hand (Including Foreign Currencies)			
Balance with Bangladesh Bank & its Agent Bank(s) (Including Foreign Currencies)			
Balance with other Banks & Financial Institutions			
-In Bangladesh			
-Outside Bangladesh			
Money at Call and Short Notice			
Investments in Shares & Securities			
-Government			
-Others			
Investment			
General Investments etc.			
Bills Purchased & Discounted			
Fixed Assets including Premises			
Other Assets			
Non-banking Assets			
Total Assets			
LIABILITIES AND CAPITAL			
Liabilities:			
Borrowings from other Banks, Financial Institutions and Agents			
Deposits and Other Accounts			
Current & Other Accounts, etc.			
Bills Payable			
Mudaraba Savings Deposits			
Mudaraba Term Deposits			
Bearer Certificate of Deposit			
Other Mudaraba Deposits			
Other Liabilities			
Total Liabilities			
Capital/Shareholders' Equity:			
Paid up Capital			
Statutory Reserve			
Other Reserves			
Retained Earnings			
Total Shareholders' Equity**			
Total Liabilities & Shareholders' Equity			

* As per Cash Flow Statement

** As per Statement of Changes in Capital (Equity).

N.B: The accompanying notes form an integral part of the Financial Statements.

OFF-BALANCE SHEET ITEMS AS AT DECEMBER 31, ………

	Note	Amount in Taka as at Dec.,31	
		Current FY	**Previous FY**
Contingent Liabilities : Acceptances & Endorsements Letter of Guarantees Irrevocable Letters of Credit (Including Back to Back Bills) Bills for Collection Other Contingent Liabilities ***Total*** **Other Commitments :** Documentary Credit and Short Term Trade Related Transactions Forward assets purchased and forward deposits placed Undrawn note issuance and revolving underwriting facilities Undrawn formal standby facilities, credit lines and other commitments			
Total Off-Balance Sheet items including Contingent Liabilities			

N.B: The accompanying notes form an integral part of the Financial Statements.

Notes:

Other Operating Expenses:	**Other Operating Income:**
• T.A & D.A. • Conveyance • Zakat Paid • Uniforms • Traveling & Entertainment • Training, Meeting, Contribution etc.	• Locker rent • Telephone/Telegram Charges recovered • Income from SWIFT • Profit on sale of bank's premises, car, etc. • Legal expenses recovered
Other Assets	**Other Liabilities**
• Stock of Stationery • Stamp in hand • Expense paid in advance • Security deposits • Branch Adjustment Accounts (Dr)	• Provision for Taxes, Expenses etc. • Provision for doubtful & bad investments • Provision for other assets • Zakat payable • Dividend payable • Branch Adjustment Account (Cr.)

Cash Flow Statement for the year ended December 31, ……………

Particulars	**Note**	**Amount in Taka as at Dec.,31**	
		Current FY	**Previous FY**
Cash flows from operating activities Investment Income Profit paid on Deposits Dividend received in cash Fees and commission received in cash Recoveries of Investment previously written off Cash paid to employees Cash paid to suppliers Income taxes paid Received from other operating activities (item-wise) Paid for other operating activities (item-wise)			
Operating profit before changes in Operating Assets and Liabilities			
<u>Changes in Operating Assets and Liabilities</u> Statutory Deposits Purchase/ Sale of trading securities Investments to other Banks Investments to customers Other assets (item-wise) Deposits from other banks Deposits from customers Other liabilities on account of customers Trading liabilities Other liabilities			
A. Net cash flow from Operating Activities			
<u>Cash flows from investing activities</u> Proceeds from sale of securities Payments for purchase of securities Purchase/Sale of property, plant and equipment Purchase-sale of subsidiaries			
B. Net cash flow from Investing Activities			
<u>Cash flows from Financing Activities</u> Receipts from issue of Loan Capital/Debt Securities Payments for redemption of Loan Capital/Debt Securities Receipts from issuing Common Shares/Bonus Share Dividend paid			
C. Net cash flow from financing activities			
Net increase/(decrease) in Cash (A+B+C) ***Add: Effects of Exchange Rate Changes on cash & cash equivalent*** ***Add: Cash and cash equivalent at the beginning of the year***			
Cash and cash equivalent at the end of the year			

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, …

Amount in Taka

	Paid-up Capital	Share Premium A/C	*Statutory* Reserve	General/ Other Reserves *	Assets Rev. Reserve	Retained Earnings	Total
1	2	3	4	5	6	7	8 (2 to 7)
Balance at 01 January, (CFY ……...)							
Changes in Accounting Policy Related Balance							
Surplus on account of revaluation of properties Adjustment of revaluation on account of sale of properties Surplus/(Deficit) on account of revaluation of investments Currency translation differences							
Net gains and losses not recognized in the income statement Net profit for the period Dividends (Bonus Share may be given) Issue of Share capital							
Total Shareholders' Equity as on 31 December,(CFY……..)							
Add: General Provision on Unclassified Investment							
Less: 50% of Assets Revaluation Reserves							
Total Equity as at December 31, (CFY….)							
Total Equity as at December 31, (PFY….)							

Note* General/Other Reserves	**Current FY**	**Previous FY**
General Reserve		
Investment Loss Off-setting Reserve		
Dividend Equalization Account		
Exchange Equalization Account		
Total		

LIQUIDITY STATEMENT

Assets and Liabilities Maturity Analysis as at December 31, ------

Amount in Taka

Particulars	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total CFY	Total PFY
ASSETS							
Cash in hand							
Balance with other banks and financial institutions							
Money at call and short notice							
Investments (in Shares & securities)							
Investments							
Fixed assets including Premises							
Other assets							
Non-banking assets.							
A. Total Assets							
LIABILITIES							
Borrowings from Bangladesh Bank, other banks, financial institutions and agents.							
Deposits							
Other accounts							
Provisions and other liabilities							
B. Total Liabilities							
C. Net Liquidity Gap (A – B)							

DIB QUESTIONS & SOLUTIONS

SOLUTION - 2006 (Nov.) Ques.#4

XYZ Islami Bank Limited

Profit and Loss Account for the year ended December 31, 2005

INCOME AND EXPENDITURE	***Note***	**Amount (in Taka)**
Investment Income		8,50,000
Profit Paid on Deposits		3,60,000
Net Investment Income		**4,90,000**
Income from Investments in Shares/Securities		-
Commission, Exchange and Brokerage		3,00,000
Other Operating Income		50,000
Total Operating Income		**8,40,000**
Operating Expenses		
Salary & allowances		2,00,000
Rent, Taxes, Insurance, Electricity etc.		25,000
Legal Expenses		80,000
Postage, Stamps, Telecommunication etc.		66,000
Stationery, Printing, Advertisement etc.		52,000
Chief Executive's Salary & Fees		75,000
Directors' Fees		28,000
Auditors' Fees		24,000
Charges on Investment Losses		-
Depreciation and Repair of Bank's Assets		1,000
Other expenses		40,000
Total Operating Expenses		**5,91,000**
Profit /(Loss) before provision against Classified Assets		**2,49,000**
Provision for Investments		10,000
Provision for diminution in value of Investments in Shares		**-**
Other Provisions		5,000
Total Provision		**15,000**
Total Profit/(Loss) before Taxes		**2,34,000**
Provision for Tax (Current Tax plus Deferred Tax, if any)		8,000
Net Profit/(Loss) after Tax		**2,26,000**
Retained Earnings from Previous Year		65,000
Add: Net Profit after Tax		2,26,000
Profit Available for Distribution		**2,91,000**
Less: Appropriations		
Statutory Reserve (2,34,000 @ 20%)		46,800
General Reserve		**-**
Dividends		20,000
Retained Earnings		**2,24,200**
Earning per Ordinary Share (EPS)		

XYZ Islami Bank Ltd.
Balance Sheet as at December 31, 2005

PROPERTY AND ASSETS	Note	**Amount (in Taka)**
Cash		
Cash in hand (Including Foreign Currencies)		82,000
Balance with Bangladesh Bank & its Agent Bank(s) (Including Foreign Currencies)		14,50,000
Balance with other Banks & Financial Institutions		**5,50,000**
-In Bangladesh		
-Outside Bangladesh		
Money at Call and Short Notice		2,50,000
Investments in Shares & Securities		
-Government		26,64,000
-Others		
Investment		
General Investments etc.		64,98,0 00
Bills Purchased & Discounted		8,50,000
Fixed Assets including Premises (16,50,000 – Acc. Dep. 1,000)		16,49,000
Other Assets		1,36,000
Non-banking Assets		**-**
Total Assets		**141,29,000**
LIABILITIES AND CAPITAL		
Liabilities:		
Borrowings from other Banks, Financial Institutions and Agents		
Deposits and Other Accounts		
Current & Other Accounts, etc.		-
Bills Payable		7,00,000
Mudaraba Savings Deposits		-
Mudaraba Term Deposits		66,00,000
Bearer Certificate of Deposit		**-**
Other Mudaraba Deposits		*60,00,000*
Other Liabilities		58,000
Total Liabilities		***133,58,000***
Capital/Shareholders' Equity:		
Paid up Capital (including share premium account)		4,00,000
Statutory Reserve		1,46,800
Other Reserves		**-**
Retained Earnings		2,24,200
Total Shareholders' Equity		**7,71,000**
Total Liabilities & Shareholders' Equity		**141,29,000**

SOLUTION - 2007(April) Ques.#7

XYZ Islami Bank Limited
Profit and Loss Account for the year ended December 31, 2006

INCOME AND EXPENDITURE	***Note***	**Amount (in Taka)**
Investment Income		4,59,060
Profit Paid on Deposits		65,900
Net Investment Income		**3,93,160**
Income from Investments in Shares/Securities		1,16,000
Commission, Exchange and Brokerage		**-**
Other Operating Income		93,000
Total Operating Income		**6,02,160**
Operating Expenses		
Salary & allowances		142,500
Rent, Taxes, Insurance, Electricity etc.		8,000
Legal Expenses		12,000
Postage, Stamps, Telecommunication etc.		10,000
Stationery, Printing, Advertisement etc.		14,000
Chief Executive's Salary & Fees		76,000
Directors' Fees		16,000
Auditors' Fees		12,400
Charges on Investment Losses		-
Depreciation and Repair of Bank's Assets		10,000
Other expenses		-
Total Operating Expenses		**3,00,900**
Profit /(Loss) before provision against Classified Assets		**3,01,260**
Provision for Investments		12,000
Provision for diminution in value of Investments in Shares		**-**
Other Provisions		10,000
Total Provision		**22,000**
Total Profit/(Loss) before Taxes		**2,79,260**
Provision for Tax (Current Tax plus Deferred Tax, if any)		20,000
Net Profit/(Loss) after Tax		**2,59,260**
Retained Earnings from Previous Year		13,000
Add: Net Profit after Tax		2,59,260
Profit Available for Distribution		**2,72,260**
Less: Appropriations		
Statutory Reserve (2,79,260 @ 20%)		55,852
General Reserve		**-**
Proposed Dividends		15,000
Retained Earnings		**2,01,408**
Earning per Ordinary Share (EPS)		

XYZ Islami Bank Ltd.
Balance Sheet as at December 31, 2006

PROPERTY AND ASSETS	Note	**Amount (in Taka)**
Cash		
Cash in hand (Including Foreign Currencies)		1,92,700
Balance with Bangladesh Bank & its Agent Bank(s) (Including Foreign Currencies)		4,50,000
Balance with other Banks & Financial Institutions		**34,260**
-In Bangladesh		
-Outside Bangladesh		
Money at Call and Short Notice		**-**
Investments in Shares & Securities		3,00,000
-Government		
-Others		
Investment		
General Investments etc.		7,00,00 0
Bills Purchased & Discounted		2,13,340
Fixed Assets including Premises (2,53,000 – Acc. Dep. 34,000)		2,19,000
Other Assets (Br. Adj. A/C)		1,90,000
Non-banking Assets		**-**
Total Assets		**22,99,200**
LIABILITIES AND CAPITAL		
Liabilities:		
Borrowings from other Banks, Financial Institutions and Agents		
Deposits and Other Accounts		
Current & Other Accounts, etc.		-
Bills Payable		67,000
Mudaraba Savings Deposits		1,13,000
Mudaraba Term Deposits		4,66,100
Bearer Certificate of Deposit		**-**
Other Mudaraba Deposits		*1,94,000*
Other Liabilities		1,01,840
Total Liabilities		***9,41,940***
Capital/Shareholders' Equity:		
Paid up Capital (including share premium account)		9,00,000
Statutory Reserve		2,55,852
Other Reserves		**-**
Retained Earnings		2,01,408
Total Shareholders' Equity		**13,57,260**
Total Liabilities & Shareholders' Equity		**22,99,200**

SOLUTION- 2007 (Nov) Ques. #07

ABC Islami Bank Limited
Profit and Loss Account for the year ended December 31, 2006

INCOME AND EXPENDITURE	***Note***	**Amount (in Taka)**
Investment Income		5,79,060
Profit Paid on Deposits		65,900
Net Investment Income		**5,13,160**
Income from Investments in Shares/Securities		1,16,000
Commission, Exchange and Brokerage		**-**
Other Operating Income		43,000
Total Operating Income		**6,72,160**
Operating Expenses		
Salary & allowances		142,500
Rent, Taxes, Insurance, Electricity etc.		8,000
Legal Expenses		12,000
Postage, Stamps, Telecommunication etc.		10,000
Stationery, Printing, Advertisement etc.		14,000
Chief Executive's Salary & Fees		76,000
Directors' Fees		-
Auditors' Fees		12,400
Charges on Investment Losses		-
Depreciation and Repair of Bank's Assets		15,000
Other expenses		-
Total Operating Expenses		**2,89,900**
Profit /(Loss) before provision against Classified Assets		**3,82,260**
Provision for Investments		10,000
Provision for diminution in value of Investments in Shares		**-**
Other Provisions		8,000
Total Provision		**18,000**
Total Profit/(Loss) before Taxes		**3,64,260**
Provision for Tax (Current Tax plus Deferred Tax, if any)		20,000
Net Profit/(Loss) after Tax		**3,44,260**
Retained Earnings from Previous Year		37,000
Add: Net Profit after Tax		3,44,260
Profit Available for Distribution		**3,81,260**
Less: Appropriations		
Statutory Reserve (3,64,260 @ 20%)		72,852
General Reserve		**-**
Proposed Dividends		-
Retained Earnings		**3,08,408**
Earning per Ordinary Share (EPS)		

ABC Islami Bank Ltd.
Balance Sheet as at December 31, 2006

PROPERTY AND ASSETS	Note	**Amount (in Taka)**
Cash		
Cash in hand (Including Foreign Currencies)		1,92,700
Balance with Bangladesh Bank & its Agent Bank(s) (Including Foreign Currencies)		50,260
Balance with other Banks & Financial Institutions		**3,26,240**
-In Bangladesh		
-Outside Bangladesh		
Money at Call and Short Notice		**-**
Investments in Shares & Securities		3,00,000
-Government		
-Others		
Investment		
General Investments etc.		7,00,00 0
Bills Purchased & Discounted		-
Fixed Assets including Premises (1,40,000 – Acc. Dep. 15,000)		1,25,000
Other Assets (Br. Adj. A/C)		1,90,000
Non-banking Assets		**-**
Total Assets		**<u>18,84,200</u>**
LIABILITIES AND CAPITAL		
Liabilities:		
Borrowings from other Banks, Financial Institutions and Agents		
Deposits and Other Accounts		
Current & Other Accounts, etc.		1,94,000
Bills Payable		67,000
Mudaraba Savings Deposits		1,13,000
Mudaraba Term Deposits		66,100
Bearer Certificate of Deposit		**-**
Other Mudaraba Deposits		-
Other Liabilities		<u>82,840</u>
Total Liabilities		***<u>5,22,940</u>***
Capital/Shareholders' Equity:		
Paid up Capital (including share premium account)		9,00,000
Statutory Reserve		1,52,852
Other Reserves		**-**
Retained Earnings		<u>3,08,408</u>
Total Shareholders' Equity		**<u>13,61,260</u>**
Total Liabilities & Shareholders' Equity		**<u>18,84,200</u>**

N.B.: Other Liabilities = 30,000+14,840+10,000+20,000+8,000=82,840

SOLUTION - 2008 (April) Ques.#7

ABC Islami Bank Limited
Profit and Loss Account for the year ended December 31, 2007

INCOME AND EXPENDITURE	***Note***	**Amount (Tk.000)**
Investment Income		110
Profit Paid on Deposits		10
Net Investment Income		**100**
Income from Investments in Shares/Securities		-
Commission, Exchange and Brokerage		35
Other Operating Income		115
Total Operating Income		**250**
Operating Expenses		
Salary & allowances		40
Rent, Taxes, Insurance, Electricity etc.		12
Legal Expenses		7
Postage, Stamps, Telecommunication etc.		4
Stationery, Printing, Advertisement etc.		8
Chief Executive's Salary & Fees		5
Directors' Fees		2
Auditors' Fees		3
Charges on Investment Losses		-
Depreciation and Repair of Bank's Assets		3.25
Other expenses		6
Total Operating Expenses		**90.25**
Profit /(Loss) before provision against Classified Assets		**159.75**
Provision for Investments		10
Provision for diminution in value of Investments in Shares		**-**
Other Provisions		10
Total Provision		**20.00**
Total Profit/(Loss) before Taxes		**139.75**
Provision for Tax (Current Tax plus Deferred Tax, if any)		5.00
Net Profit/(Loss) after Tax		**134.75**
Retained Earnings from Previous Year		15.00
Add: Net Profit after Tax this year		134.75
Profit Available for Distribution		**149.75**
Less: Appropriations		
Statutory Reserve (139.75 @ 20%)		27.95
General Reserve		**-**
Proposed Dividends		-
Retained Earnings		**121.80**
Earning per Ordinary Share (EPS)		

ABC Islami Bank Ltd.
Balance Sheet as at December 31, 2007

PROPERTY AND ASSETS	Note	**Amount (in Taka)**
Cash		
Cash in hand (Including Foreign Currencies)		120
Balance with Bangladesh Bank & its Agent Bank(s) (Including Foreign Currencies)		130
Balance with other Banks & Financial Institutions		**10**
-In Bangladesh		
-Outside Bangladesh		
Money at Call and Short Notice		63
Investments in Shares & Securities		150
-Government		
-Others		
Investment		
General Investments etc.		350
Bills Purchased & Discounted		25
Fixed Assets including Premises (65 – 3.25)		61.75
Other Assets		20
Non-banking Assets		**-**
Total Assets		**929.75**
LIABILITIES AND CAPITAL		
Liabilities:		
Borrowings from other Banks, Financial Institutions and Agents		
Deposits and Other Accounts		
Current & Other Accounts, etc.		20
Bills Payable		65
Mudaraba Savings Deposits		-
Mudaraba Term Deposits		100
Bearer Certificate of Deposit		**-**
Other Mudaraba Deposits		*25*
Other Liabilities		40
Total Liabilities		***250***
Capital/Shareholders' Equity:		
Paid up Capital (including share premium account)		390
Statutory Reserve (140 + 27.95)		167.95
Other Reserves		**-**
Retained Earnings		121.80
Total Shareholders' Equity		**679.75**
Total Liabilities & Shareholders' Equity		**929.75**

Question #1

The following Trial Balance was extracted from the books of accounts of ABC Bank Ltd. as on 31 December, 2006.

	Debit (Tk.)	Credit (Tk.)
Share Capital (8,000 shares @ Tk.100/ each paid up)		8,00,000
Share Premium Account		1,00,000
Al Wadiah Current Deposits		1,94,000
Mudaraba Term Deposits		66,100
Mudaraba Savings Deposits		1,13,000
Bills Payable		67,000
Statutory Reserve		80,000
Investment Income		5,79,060
Income from Investment in Securities		1,16,000
Income from Locker Services		36,600
Other Operating Income		6,400
Cash in Hand	1,92,700	
Investment - General	7,00,000	
Investment - Securities	3,00,000	
Balance with Bangladesh Bank	50,260	
Balance with other banks	3,26,240	
Bank Premises & Fixed Assets	1,40,000	
Profit paid on Deposits	65,900	
Salaries & Allowances	1,42,500	
Rent, Insurance, Lighting, etc.	8,000	
Postage, Telegram etc	10,000	
Stationery, Printing, Advertisement etc.	14,000	
Legal Expenses	12,000	
Auditors fees	12,400	
Salaries and allowances to CEO	76,000	
Dividend Payable		30,000
Zakat Payable		14,840
Balance of P/L A/C		37,000
Branch Adjustment Account	1,90,000	
Total	22,40,000	22,40,000

You are required to prepare the Profit & Loss A/C for the year ended 31 December, 2006 and the Balance Sheet as the date after considering the following:

(a) Provision for doubtful investments is Tk.10,000; Provision for taxes is Tk.20,000 and other provisions is Tk.8,000.

(b) Depreciation on premises and fixed assets is Tk.15,000.

SOLUTION:

ABC Islami Bank Ltd.
Profit and Loss Account for the year ended December 31, 2006

INCOME AND EXPENDITURE	***Note***	**Amount (in Taka)**
Investment Income		5,79,060
Profit Paid on Deposits		65,900
Net Investment Income		**5,13,160**
Income from Investments in Shares/Securities		1,16,000
Commission, Exchange and Brokerage		**-**
Other Operating Income		43,000
Total Operating Income		**6,72,160**
Operating Expenses		
Salary & allowances		142,500
Rent, Taxes, Insurance, Electricity etc.		8,000
Legal Expenses		12,000
Postage, Stamps, Telecommunication etc.		10,000
Stationery, Printing, Advertisement etc.		14,000
Chief Executive's Salary & Fees		76,000
Directors' Fees & Expenses		-
Auditors' Fees		12,400
Charges on Investment Losses		-
Depreciation and Repair of Bank's Assets		15,000
Other expenses		-
Total Operating Expenses		**2,89,900**
Profit /(Loss) before provision against Classified Assets		**3,82,260**
Provision for Investments		10,000
Provision for diminution in value of Investments in Shares		**-**
Other Provisions		8,000
Total Provision		**18,000**
Total Profit/(Loss) before Taxes		**3,64,260**
Provision for Tax (Current Tax plus Deferred Tax, if any)		20,000
Net Profit/(Loss) after Tax		**3,44,260**
Retained Earnings from Previous Year		37,000
Add: Net Profit after Tax		3,44,260
Profit Available for Distribution		**3,81,260**
Less: Appropriations		
Statutory Reserve		**72,852**
General Reserve		**-**
Proposed Dividends		**-**
Retained Earnings		**3,08,408**
Earning per Ordinary Share (EPS)		

Note: Statutory Reserve (3,64,260 @20%) = 72,852.

ABC Islami Bank Ltd.
Balance Sheet as at December 31, 2006

PROPERTY AND ASSETS	Note	**Amount (in Taka)**
Cash		
Cash in hand (Including Foreign Currencies)		1,92,700
Balance with Bangladesh Bank & its Agent Bank(s) (Including Foreign Currencies)		50,260
Balance with other Banks & Financial Institutions		**3,26,240**
-In Bangladesh		
-Outside Bangladesh		
Money at Call and Short Notice		**-**
Investments in Shares & Securities		3,00,000
-Government		
-Others		
Investment		
General Investments etc.		7,00,00 0
Bills Purchased & Discounted		-
Fixed Assets including Premises (1,40,000 – 15,000)		1,25,000
Other Assets		1,90,000
Non-banking Assets		**-**
Total Assets		**18,84,200**
LIABILITIES AND CAPITAL		
Liabilities:		
Borrowings from other Banks, Financial Institutions and Agents		
Deposits and Other Accounts		
Current & Other Accounts, etc.		1,94,000
Bills Payable		67,000
Mudaraba Savings Deposits		1,13,000
Mudaraba Term Deposits		66,100
Bearer Certificate of Deposit		**-**
Other Mudaraba Deposits		-
Other Liabilities		82,840
Total Liabilities		***5,22,940***
Capital/Shareholders' Equity:		
Paid up Capital (including share premium account)		9,00,000
Statutory Reserve		152,852
Other Reserves		**-**
Retained Earnings		3,08,408
Total Shareholders' Equity		**13,61,260**
Total Liabilities & Shareholders' Equity		**18,84,200**

Note: Other Liabilities (30,000 + 14,840+10,000+20,000+8,000) = 82,820

Question- 2

The following Trial Balance was extracted from the books of accounts of Model Bank Ltd. as on 31 December, 2013.

	Debit (Tk.)	Credit (Tk.)
Share Capital (3,000 shares @ Tk.100/ each paid up)		3,00,000
Share Premium Account		1,00,000
Al Wadiah Current Deposits		45,00,000
Mudaraba Term Deposits		60,00,000
Mudaraba Savings Deposits		20,00,000
Bills Payable		7,00,000
Balance of Statutory Reserve		1,50,000
General Reserve		50,000
Investment Income		8,50,000
Income from Investment in Securities		20,000
Commission, Exchange and Brokerage		2,80,000
Other Operating Income		50,000
Cash in Hand	82,000	
Money at Call & Short Notice	2,50,000	
Advance payment of Taxes	1,25,000	
Investment - General	60,23,000	
Investment – Securities: Shares & Debenture	3,65,000	
Investment – Securities: Govt.	23,00,000	
Bills Purchased	8,50,000	
Balance with Bangladesh Bank	14,50,000	
Balance with other banks	5,50,000	
Bank Premises & Fixed Assets	16,50,000	
Profit paid on Deposits	3,50,000	
Salaries & Allowances (including MD's salary Tk.75,000)	2,75,000	
Rent, Insurance, Lighting, etc.	25,000	
Postage, Telegram etc	65,000	
Stationery, Printing, Advertisement etc.	46,000	
Legal Expenses	10,000	
Auditors' Fee	12,000	
Repairs to Bank Premises	74,000	
Directors' Fees	28,000	
Unclaimed Dividend		15,000
Unexpired Discounts		35,000
Depreciation	20,000	
Profit Accrued on Investment	25,000	
Deferred Expenses	50,000	
Balance of P/L A/C		50,000
Branch Adjustment Account	4,75,000	
Total	**151,00,000**	**151,00,000**

You are required to prepare the Profit & Loss A/C for the year ended 31 December, 2013 and the Balance Sheet as the date after considering the following:

(a) Provide specific provision for doubtful investments Tk.8,000 and general provision for unclassified investment Tk. 5,000;
(b) Provide provision for taxes Tk.6,000 and provisions for foreign exchange fluctuation funds Tk.4,000.
(c) Dividend declared @10% for the year

(d) Transfer to general reserve Tk. 10,000
(e) The market value of the shares and debentures Tk. 3,40,000
(f) Bills for collection Tk.5,00,000; Acceptances & Endorsement Tk.10,00,000
(g) Prepaid law charges Tk.2,000

SOLUTION:

Model Bank Ltd.
Profit and Loss Account for the year ended December 31, 2013

INCOME AND EXPENDITURE	***Note***	**Amount (in Taka)**
Investment Income		8,50,000
Profit Paid on Deposits		3,50,000
Net Investment Income		**5,00,000**
Income from Investments in Shares/Securities		20,000
Commission, Exchange and Brokerage		2,80,000
Other Operating Income		50,000
Total Operating Income		**8,50,000**
Operating Expenses		
Salary & allowances		2,00,000
Rent, Taxes, Insurance, Electricity etc.		25,000
Legal Expenses		8,000
Postage, Stamps, Telecommunication etc.		65,000
Stationery, Printing, Advertisement etc.		46,000
Chief Executive's Salary & Fees		75,000
Directors' Fees & Expenses		28,000
Auditors' Fees		12,000
Charges on Investment Losses		-
Depreciation and Repair of Bank's Assets		94,000
Other expenses		-
Total Operating Expenses		**5,53,000**
Profit /(Loss) before provision against Classified Assets		**2,97,000**
Provision for Investments		13,000
Provision for diminution in value of Investments in Shares		25,000
Other Provisions		4,000
Total Provision		**42,000**
Total Profit/(Loss) before Taxes		**2,55,000**
Provision for Tax (Current Tax plus Deferred Tax, if any)		6,000
Net Profit/(Loss) after Tax		**2,49,000**
Retained Earnings from Previous Year		50,000
Add: Net Profit after Tax		2,49,000
Profit Available for Distribution		**2,99,000**
Less: Appropriations		
Dividend (10%)		30,000
Statutory Reserve		50,000
General Reserve		10,000
Proposed Dividends		**-**
Retained Earnings		**2,09,000**
Earnings per Ordinary Share (EPS)		

Note: Statutory Reserve (2,55,000 @20%) = 51,000 but 50,000 is required.

Model Bank Ltd.
Balance Sheet as at December 31, 2013

PROPERTY AND ASSETS	Note	**Amount (in Taka)**
Cash		
Cash in hand (Including Foreign Currencies)		82,000
Balance with Bangladesh Bank & its Agent Bank(s) (Including Foreign Currencies)		14,50,000
Balance with other Banks & Financial Institutions		5,50,000
-In Bangladesh		
-Outside Bangladesh		
Money at Call and Short Notice		2,50,000
Investments in Shares & Securities:		
-Government		23,00,000
-Others		3,65,000
Investment		
General Investments etc.		60,23,000
Bills Purchased & Discounted		8,50,000
Fixed Assets including Premises		16,50,000
Other Assets		6,77,000
Non-banking Assets		**-**
Total Assets		**1,41,97,000**
LIABILITIES AND CAPITAL		
Liabilities:		
Borrowings from other Banks, Financial Institutions and Agents		-
Deposits and Other Accounts		
Al Wadeah Current Accounts		45,00,000
Bills Payable		7,00,000
Mudaraba Savings Deposits		20,00,000
Mudaraba Term Deposits		60,00,000
Bearer Certificate of Deposit		**-**
Other Mudaraba Deposits		-
Other Liabilities		1,28,000
Total Liabilities		***1,33,28,000***
Capital/Shareholders' Equity:		
Paid up Capital (including share premium account)		4,00,000
Statutory Reserve		2,00,000
General Reserve		60,000
Other Reserves		**-**
Retained Earnings		2,09,000
Total Shareholders' Equity		**8,69,000**
Total Liabilities & Shareholders' Equity		**1,41,97,000**

Note: a. Other Liabilities (15,000+35,000+13,000+10,000+30,000+25,000) = 1,28,000

b. Other Assets (50,000+25,000+2,000+4,75,000+1,25,000) = 6,77,000

c. Bills for collections, endorsement etc. are off-balance sheet items and these will not be appeared on the balance sheet.

Question- 3

The following Trial Balance was extracted from the books of accounts of XYZ Bank Ltd. as on 31 December, 2006.

	Debit (Tk.)	Credit (Tk.)
Share Capital (3,000 shares @ Tk.100/ each paid up)		3,00,000
Share Premium Account		1,00,000
Al Wadiah Current Deposits		16,00,000
Mudaraba Term Deposits		50,00,000
Mudaraba Savings Deposits		60,00,000
Bills Payable		7,00,000
Balance of Reserve		1,00,000
Investment Income		6,40,000
Income from Investment in Securities		4,50,000
Commission, Exchange and Brokerage		60,000
Other Operating Income		50,000
Cash in Hand	3,82,000	
Other Assets	50,000	
Investment - General	64,90,000	
Investment - Securities	26,64,000	
Bills Purchased	2,90,000	
Balance with Bangladesh Bank	14,50,000	
Balance with other banks	5,50,000	
Bank Premises & Fixed Assets	16,50,000	
Profit paid on Deposits	3,60,000	
Salaries & Allowances (including MD's salary Tk.75,000)	2,75,000	
Rent, Insurance, Lighting, etc.	25,000	
Postage, Telegram etc	66,000	
Stationery, Printing, Advertisement etc.	52,000	
Legal Expenses	80,000	
Auditors fees	24,000	
Directors' Fees	32,000	
Dividend Paid	20,000	
Other expense	40,000	
Provision for unexpired expenses		35,000
Balance of P/L A/C		65,000
Branch Adjustment Account	6,00,000	
Total	**151,00,000**	**151,00,000**

You are required to prepare the Profit & Loss A/C for the year ended 31 December, 2006 and the Balance Sheet as the date after considering the following:

(a) Provision for doubtful investments is Tk.10,000; Provision for taxes is Tk.12,000 and other provisions is Tk.8,000.

(b) Depreciation on premises and fixed assets is Tk.5,000.