

BIHAR RURAL LIVLIHOOD PROMOTION SOCIETY

Core System of Accounting

This describes the accounting and Financial Procedures that should be followed by various accounting centre for accounting of program transactions.

The Accounts at various offices/Units of the project shall be maintained through computer by off the self Accounting package TALLY. In addition to the Computerised Accounting each offices /Units will also maintain manual Cash Book, Bank Book and other registers.

Method & Concepts of Accounting-

The Accounts shall be maintained on double entry system adopting cash basis of Accounting. The Global developments for the standards of Accounting shall be adopted as per the project requirements.

Each transaction must not only be carried out transparently but also be recorded in the respective books of accounts and vouchers /receipts or other records stipulated for that purpose.

Accounting Policy

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Apart from the fundamental accounting assumptions. i.e (Going Concern, Prudence)the accounting policy of the Bihar Rural Livelihoods Promotion society will be as follows-

- **Fixed Assets and Depreciation**
Assets acquired under the Program shall be valued at cost including all direct costs i.e., purchase price, transportation expenses, installation charges and other expenditure incurred for bringing the fixed assets in working condition, incurred prior to its first use.
No depreciation shall be charged on the fixed assets in the financial statements
- **Interest Earned on Grant**
Interest earned on savings during the project period will be treated as project fund and will be utilized for the project purpose.
- **Valuation of Stocks**
Materials and supplies purchased for the Program as expenditure at the time of its payment.

- **Expenditure incurred by Technical Service Agencies and Support Organizations**

MOU's shall also be entered with the Technical Service Agencies and Support Organizations. Payments against such contracts which are output based are charged to expenditure since these are linked to completion of predetermined miles stone.

- **Transfer to CBO's-SHG,VO,BLFs**

Payment to the CBO's treated as grant as these are linked to achievement of agreed mile stone and triggers and considered eligible for reimbursement . The project will however maintain systems and processes to track the utilization of the grant (by way of periodic financial reports, audit reports and UCs)

- **Treatment of advance payment**

For the purpose of reporting to the World Bank, advances are defined as money given in advance, which is to be adjusted against goods/services to be received in future. An advance payment should continue to be treated as an advance until its final adjustment.

- **Revenue Recognition**

Grant Received from the State Govt. will recognized as income to the extent of the expenditure made during the year.

The Accounting Centers for the project can be divided into two parts in following manner-

- **Project Accounting Centers:**
 - State Project Monitoring Unit
 - District Project Coordinating Unit
 - Block Project Implementation Unit
- **Community Accounting Centers:**
 - Block Level Federation
 - Village Organization
 - Self Help Group

BOOKKEEPING & ACCOUNTING

Bihar Rural Livelihoods Promotion society is a Society registered under Society Registration Act 1860 and following Cash basis, double entry system of Accounting.. The expenditure and Income is recognized only on actual receipt and payment.

Books of account

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- a. **Cash and Bank Book** – SPMU, DPCUs & BPIU have to maintain Cash and Bank Books for all receipts and transfers from the Project fund Account. Cash/Bank collections, Cash/Bank payments and withdrawal/ deposit of cash to bank must be accounted in the Cash and Bank Book. All receipts, remittances/deposits must be debited in the Cash Book and all payments shall be credited. The Cash Payment Voucher, Bank Payment Voucher, Cash Receipt Voucher, Bank Receipt Voucher, Transfer Voucher must be the basis of recording transactions in these Books of Accounts. In addition, the SPMU, DPCU & BPIU may, with permission of CEO of the Society, also maintain petty cash Book to meet the expenses of small amounts and of high frequency such as payments for stationery, postage, telegrams, carriage, conveyance and other petty expenses for which payments may not be made by Cheque.
- b. **Journal register:** The Journal Register is used to record all the journal entries passed. Journal entries are those accounting entries which do not involve outflow and inflow of the funds at the time of transaction and hence do not appear in the Cash and Bank Book.
- c. **General Ledger** - The General Ledger shows the details of transactions effected during the period in each account head other than cash and bank accounts. Entries from the Journal Register and Cash and Bank Book shall be posted in to this General Ledger.
- d. **Trial Balance** - Trial balance shall be the list of balances of all account heads appearing in general ledger having debit balances on one side and credit balances on the other side.
 - (1) The total of the debit side must be equal to that of its credit side.
 - (2) The Trial Balance shall always be prepared as on a particular date for a specified period.
 - (3) The Trial Balance shall be used to check the arithmetical accuracy of the entries for the period.
- e. **Financial Statements** - The Project shall prepare the following financial statements supported by schedules for every grouping contained there in. The schedules shall strictly reflect the groupings as prescribed in the Chart of Accounts:
 - i. A Revenue and Expenditure Statement for the period from 1st of April to 31st of March which shows the revenues earned and expenditure incurred by BRLP during the period under various account heads. It shows the revenue and expenditure irrespective of whether cash has been received

or paid against them. If there is excess of Revenue over Expenditure the same shall be transferred and shown as an addition to the Capital Fund. In case there is an excess of Expenditure over Revenue the same shall be shown as a deduction from Capital Fund in the Balance Sheet.

- ii. Cash Flow Statement: It shall summarize all the cash transactions that have taken place during a period according to the account heads and represented in a logical grouping of the receipts and payments side. This shall detail the actual inflows and outflows of cash during the period. The statement shall begin with the opening cash & Bank balances and end with the closing Cash & bank balances by effecting the transactions that have occurred during the period.
 - iii. A Balance Sheet shall be prepared to show the financial position as on the last date of the financial year. This shall contain a list of all assets and liabilities as on the 31st of March each year. The Assets and Liabilities shall be represented major fund component wise in order to provide a clear picture of the finance position.
- f. **Bank Reconciliation Statement (BRS)** - BRS shall be prepared on a monthly basis to identify and provide details/information for the differences between the closing balance of the bank account as on last working day of each month and the closing balance as shown by the pass book (or bank statement).

Receipt Accounting

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- a) The funds shall be made available to the SPMU by the Government of Bihar in the form of grant.
- b) The DPCU/BPIU shall receive funds from SPMU for project activities. The funds shall be received at periodic intervals in the form of cheque/DD/ Bank transfers.
- c) BPIU will receive funds from DPCU as advance for Project Activities after establishment of DPCU office.
- d) The BLFs/VOs shall receive funds from BPIU for Project activities from time to time in the form of cheque/DD/Bank Transfer.
- e) There could be other receipts on account of interest on bank account, receipt of security deposits, receipts of earnest money deposits, etc.
- f) The receipts would generally be in the form of bank receipts. There could be cash receipts also, e.g. settlement of advance by an employee in cash, etc. Based on the mode of receipts, the receipt transactions shall be classified as bank and cash receipts.
- g) On receipt of funds a bank/ cash receipt voucher shall be prepared. The voucher shall be prepared preferably through the computerized system. At

the time of receipt, all details of the receipt transaction shall be fed into the computerized system.

- h) On authorization of the voucher by the competent authority, the voucher shall be updated in the computerized system. The system shall then generate a voucher number and voucher date.
- i) The posting of the voucher shall update the bank / cash receipt day book, bank/cash book/ cheque register and general ledger.
- j) In case of receipt of security deposits/earnest money deposits, the entry shall be made into the Register of security deposits/earnest money. The register of security deposits/ earnest money shall contain voucher wise details of the following:
 - Opening balance of deposit
 - Amount received during the period
 - Amount refunded during the period
 - Closing balance of deposit
 - Expected date of refund of deposit.
- k) The **Project Units** shall periodically review the register for security deposits/earnest money deposits to keep track of deposits nearing date of maturity and deposits overdue for payment.
- l) In case the security is in the form of bank guarantee then no accounting shall be done for the same. However record of such security shall be kept in the 'Register of Bank Guarantee'

Payment Accounting:

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The payments shall mainly be in respect of the following:

- Release of funds by SPMU to DPCUs & BPIU
 - Release of funds by DPCU & BPIU to BLF/ VO
 - Other payments both at SPMU ,DPCUs BPIUs (such as payment for goods and services, preparation/procurement of training material/ publications, payment to consultants, exposure visits, payment for operational expenses, refund of security deposit/ EMD, etc.).
- a) The payments would mainly be made through cheques/DD/bank transfers. However there could be cash payments also, e.g. payment of daily wages, repairs and maintenance, etc. The accounting for payments shall be done as per the mode of payment i.e. bank payment or cash payment.
 - b) All bank payments shall be accounted for through Bank payment voucher and details of the payment shall be recorded in a Cheque register. All payments made through cash shall be accounted for through Cash payment voucher.

- c) The voucher shall be prepared through the manual as well as computerized system. At the time of making the payment, all the details of the payment transaction shall be fed into the cash book and computerized system.
- d) In order to avoid preparation of cash payment voucher for petty expenses, an advance shall be given to an administrative official of the office for the purposes of meeting the office expenses of a routine nature and small amounts (nature and amount to be specified by the competent authority of the project). At regular intervals the official shall submit a statement of expenditure incurred, classifying the expenses according to the general ledger code classifications.
- e) After authorization of expenses by the competent authority, a cash payment voucher shall be prepared to account for the expenses as per the statement of expenditure and the amount shall be reimbursed to the concerned official. On posting of the voucher, system shall update bank/ cash payment day book, bank/ cash book and general ledger.
- f) The payment to BLF/ VOs shall be made as per the terms of the MOU entered into between BRLP and BLFs/VOs for the project activities as per the agreed stage payments against substantial and measurable outputs.
- g) Before the release of next instalment BPIU shall ensure that BLF/VOs have delivered the previous milestone as per the agreement.
- h) BPIUs shall maintain a register to monitor proposals received from BLF/VOs for the project activity. Any delay in processing the proposal for payment by BPIU/DPCU shall be reported to SPMU monthly in the format of the register. The DPCU/BPIU will process all proposals and claims on a first-come-first-serve basis and will maintain a register with date of receipt and disposal of all proposals and claims.
- i) Release of funds to -BLF/ VOs: The DPCU shall release funds to them for facilitating the various project activities as per the terms of the contract.
- j) Accounting for release of funds shall be done as 'Payment Accounting' discussed above.
- k) The expenditure of – BLF/ VO shall be accounted for through bank payment. At the time of release of funds, the activities against which the funds are released shall also be accounted for.

Bank reconciliation

The SPMU, DPCUs & BPIU shall reconcile bank balance as per the bank statement and the bank book on a monthly basis and prepare a monthly Bank Reconciliation Statement by 7th of the succeeding month. For this purpose, the bank statement shall be entered into the system. The system shall match and compare the bank statement and bankbook and will generate a list of unmatched transactions. The unmatched transactions would be grouped under the following heads:

- Cheque deposited but not credited
- Cheque issued but not presented
- Excess/ less amount debited / credited by bank
- Bank interest
- Bank charges

Debits against standing instructions like payment of telephone bills, electricity bills etc., if any. The project office shall pass appropriate correction entries wherever necessary for the differences in the bank statement and bank book.

The bank reconciliation statement shall be regularly reviewed for Cheques issued but not presented for payment for more than 6 months. These Cheques shall be treated as stale Cheques. The Project Units shall prepare a bank receipt voucher, crediting stale Cheques account, to account for stale Cheques. No activity shall be credited at the time of passing such entry.

The Project Units shall maintain a Stale Cheques Register for the purpose of control over the stale Cheques in the books of account.

A fresh Cheque shall be issued on demand from the party and necessary entry shall be made in the books of account and in the stale Cheques register. On issue of the fresh cheque the project authorities shall debit the stale cheque account. The activity shall not be debited / credited on issue of fresh cheque.

If a Cheque is reversed by the project authorities and no fresh cheque is issued against it for a period of three years from the date of issue of the original cheque, then the project authorities shall debit the stale cheques account and credit the other income account in the books of account.

CIF Accounting- SPMU/DPCU / BPIU shall maintain separate sets of the Registers and documents for the fund released against CIF

Following Records and Documents has to be maintained at different Project Accounting centers for CIF Management-

- SPMU would maintain the following Books & documents:
 - Administrative Sanction
 - District /Block wise Allotment Letters
 - Summary Sheet of CIF Allotted
 - District/Block wise separate Ledgers for the entire sub Components of CIF with control Account.
 - Block wise/District wise consolidated Utilization certificates
 - Separate Bank Account.

DPCU- For each and every CIF, BPIU would maintain the following Books t ← --- **Formatted: Bullets and Numbering**
& documents:

- Administrative Sanction
- Block wise Allotment Letters
- Summary Sheet of CIF allotted
- District/Block wise separate Ledgers for the entire sub Components of CIF with control Account.
- Block wise consolidated Utilization certificates.
- Separate Bank account

– **BPIU-** For each and every CIF, BPIU would maintain the following Books of account & documents in prescribed format

- Administrative Sanction
- Block wise Allotment Letters
- Summary Sheet of CIF allotted
- BLF/VO (till BLF is formed) wise separate Ledgers for the entire sub Components of CIF with control Account.
- Separate Bank account
- CIF Proposals from VO/BLF
- Appraisal Report
- Memorandum of Understanding/Agreements
- Proceeding
- Utilization certificates from BLF/VO(till BLF is formed)

CIF will be transfer directly to the Blocks till the districts units becomes fully functional

Accounting for fixed assets:

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The accounting for fixed assets shall be done only at the offices of SPMU, DPCUs & BPIUs . Accounting of fixed assets shall be done in respect of assets acquired for the project. The various cost components that shall form part of cost of fixed assets shall be as per the accounting policy on fixed assets. In respect of purchase of fixed assets, a Fixed Asset Transaction Form shall be filled along with the voucher. This form shall contain the details of the assets acquired, such as specification of the asset, asset number, location of the asset, etc. Separate form shall be filled for each individual item of fixed asset. On posting of the voucher shall be update in the Fixed Asset Register.

Fixed assets register: The fixed assets register shall be maintained only by SPMU, DPCUs & BPIUs for assets acquired by the SPMU, DPCUs & BPIUs .

For assets acquired by BLF/ VO the record shall be maintained by respective BLF /VO. Whenever a fixed asset is purchased a payment voucher shall be prepared whereby the respective account head is debited and bank/ cash account is credited. The relevant asset code and description is specified in the voucher itself

The fixed asset register shall give details as regards:

- The nature of asset
- Date of purchase
- Location
- Cost
- Asset code
- Voucher reference of purchase

The fixed asset register shall be updated as soon as the Cash / bank payment voucher is passed for purchase of the fixed asset.

Physical verification of fixed assets: The State Administrative Officer and his/her team shall conduct physical verification of the fixed assets (at least yearly). The procedure for physical verification shall be as under:

- The SPMU DPCU,BPIU shall generate a list of the assets acquired in the project from the fixed asset register
- The project office shall physically verify the fixed assets at its location with respect to the physical presence, condition of the asset and its workability (i.e., whether the asset is in running condition or not)
- Any discrepancies or otherwise noticed during the physical verification shall be noted. The Project Units shall explain in detail, the reasons for the discrepancies noticed during physical verification and the competent authority will take appropriate action.
- A certified copy of the fixed asset register shall be sent by each of the BPIU/DPCU to SPMU
- A comparative statement indicating fixed assets as per records and assets as per the physical verification conducted, variation, if any, and reasons thereof shall be appended with the annual audited statements of accounts.

Correction of entries

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- Once an entry is entered in the Books of Accounts /computer, the editing of such entry shall not be permitted. The correction of such entries shall be done only through the journal vouchers.

- Journal voucher shall be passed with the appropriate narrations explaining in detail the reason for the correction made, giving reference to the earlier accounting entry.
- The voucher shall be prepared using the manual as well as computerised system. At the time of preparation of voucher all the details of the transaction shall be fed into the computerised system.
- On authorization of the voucher by a competent authority the voucher shall be updated in the system. The posting of the voucher shall update the journal book and general ledger.

Consolidation of Accounts

- The consolidation of accounts for the project shall be done at all levels on a monthly / quarterly and annual basis. The DPCU shall consolidate the accounts of the BPIUs with the accounts of the DPCU after establishment of DPCU offices , and
- The consolidated accounts prepared at all the DPCUs shall again be consolidated at the SPMU. All the accounts of BPIUs will be consolidated at SPMU level till the establishment of full fledged DPCU offices. For consolidation, the trial balance for each DPCU/BPIU shall be transferred to the SPMU.

The system shall provide the following options for consolidation at SPMU:

1. Through Floppy/E-mail and hard copies: The BPIUs/DPCUs shall generate the computer file for transfer to the SPMU. In case E-mail is available at both the locations, the file may be mailed to the SPMU using E-mail.
2. The SPMU shall load the information received from DPCUs/BPIUs into the system. The Account will be consolidated at the SPMU. At the time of consolidation it shall be ensured by SPMU that inter – unit control accounts are reconciled.

On consolidation, the Component /Headwise trial balances shall be generated for the project as a whole:

Closure of books of accounts at DPCUs/BPIUs

- All BPIUs /DPCUs under this project shall close their books of account by April 7th of the succeeding financial year on a provisional basis. Adjustments subsequent to provisional closure of books shall be made by journal vouchers, which shall update the trial balance. On finalisation of accounts the provisional balances will be adjusted accordingly.

- For the purposes of closure of accounts on a provisional basis, a provisional trial balance shall be generated and all the ledger accounts shall be taken to the final accounts. A provisional balance sheet, income and expenditure account, receipts and payments account and relevant schedules, which shall form part of the annual accounts, shall be prepared.
- A copy of the provisional accounts so prepared shall be sent to the SPMU for consolidation latest by April 15 of the succeeding financial year.

Closer of books of accounts at SPMU

- The same procedure that is being followed at the DPCU/BPIU shall be followed at the SPMU for account closing purposes.
- The SPMU shall receive the provisional accounts from DPCUs/BPIUs by April 15 of the succeeding financial year and it shall generate its own provisional accounts and the provisional accounts for the project as a whole by April 30.
- After getting copies of final accounts from the DPCUs, SPMU shall prepare the final accounts for the project as a whole in the manner provided in the consolidation of accounts section of this report.

BALANCE SHEET

The accounting **balance sheet** is one of the major financial statements used by accountants and business owners. The balance sheet is also referred to as the **statement of financial position**.

The balance sheet presents a society's financial position at the end of a specified date. Because the balance sheet informs the reader of a society's financial position as of one moment in time, it allows someone—like a creditor—to see what a society *owns* as well as what it *owes* to other parties as of the date indicated in the heading. This is valuable information to the banker who wants to determine whether or not a society qualifies for additional credit or loans. Others who would be interested in the balance sheet include current investors, potential investors, society management, suppliers, some customers, competitors, government agencies, and labor unions.

Liabilities are obligations of the society; they are amounts owed to creditors for a past transaction and they usually have the word "payable" in their account title. Along with owner's equity, liabilities can be thought of as a *source* of the society's assets. They can also be thought of as a claim *against* a society's assets. The creditors/suppliers have a claim against the society's assets and the owner can claim what remains after the Accounts Payable have been paid.

Examples of liability accounts reported on a society's balance sheet include:

- [Accounts Payable](#)
- [Salaries Payable](#)
- [Wages Payable](#)
- [Interest Payable](#)
- [Other Accrued Expenses Payable](#)
- [Income Taxes Payable](#)
- [Customer Deposits](#)
- [Warranty Liability](#)

These liability accounts will normally have credit balances.

CHART OF ACCOUNTS

A [chart of accounts](#) is a listing of the names of the [accounts](#) that a society has identified and made available for recording transactions in its [general ledger](#).

Within the chart of accounts you will find that the accounts are typically listed in the following order:

- | | |
|----------------------------------|---|
| Balance sheet accounts | <ul style="list-style-type: none"> ▪ Assets ▪ Liabilities ▪ Owner's (Stockholders') Equity |
| Income statement accounts | <ul style="list-style-type: none"> ▪ Operating Revenues ▪ Operating Expenses ▪ Non-operating Revenues and Gains ▪ Non-operating Expenses and Losses |

A society's [organization chart](#) can serve as the outline for its accounting chart of accounts. A chart of accounts will likely be as large and as complex as the society itself.

This is a partial listing of another sample chart of accounts. This sample chart of accounts also includes a column containing a description of each account in order to assist in the selection of the most appropriate account.

Asset Accounts

<i>Account Title</i>	<i>To Increase</i>	<i>Description/Explanation of Account</i>
Cash	Debit	Checking account balance (as shown in society records), currency, coins, checks received from customers but not yet deposited.
Accounts Receivable	Debit	Amounts owed to the society for services performed or products sold but not yet paid for.
Merchandise Inventory	Debit	Cost of merchandise purchased but has not yet been sold.
Supplies	Debit	Cost of supplies that have not yet been used. Supplies that have been used are recorded in Supplies Expense.
Prepaid Insurance	Debit	Cost of insurance that is paid in advance and includes a future accounting period.
Land	Debit	Cost to acquire and prepare land for use by the society.
Buildings	Debit	Cost to purchase or construct buildings for use by the society.
Equipment	Debit	Cost to acquire and prepare equipment for use by the society.

Liability Accounts

<i>Account Title</i>	<i>To Increase</i>	<i>Description/Explanation of Account</i>
Notes Payable	Credit	The amount of principal due on a formal written promise to pay. Loans from banks are included in this account.
Accounts Payable	Credit	Amount owed to suppliers who provided goods and services to the society but did not require immediate payment in cash.
Wages Payable	Credit	Amount owed to employees for hours worked but not yet paid.
Interest Payable	Credit	Amount owed for interest on Notes Payable up until the date of the balance sheet. This is computed by multiplying the amount of the note times the effective interest rate times the time period.

Operating Expense Accounts

<i>Account Title</i>	<i>To Increase</i>	<i>Description/Explanation of Account</i>
Salaries Expense	Debit	Expenses incurred for the work performed by salaried employees during the accounting period. These employees normally receive a fixed amount on a weekly, monthly, or annual basis.
Wages Expense	Debit	Expenses incurred for the work performed by non-salaried employees during the accounting period. These employees receive an hourly rate of pay.
Supplies Expense	Debit	Cost of supplies used up during the accounting period.
Rent Expense	Debit	Cost of occupying rented facilities during the accounting period.
Utilities Expense	Debit	Costs for electricity, heat, water, and sewer that were used during the accounting period.
Telephone Expense	Debit	Cost of telephone used during the current accounting period.
Advertising Expense	Debit	Costs incurred by the society during the accounting period for ads, promotions, and other selling and expenses (other than salaries).

Transaction

The chart of accounts lists the accounts that are available for recording transactions. In keeping with the **double-entry system** of accounting, a **minimum of two accounts** is needed for every transaction—at least one account is debited and at least one account is credited.

Some general rules about debiting and crediting the accounts are:

- **Expense** accounts are *debited* and have *debit balances*
- **Revenue** accounts are *credited* and have *credit balances*
- **Asset** accounts normally have *debit balances*
- To increase an **asset** account, *debit* the account
- To decrease an **asset** account, *credit* the account
- **Liability** accounts normally have *credit balances*
- To increase a **liability** account, *credit* the account
- To decrease a **liability** account, *debit* the account

BANK RECONCILIATION STATEMENT

A society's **general ledger bank account** contains a record of the transactions (cheques written, receipts from customers, etc.) that involve its bank account. The bank also creates a record of the society bank account when it processes the society's cheques, deposits, service charges, and other items. Soon after each month ends the bank usually issues or gives a **bank statement** to the society. The bank statement lists the transactions in the bank account during the past month as well as the balance in the bank account.

When the society receives its bank statement, the society should verify that the amounts on the bank statement are tallied with the amounts in the society's Bank 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 or bank reconciliation*. The benefit of reconciling the bank statement is to know whether the amount of Bank reported by the society (society's books) is consistent with the amount of Bank shown in the bank's records or not.

Because most companies write hundreds of cheque each month and make many deposits, reconciling the amounts on the society's books with the amounts on the bank statement can be time consuming. The process is complicated because some items appear in the society's Bank account in one month, but appear on the bank statement in a different month. For example, cheque written near the end of August is deducted immediately on the society's books, but those cheques will likely **clear** the bank account in early September. Sometimes the bank decreases the society's bank account without informing the society of the amount. For example, a bank service charge might be deducted on the bank statement on August 31, but the society will not learn of the amount until the society 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 Bank account on the society'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 Bank.

After you adjust the **balance per bank** to be the true balance and after you adjust the **balance per books** to also be the same true balance, you have reconciled the bank statement.

Here is a sample bank reconciliation including the required journal entries. We will assume that a society has the following information:

1. The bank statement for August 2009 shows an ending balance of Rs. 3,490.
2. On August 31 the bank statement shows charges of Rs.35 for the service charge for maintaining the checking account.

3. On August 28 the bank statement shows a return item of Rs.100 plus a related bank fee of Rs.10. The return item is a customer's check that was returned because of insufficient funds. The check was also marked "do not redeposit.
4. The bank statement shows a charge of Rs.80 for check printing on August 20.
5. The bank statement shows that Rs.8 was added to the checking account on August 31 for interest earned by the society during the month of August.
6. The bank statement shows that a note receivable of Rs.1,000 was collected by the bank on August 29 and was deposited into the society's account. On the same day, the bank withdrew Rs.40 from the society's account as a fee for collecting the note receivable.
7. The society's **Bank** account at the end of August shows a balance of Rs.967.
8. During the month of August the society wrote cheques totaling more than Rs.50,000. As of August 31 Rs.3,021 of the cheques written in August had not yet **cleared** the bank and Rs.200 of cheques written in June had not yet cleared the bank.
9. The Rs.1,450 of Bank received by the society on August 31 was recorded on the society's books as of August 31. However, the Rs.1,450 of Bank receipts was deposited at the bank on the morning of September 1.
10. On August 29 the society's Bank account shows Bank sales of Rs.145. The bank statement shows the amount deposited was actually Rs.154. The society reviewed the transactions and found that Rs.154 was the correct amount.

Step 1.	Balance per Bank Statement on Aug. 31, 2009	Rs. 3,490	# 1
	Adjustments:	0	
	Deposits in transit	+ 1,450	# 9
	Outstanding cheques	- 3,221	# 8
	Bank errors	0	
	Adjusted/Corrected Balance per Bank	Rs. 1,719	

Step 2.	Balance per Books on Aug. 31, 2009	Rs. 967	# 7
	Adjustments:		
	Bank service charges	- 35	# 2
	NSF cheques & fees	- 110	# 3
	Check printing charges	- 80	# 4
	Interest earned	+ 8	# 5
	Note Receivable collected by bank	+ 960	# 6
	Errors in society's Cash account	+ 9	# 10
	Adjusted/Corrected Balance per Books	Rs. 1,719	

Step 1 Amounts

Let's review the schedule for Step 1. In all likelihood the balance shown on the bank statement is *not* the true balance to be reported on the society's [balance sheet](#). The bank reconciliation process is to list the items that will adjust the bank statement balance to become the true cash balance. As the schedule for Step 1 indicates, the amount of deposits in transit must be *added* to the bank statement's balance. Also, the amount of cheques that have been written, but not yet appearing on a bank statement, must be *subtracted* from the bank statement's balance. Next any bank errors should be listed and should be reported to the bank for correction. (The society does *not* report deposits in transit and/or outstanding cheques to the bank.

Step 2 Amounts and Required Journal Entries

Step 2 begins with the balance in the society's Cash account found in its general ledger. The bank reconciliation process includes listing the items that will adjust the Cash account balance to become the true cash balance. We will review each item appearing in Step 2 and the related journal entry that is required. Remember that any adjustment to the society's Cash account requires a journal entry. Generally, the adjustments to the books are the result of items found on the bank statement but have not yet been entered in the society's Cash account.

Item # 2 Bank service charges. Since the bank deducted Rs.35 from the society's checking account, but the society has not yet deducted this from its Cash account, the following journal entry needs to be made.

Date	Account Name	Debit	Credit
August 31, 2009	Bank Service Charge Expense	35	
	Bank		35

(If the annual amount of service charges is small, debit [Miscellaneous Expense](#).)

Item # 3 NSF checks and fees. Since the bank deducted these legitimate amounts from the society's bank account, the society will need to deduct these amounts from its Cash account. As mentioned, the NSF check of Rs.100 was from a customer. Therefore, the society will likely undo the reduction to Accounts Receivable that took place when the society originally processed the Rs.100 check. If the society wishes to recover the bank fee of Rs.10 from the customer, it should add the Rs.10 fee to the amount that the customer owes the society. The journal entry might look like this:

Date	Account Name	Debit	Credit
August 28, 2009	Accounts Receivable	110	
	Bank		110

(If the amount cannot be recovered from the customer, charge an expense.)

Item # 4 Check printing charges. Because this expense is not yet entered on the society's books, but the amount has been deducted from its bank account, the society will make the following journal entry.

Date	Account Name	Debit	Credit
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August 20, 2009	Supplies	80	
	Bank		80

Item # 5 Interest earned. The bank increased the checking account balance by Rs.8 on August 31. Since the bank did not notify the society previously, the society must now increase the balance in its Bank account.

Date	Account Name	Debit	Credit
August 31, 2009	Bank	8	
	Interest Revenue		8

Item # 6 Notes receivable collected. The bank increased the society's checking account when it collected a note for the society on August 29. It was determined that the society had not yet made an entry to its Bank account for this transaction. As a result the following journal entry is needed.

Date	Account Name	Debit	Credit
August 29, 2009	Bank	960	
	Bank Service Charge Expense	40	
	Notes Receivable		1,000

Item # 10 Society error. The society had entered Rs.145 in its Bank account on August 29, but the bank statement showed the correct amount: Rs.154. The transaction involved the Bank sales for the day. As a result the society's Bank account will have to be increased by Rs.9 as follows:

Date	Account Name	Debit	Credit
August 29, 2009	Bank	9	
	Sales		9

Step 3 Comparing the Adjusted Balances

In the above schedules the adjusted balance for Step 1 is Rs.1,719 and the adjusted balance for Step 2 is Rs.1,719. The society believes that all items involving Bank have been included in the schedules. As a result the society has successfully completed its bank reconciliation as of the August 31, 2009.

BOOK KEEPING

Before computers were in common use, *bookkeeping* was done by an actual *bookkeeper*. This person kept a society's day-to-day financial records by manually recording every business transaction into a journal. The journal entry included the date, the name of the accounts to be

debited and credited, and the amounts. The bookkeeping process further required that all journal amounts be rewritten in (or "posted" to) the society's [general ledger](#) and [subsidiary ledger](#) accounts.

With the writing and rewriting of so many amounts (as well as the manual calculations) it was realistic to assume that some errors would occur in the bookkeeping process. This potential for errors created the need to periodically "prove" that a society's accounts were "in balance," meaning the total of the *debit* balance accounts was equal to the total of the *credit* balance accounts. An internal document called a [trial balance](#) was designed to give that proof. If the trial balance did not balance, the bookkeeper had to go back, transaction by transaction, to find and correct the cause of any disparity. Once the trial balance was in balance, the bookkeeping phase was completed and the "books" were turned over to the society's accountant for the preparation of financial statements.

How Bookkeeping Has Changed

With the arrival of computers and accounting software, bookkeeping errors decreased and efficiency increased. Further, because journal amounts are posted electronically and account balances are calculated electronically, the potential for human error in these tasks is eliminated.

As an example of how bookkeeping has become more efficient, consider that the following tasks now occur simultaneously when a credit sale is processed with accounting software:

1. A sales invoice is prepared
2. The general ledger account [Sales](#) is credited
3. The general ledger account [Accounts Receivable](#) is debited
4. The customer's account in the subsidiary ledger is updated.
5. In some situations, the [Inventory](#) account is updated.

nd Credits

Whether bookkeeping tasks are performed manually by a bookkeeper or electronically by clerks, one thing remains the same: *every business transaction involves at least two accounts*. This is known as [double entry](#) book keeping (or "double entry accounting"). Double entry bookkeeping requires that for each transaction, *one* (or more) account must be *debited*, and *one* (or more) account must be *credited*.

When you are using accounting software, it may not be obvious to you that two accounts are involved with each transaction. This is because the software often updates one of the two accounts automatically. For example, whenever you enter an amount from a vendor's invoice, the computer "recognizes" it as an Accounts Payable and automatically enters the amount as a *credit* in that account. What you see on the computer screen is a prompt to enter only the "other" account, the one to be *debited*. Similarly, if you use software to generate checks, the system will automatically *credit* Cash and prompt you to enter only the account (or accounts) to be *debited*.

Debits on the Left, Credits on the Right

Every account has two "sides," a right side and a left side. A [debit](#) refers to an entry on the *left* side of an account, and a [credit](#) refers to an entry on the *right* side of an account. Double entry bookkeeping requires that for every transaction, there is an entry to the left side of one (or more) account, and a corresponding entry to the right side of another account(s).

Below are some facts that will help you determine which side of an account to use:

- Expenses are always debits
- Revenues are always credits
- Debit the Cash account when cash is received
- Credit the Cash account when cash is paid out

Here are some additional facts...

- **A debit will *increase* these accounts:**
 - Assets ([Cash](#), [Accounts Receivable](#), [Inventory](#), [Land](#), [Equipment](#), etc.)
 - Expenses ([Rent Expense](#), [Wages Expense](#), [Interest Expense](#), etc.)
- **A debit will *decrease* these accounts:**
 - Liabilities ([Notes Payable](#), [Accounts Payable](#), [Interest Payable](#), etc.)
- **A credit will *increase* these accounts:**
 - Liabilities ([Notes Payable](#), [Accounts Payable](#), [Interest Payable](#), etc.)
 - Revenues ([Sales](#), [Service Revenues](#), [Fees Earned](#), [Interest Revenues](#), etc.)
- **A credit will *decrease* these accounts:**
 - Assets ([Cash](#), [Accounts Receivable](#), [Supplies](#), [Inventory](#), [Land](#), etc.)

DENITION – TDS

As per the applicable provisions of the Income Tax Act, 1961, though regular assessments are made in respect of any income in later Assessment year, but the assessee has to pay the tax in the following two ways:

- **Tax Deduction at Source** : In case of certain income, tax is deducted at source by the payer at the prescribed rates either at the point of accrual or payment of such income.
- **Advance Tax** : The assessee in certain cases is under an obligation to make payment of advance tax , in certain installments.

TDS ON RENT U/S 194 I w.e.f 1-10-09

Condition :-

- (a) Tax is deductible only if payment/due during a financial year exceeds Rs. 1,20,000 .
- (b) TDS will be deducted on payment or due basis whichever is earlier.

Rate of TDS

- (a) 2% for the use of any machinery or equipment,
- (b) 10% for the use of any land or building or furniture of fitting for all persons.

Note- The rate of TDS will be 20% in all cases, if PAN is not quoted by the deductee w.e.f 1-4-2010

Payment to hotel

Payment made by a person other than individual and HUF, for hotel or accommodation taken on regular basis will be in the nature of rent subject to tax deduction under section 194 I .

TDS on fee for professional or technical services u/s 194 J

Condition:-

- (a) Tax is deductible only if payment/due during a financial year exceed Rs. 20,000.
- (b) TDS will be deducted on payment or due basis whichever is earlier.

Rate of TDS

10% in all cases

TDS ON CONTRACTORS U/S 194 C w.e.f 1-10-09

Condition:-

- (a) Tax is deductible if payment/credit during a financial year exceeds Rs. 50,000.
- (b) Tax is deductible if a single payment/credit exceeds Rs 20,000.
- (c) TDS will be deducted on payment or due whichever is earlier basis.

Rate of TDS

- (a) 1% in case of payment/credit to individual /HUF contractors/sub-contractors/Advertising contract.
- (b) 2% in case of payment/credit to **other than** individual/HUF contractors/sub-contractors/Advertising contract.

Note- The rate of TDS will be 20% in all cases, if PAN is not quoted by the deductee w.e.f 1-4-2010.

Surcharge

- (a) In case of every domestic company having a total income exceeding one crore rupees, at the rate of 10% of such income tax.
- (b) In case of foreign company 2.50%
- (c) In all other cases surcharge has been withdrawn.

Note:- Surcharge will be calculated on tax

Education cess

- (a) Education cess is charged @ 2%
- (b) Secondary and Higher Education cess is charged @ 1%

Note:- Education cess will be calculated on tax + surcharge (if any)

TDS ON SALARY U/S 192

In case of individual/HUF, if salary exceeds the exemption limit then TDS will be deducted as per the income tax slab.

Slab rate for individual other than women and senior citizen

❖	Upto Rs. 160,000	Nil
❖	Rs. 160,001-300,000	10%
❖	Rs. 300,001-500,000	20%
❖	Above Rs. 500,000	30%

Slab rate for women

❖	Upto Rs. 190,000	Nil
❖	Rs. 190,001-300,000	10%
❖	Rs. 300,001-500,000	20%
❖	Above Rs. 500,000	30%

Slab rate for senior citizen

❖	Upto Rs. 240,000	Nil
❖	Rs. 240,000-300,000	10%
❖	Rs. 300,001-500,000	20%
❖	Above Rs. 500,000	30%