

Unit I

Introduction to Farming and Animal Husbandry including Poultry

Introduction to Farming and Animal Husbandry including Poultry – Meaning, nature and features, preparation of ledger accounts and final accounts

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1.0. OBJECTIVES

After studying the unit, the students will be:

- ❖ Know the meaning and nature of Farming and Animal Husbandry.
- ❖ Understand feature of Farming and Animal Husbandry including poultry
- ❖ Discuss practical problems on Farming and Animal Husbandry

1.1 Introduction:

Accounting is an integral part of any business activity. As we know, various activities are broadly classified into agriculture and non-agriculture activities which

further classified into primary, secondary and tertiary sector. As per the census, it is classified into nine categories i.e. begins with cultivation and ends with service sector. Agriculture or farming activity is a predominant activity in India. Recently, due to technology, AI based agriculture or farming activities are initiated by the farmer. Farming activities now comprise not only of growing crops but also include animal husbandry (rearing of livestock), poultry farming, sericulture (silkworm breeding), pisciculture (rearing of fish), floriculture (growing flowers) etc. It has a need to maintain financial accounting for understanding expenditures on farming or allied activities, income from production, utilisation of resources, and profit and loss in farming activities.

To know the various transactions related to agriculture, horticulture and animal husbandry, it is necessary to maintain proper books of accounts. So that a farmer can show the true and fair financial position of his farming activities.

1.2 Presentation of Subject Matter:

1.2.1 Meaning and Nature of Farming and Animal Husbandry

For better understanding of farm accounting, we should know the following concepts clearly:

- a) Farm - It refers to agricultural land, livestock, crops and farm buildings.
- b) Farming - Farming and animal husbandry are essential components of agriculture. While farming focuses on crop production, animal husbandry deals with the care and management of livestock. Poultry farming, an important part of animal husbandry, contributes significantly to food production through eggs and meat. Together, these activities play a vital role in ensuring food security, economic development, and rural prosperity.

The term farming refers to cultivation of land, harvesting crops, horticulture, sericulture, nursery, raising fruits and flowers, growing and selling seeds and plants, dairy, poultry, fishery, rearing sheep, goats, pigs and chicks, etc.

Farming is one of the oldest and most significant occupations in the world. It is the main occupation of people. It is the practice of cultivating land, growing crops, and

raising animals to produce food, fiber and other useful products. It provides food for humans and animals. Basically, it provides raw material for various industries. Farming has key contribution in the growth and development of Indian economy.

There are various types of farming as:

Crop Farming: Growing crops such as rice, wheat, maize, vegetables, and fruits.

Livestock Farming: Rearing animals for milk, meat, wool, and labour.

Mixed Farming: Combination of crop production and animal rearing.

Commercial Farming: Production mainly for sale and profit.

Subsistence Farming: Production mainly for family consumption.

The farm accounting is based on certain goals or objectives as-

1. To ascertain the financial position of the farming operations at any time.
2. To provide acceptable accounting records which can form the basis for securing finance from financial institutions.
3. To understand the Crop-wise performance so that the profitable and unprofitable activities can be segregated.
4. To provide reliable and useful information for assessment of agriculture income tax.
5. To have better control over farming activities.
6. To provide useful information for claiming compensation from government or insurance companies in case of loss suffered due to natural calamities etc.

Animal Husbandry

Animal husbandry is the branch of agriculture concerned with the breeding, feeding, care, and management of domestic animals for useful products and services. The farmers have the financial support in generating income from Cattle(cows and buffaloes), Sheeps, Goats, Pigs, Horses, Camels etc. in the cultivation as well as subsidiary production like milk, meat, eggs, and wool. There is an efficient use of animal resources in various activities of farming.

The animal husbandry provides nutritious food products, supplies manure for agriculture, creates employment in rural areas and supports the agricultural economy.

Poultry Farming

Poultry farming is another branch of animal husbandry which involves raising birds for eggs, meat, and other products. It involves common poultry birds as Chickens, Ducks, Turkeys etc. Poultry provides layer farming (eggs production) and Broiler farming (birds for meat production). It requires relatively low investment and generates quick returns.

c) Farm Accounting-There is no standardized set of accounting for farm activities. Most of the farmers are not aware of maintaining books of accounts. Recently some tea and coffee companies in India, are compelled to maintain their accounts under double entry book-keeping system. In western countries, many farmers maintain record which is necessary for filing return as per income tax Act.

1.2.2 Features of Farm Accounting:

While preparing the farm accounts, the accountant should aware about the peculiar features of farm accounting. Some of the features of farm transactions are given below:

1. Joint Bank Account: Generally, farming is a family business .As a result, the farmer keeps a single bank account for business and for his private purposes.

2. Barter Transaction: Apart from cash transactions, most of the farm transactions are recorded on barter system in the books of accounts. For example, the employees on farm gets farm products as their wages. In this case the Wages Account is debited and the said product (i.e. rice, wheat etc.) is credited. This is nothing but it is an exchange of goods and services for determining monetary value for accounting.

3. Self-Consumption of output: The farmer and his family members used a part of the produce and products of the farm for self-consumption. The consumed product should be valued properly as income of the form. Hence, it is debited to Drawing Account of the farmer or owner.

4. Family labour cost: The labour cost is saved as the farmer and his family members may work on the farm without receiving any specified wages. The labour

cost is valued at market price. For calculation of correct cost of production, it is necessary to determine proper valuation of such labour. It is added to the cost of production for correct accounting.

5. Farming allied Activities: The farmer can not only engage in single activity of raising crops but he along with his family engage in other farming activities like poultry, dairying, pig production, rearing fish, growing flowers etc.

6. Inventory valuation : Inventory valuation of standing crops, cattle, poultry, etc., is the most difficult one and it is required to be done by experts. The correctness and accuracy of financial statements i.e. profit and loss and Balance sheet depends upon correct valuation of inventory/stock valuation.

7. Uncertainties, Natural and artificial Calamities: Agriculture or farm activities are mostly nature based. But due to the natural calamities and uncertainties like heavy rain, pests, diseases, droughts, floods, fire, bad weather conditions etc. similarly, variations in Governments policies, market prices of inputs, like, fertilizers, seeds, chemicals the farming activities are also affected and the owner or farmer suffers from heavy losses. To cover such losses, the farmer has to take crop insurance policy against risk.

8. Self-Made Assets: Most of the farming assets are home-made like plough, bullock cart from wood etc. is used on the farming activities. It is the need to make proper valuation of these assets after charging depreciation. The valuation of such assets is made on the basis of market price.

9. Land Development Expenses: It is the most important feature of farm accounting. The cost on cultivation is added to the cost price of the land. If the cost exceeds the market price of the land, such excess amount is treated as deferred revenue expenditure. It writes off next several years. If the amount cannot be written off, it is shown to the balance sheet. In case of land on lease or tenancy, it can be written off within the lease period.

10. Depreciation: No depreciation is to be charged on agriculture land. It is charged on farm machinery, farm building/house, agriculture tools and implements etc as per the suitable method of depreciation.

11. Expenses on Accounts preparation: Agriculture sector in India is unorganized and dominated by small farmers. The average size of holding land is very small etc. Most of the farmers have small size of agriculture land for cultivation. They never keep any record of their income, expenses, assets and liabilities as they are illiterate and cannot afford the expenses to maintain books of accounts.

12. Accounting Awareness: There is lack of awareness of accounting techniques in all farmers as they are neglecting the process of accounting and tax exemption. As a result, they cannot make an appropriate decision regarding farming.

13. Valuation of Standing Crops: It is the product to the farmer which is marketable at net realisable value or at the lower of cost. The realisable value can be considered on the basis of the cost incurred on crops for marketable. These standing crops are to be treated as work in progress.

14. Valuation of Manure: As standing crops, the manure is also valued at net realisable value or at the lower of cost. The farm yard manure is to be valued at the market price which includes the carriage or freight inward. This price may be known as estimated procurement price.

15. Valuation of Seeds: The valuation of seeds is also done as the valuation of manure.

1.2.3 Preparation of Ledger Accounts:

Generally farm activities are classified into four types of transactions:

- a) Cash transactions: which records as usual.
- b) Credit transactions: which records as usual.
- c) Barter transactions: which are also known as exchange transactions, normally recorded at opportunity cost (i.e. price in the open market)
- d) Notional transactions: it is the transactions which take place between the members of owner's family and the farm.

1.2.3.1 Books of Accounts:

Following books of accounts are maintained under farm accounting:

Sr.No	Books of Accounts	Recording
1	Cash Book (Analytical Column)	cash transactions
2	Debtors and Creditors Register	credit transactions
3	Stock Register	opening, purchase, sale and closing stock
4	Fixed Assets Register	the details of cost of asset, depreciation on it and closing balance.
5	Loan Register	loan amount and interest
6	Register for Notional Transactions	the transactions between farm and farm household
7	Cost analysis Register	to know the profit of each activity etc.

Cost and Revenues:

Farm activities	Cost (Expenses)	Revenue (Income)
Dairy	Cattle feed, hay, cost of cultivation of feed crop, insecticides, salaries and wages, cost of maintaining milk processing facilities	Sale of milk, milk products, calves, dairy cattle and slaughtered cattle
Poultry	Chicken feed, hay, packing, boxes, cost of shed, medicines, salaries and wages.	Sale of eggs, chickens, broilers, hens, sale of manures.
Fisheries	Cost of seed and water, fish feed, cost of tanks, catching expenses depreciation on assets, salaries and wages	Sale of fish

1.2.3.2 Preparation of Final Accounts:

Farm final accounts can be prepared according to any of the two methods i.e. Single-entry method and Double entry method.

1. **Single Entry Method:** Under this method two statements are prepared one in the beginning of the year and another at the end of the accounting year. The excess of assets over liabilities is considered as a net worth of the business and the profit or loss made by business during a period can be ascertained by comparing the net worth of the business on two dates after making the adjusting entries of drawings, introduction of additional capital etc.

In this chapter we are using double entry system.

2. **Double Entry method :** Under this method farm account is prepared by following the principles of double entry system. This accounts is debited with opening stock and the relevant expenses incurred and credited with the sale proceeds and closing stock. The difference between debit and credit is shown to profit or loss. For every farm activity a separate columns are provided. The profit or loss of each activity is transferred to Balance Sheet.

3. **Barter Transactions:** Farming business is family type hence items of drawings should be carefully recorded. Apart from cash drawings lot of farm produce may be consumed by the proprietors family for which following entry should be passed.

Drawings A/c.....Dr.

To crop/dairy/poultry/fish A/c

Similarly farm labours might be paid their wages in the farm of farm produce for which following entry may be passed.

Wages A/c.....Dr.

To crop/dairy/poultry/fish A/c

4. **Live Stock Accounting :** For rearing of livestock, accounts should be maintained for each type of livestock. The cost of each type of live stock is debited to particular livestock account and sale proceeds of the livestock and other products of

their farm are credited. The balancing figure of livestock account then indicates the profit and loss.

5. Activity wise Classification: To ascertain the cost and profitability of each product. Crop or vegetable separate accounts may be maintained. Each crop or vegetable amount may be debited with the opening stock and expenses incurred on it and credited with the sale proceeds and closing stock. The balancing figure will indicate the profit and loss on that account.

6. Valuation of Farm Assets: For preparation of final accounts, the farm inventory and other assets should be valued at the end of the year. The valuation may be done at cost or market price whichever is less. In case of home bred cattle where it is difficult to ascertain the cost.

7. Preparation of Final Accounts: If the accounts are maintained as per single entry system. The final accounts are prepared by statement of affairs method or by conversion method. But if the accounts are maintained on double entry system the Trial Balance is prepared at the end of the year and from it the Trading, Profit and loss A/c and Balance sheet is prepared as usual.

Check Your Progress Section -I

Fill in the blanks:

1. ----- is the branch of agriculture concerned with the breeding, feeding, care, and management of domestic animals for useful products and services.
2. ----- is another branch of animal husbandry which involves raising birds for eggs, meat, and other products.
3. Apart from cash transactions, most of the farm transactions are recorded on ----- in the books of accounts.
4. The farmer and his family members used a part of the produce and products of the farm -----.
5. The labour cost is valued at -----.

6. Most of the farming assets are ----- like plough, bullock cart from wood etc. is used on the farming activities.
7. No depreciation is to be charged on -----.
8. Agriculture sector in India is ----- by small farmer
9. The ----- can be considered on the basis of the cost incurred on crops for marketable.
10. The ----- are to be treated as work in progress.
11. The farm yard ----- is to be valued at the market price which includes the carriage or freight inward.

1.2.3.3 Forms of Accounts

Following are the specimen or forms of the accounts related to farm accounting.

FARM ACCOUNT

For the year ended

Dr			Cr		
Particulars	₹	₹	Particulars	₹	₹
To Opening Stock:			By Output Sale	xxx	
Output Items	Xxx		By Closing Stock:		
Input Items	Xxx		Input Items	xxx	
Crop-in-process	Xxx	Xxx	Output Items	xxx	
Work-in-process	xxx		Crop-in-process	xxx	
			Work-in-process	xxx	xxx
To Wages:			By Net Loss if any (Taken to Balance Sheet)		xxx
Casual	Xxx				
Permanent	Xxx	xxx			
To Purchases					
Fertilizers	Xxx				
Seeds	Xxx				

Pesticides	Xxx	xxx			
To Expenses and Hire Charges					
On–					
Implements	Xxx				
Tools	Xxx				
Machinery	Xxx				
Owned Bullocks	Xxx				
Tubewell	Xxx				
Irrigation Charges	Xxx				
Farm Building	Xxx				
Irrigation Shed	Xxx				
Field Shed etc.	Xxx				
To Land Revenue	Xxx	xxx			
To Deferred Revenue		Xxx			
Expenditure on:					
Land Development	xxx				
Multi-cropping	xxx				
Manual Implements	xxx				
To Depreciation on:					
Bullocks	xxx				
Bullock-driven Implements	xxx				
Tools	xxx				
Machinery	xxx				
Implements	xxx				
Farm Building	xxx				
Irrigation Structure	xxx	Xxx			
To Hire Charges on Leased in		Xxx			
Land					
To Interest on Loan		Xxx			
To Notional Rent on Leased in		Xxx			
Land					
To Notional Interest on Own		Xxx			
Capital					

To Wages (Family Workers)		Xxx			
To Net Profit (Taken to Balance Sheet)		Xxx			

Crop Account

Crop account represents all crops like wheat, rice, maize, jute, cotton, vegetables, etc., or all items related to crop section. The following specimen or form is used:

CROP ACCOUNT

For the year ended

Dr.

Cr

Particulars	₹	₹	Particulars	₹	₹
To Opening Stock			By Sales		
Wheat	Xxx		Wheat	xxx	
Rice (Paddy)	Xxx		Paddy (Rice)	xxx	
Vegetables	Xxx		Vegetable	xxx	
Cotton	Xxx		Cotton	xxx	
Fruits	Xxx		Fruits	xxx	
Fertilizers	Xxx		Seeds	xxx	
Seeds	Xxx	Xxx	Manures	xxx	xxx
To Purchases			By Wages (in Kinds) Contra		xxx
Fertilizers	Xxx		By Drawing (Personal Consumption)		xxx
Seeds	Xxx		By Inter Transaction (Contra)		xxx
Manures	Xxx	Xxx	By Closing Stock		
To Expenses			Wheat	xxx	
Crop Expenses	Xxx		Rice	xxx	
Depreciation on Machinery	Xxx		Vegetable	xxx	
Expenses on Machinery	Xxx		Cotton	xxx	

Wages (in Kind) Contra	Xxx		Fruits	xxx	
Allocated Expenses	Xxx	Xxx	Fertilizers	xxx	
To Inter Transaction (Contra)		Xxx	Seeds	xxx	
To Gross Profit		Xxx	Growing Crop	xxx	xxx
			By Gross Loss		xxx

Live Stock Account

This account represents all types of animals like cow, sheep, buffalo, bullock, etc. and all items related to the live stock section. The following specimen is used:

LIVE STOCK ACCOUNT

For the year ended

Dr

Cr

Particulars	₹	₹	Particulars	₹	₹
To Opening Stock			By Sales		
Livestock	Xxx		Livestock	xxx	
Cattle Feed	Xxx		Dry Cattle	xxx	
Dry Cattle	Xxx		Cattle	xxx	
Sheep	Xxx		Slaughtered Cattle	xxx	
Calves	Xxx		Calves	xxx	
Cattle etc.	Xxx	Xxx	Milk etc.	xxx	
			Carcases	xxx	xxx
To Purchases			By Wages		
Livestock	Xxx		In Cash	xxx	
Cattle Feed	Xxx		In Hand	xxx	xxx
Cattle	Xxx		By Drawings(Personal Consumption)		xxx
Sheep etc.	Xxx	Xxx	By Contra		xxx

To Expenses			By Closing Stock		
Medicines	Xxx		Livestock	xxx	
Insurance of Livestock	Xxx		Cattle	xxx	
Labour	Xxx		Calves	xxx	
Allocated Expenses	Xxx		Sheep	xxx	
Slaughter-house	Xxx	Xxx	Cattle Feed	xxx	xxx
Expenses					
To Contra		Xxx	By Gross Loss (if any)*		xxx
To Gross Profit*		Xxx			
Total		Xxx	Total		xxx

Fishery Account

Fishery account represents all types of fish related income and expenditure.

The following specimen is used:

Fishery Account for the year ended

Dr			Cr		
Particulars	₹	₹	Particulars	₹	₹
To Opening Stock			By Sales		
Fish	Xxx		Fish	xxx	
Food for Fish	Xxx		Fish Spawn	xxx	
Food Stuff	Xxx		Dry Fish	xxx	xxx
Fish Spawn	Xxx		By Drawing (Personal Consumption)		xxx
Dry Fish	Xxx	xxx	By Wages (In Kinds)Contra		xxx
To Purchase					
Fish	Xxx		By Closing Stock		
Food for Fish	Xxx		Fish	xxx	

Food Stuff	Xxx		Food for Fish	xxx	
Fish Spawn	Xxx	xxx	Food Stuff	xxx	
To Fishery Expenses			Fish Spawn	xxx	
Maintenance Cost of Tanks	Xxx		Dry Fish	xxx	xxx
Water	Xxx				
Catching Expenses	Xxx				
Dep. on Fishery Net	Xxx				
Salary and Wages	Xxx				
Allocated Expenses	Xxx	xxx			
To Contra		xxx			
To Gross Profit		xxx	By Gross Loss		xxx

Poultry Account

Poultry account represents all types of birds and animals related to income and expenditure. The following specimen is used:

Poultry Account For the Year Ended

Dr			Cr		
Particulars	₹	₹	Particulars	₹	₹
To Opening Stock			By Sales		
Birds	Xxx		Birds	xxx	
Eggs	Xxx		Eggs	xxx	
Chicken	Xxx		Emu	xxx	
Emu	Xxx		Hen	xxx	
Food Stuff	Xxx		Chicken	xxx	xxx
Poultry Food	Xxx	Xxx	By Drawings (Personal		xxx

			Consumption)		
To Purchase			By Wages (In Kinds)		xxx
Birds	Xxx		By Contra		xxx
Chicken	Xxx		By Closing Stock		
Emu	Xxx		Birds	xxx	
Food Stuff	Xxx		Eggs	xxx	
Poultry Food	Xxx	Xxx	Chicken	xxx	
To Dairy Expenses			Emu	xxx	
Packing Boxes	Xxx		Food Stuff	xxx	
Fuel for Heating	Xxx		Poultry Food	xxx	xxx
Maintenance of Poultry	Xxx				
Food					
Salary and Wages	Xxx				
Allocated Expenses	Xxx	xxx			
To Contra		xxx			
To Gross Profit		xxx	By Gross Loss if any		xxx
Total		xxx	Total		Xxx

Balance Sheet As on

Liabilities	₹	₹	Assets	₹	₹
Farm Household Capital	xxx		Farm Land		xxx
Add : Farm Profit	xxx		Bullocks		xxx
Less : Farm Loss	xxx	Xxx	Bullock-driven		xxx
Loans (Long + Short Term)		Xxx	Implements		
Creditors		Xxx	Tools and Machinery		xxx
Outstanding Expenses		Xxx	Other Implements		xxx
Other Liabilities		Xxx	Input Stock		xxx
			Output Stock		xxx

			Crop-in-process		xxx
			Work-in-process		xxx
			Sundry Debtors		xxx
			Miscellaneous		xxx
			Deferred Expenses		
			Cash in Hand		xxx
			Other Assets		xxx
Total		Xxxx	Total		xxxx

1.2.3.4 Practical Solved Problems

Illustration 1: Crop Account (Wheat Farming)

From the following information of a Small Agriculture Farm at Sangli. Show the crop account for the 31st March 2026.

- Opening stock (Seeds): ₹5,000
- Seeds purchased: ₹10,000
- Fertilizers: ₹8,000
- Wages: ₹12,000
- Irrigation: ₹5,000
- Harvesting expenses: ₹6,000
- Sales of wheat: ₹50,000
- Closing stock (unsold wheat): ₹7,000

Solution:

Crop Account

Dr.		Cr.	
Particulars	₹	Particulars	₹
To Opening Seeds	5,000	By Sale of Wheat	50,000
To Seeds Purchased	10,000	By Closing Stock	7,000
To Fertilizers	8,000		
To Wages	12,000		
To Irrigation	5,000		

To Harvesting	6,000		
To Gross Profit c/d	11,000		
Total	57,000	Total	57,000

Illustration2

From the following particulars, prepare Crop A/c, Poultry A/c and Farm Profit and Loss Account of Shri. Ramrao for the year ending 31st March, 2026.

Particulars	Amount (₹)	Amount (₹)
Stock as on	1st April, 2025	31st March, 2026
Wheat	10,000	7,000
Rice	8,000	4,500
Chickens	5,000	6,000
Poultry Food	2,000	3,000
Fertilizers		1,000
Seeds		2,000
Emu Birds		5,000
Purchases during the Year		
Fertilizers		3,000
Seeds		7,000
Chickens		10,000
Poultry Food		4,000
Emu Birds		17,000
Pesticides		2,000
Sales during the Year		
Wheat		20,000
Rice		12,000
Chickens		10,000
Emu Birds		15,000

(a) Expenses during the Year		
Depreciation		4,000
Interest on Loan		3,000
Rent and Taxes		1,000
Insurance		1,500
Wages and Salary		2,000
General Expenses		700
Selling Expenses		500

(b) Additional Information

1. Wages and salary are to be distributed between Crop A/c and Poultry A/c in the ratio of 3 : 1.

Solution: In the Books of Shri. Ramrao Crop Account

For the Year Ending 31st March, 2026

Dr.			Cr
Particulars	₹	Particulars	₹
To Opening Stock		By Sales	
Wheat	10,000	Wheat	20,000
Rice	8,000	Rice	12,000
To Purchases		By Closing Stock	
Fertilizers	3,000	Wheat	7,000
Seeds	7,000	Rice	4,500
Pesticides	2,000	Fertilizers	1,000
To Wages and Salary	1,500	Seeds	2,000
To Gross Profit (<i>Taken to General Profit and Loss A/c</i>)	15,000		
Total	46,500	Total	46,500

Poultry Account of Shri. Ramrao
For the Year Ending 31st March, 2026

Dr.		Cr	
Particulars	₹	Particulars	₹
To Opening Stock		By Sales	
Chickens	5,000	Chickens	10,000
Poultry Food	2,000	Emu Birds	15,000
To Purchases		By Closing Stock	
Chickens	10,000	Chickens	6,000
Poultry Food	4,000	Poultry Food	3,000
Emu Birds	17,000	Emu Birds	5,000
To Wages and Salary	500		
To Gross Profit (<i>Taken to General Profit and Loss A/c</i>)	500		
Total	39,000	Total	39,000

General Profit and Loss Account

For the Year Ending 31st March, 2026

Dr.		Cr	
Particulars	₹	Particulars	₹
To Depreciation	4,000	By Gross Profit	
To Interest on Loan	3,000	Crop A/c	15,000
To Rent and Taxes	1,000	Poultry A/c	500
To Insurance	1,500		
To General Expenses	700		
To Selling Expenses	500		
To Net Profit	4,800		
Total	15,500	Total	15,500

Illustration - 3

From the following Trial Balance of Sudarshan of Kolhapur, Prepare his Crop A/c, Fishery A/c and Profit and Loss Account for the year ending 31st March, 2026 and Balance Sheet as on that date.

Trial Balance

Dr		Cr	
Particulars	₹	Particulars	₹
Stock on 1-4-2025		Sundry Creditors	1,00,000
Paddy (Rice)	2,00,000	Capital	12,00,000
Vegetable	40,000	Interest on Fixed Deposit	10,000
Growing Crop (Wheat)	1,60,000	Bank Loan	4,00,000
Fish	1,00,000	Sales	
Fish Spawn	80,000	Rice	3,60,000
Seed	40,000	Vegetables	80,000
Fertilizers	30,000	Wheat	2,00,000
Fish Stuff	20,000	Fish	3,20,000
Purchases		Fish Spawn	1,30,000
Fish Spawn	20,000		
Seed	36,000		
Fish Stuff	16,000		
Fertilizers	28,000		
Fish Tank	1,50,000		
Tractors	3,00,000		
Farm House	5,00,000		
Machinery	1,80,000		
Equipment	90,000		
Sundry Debtors	1,20,000		
Cash in Hand	1,50,000		
Cash at Bank	1,20,000		
Wages	80,000		

Rent and Taxes	20,000		
Land Revenue	1,60,000		
Insurance Premium	12,000		
Interest on Loan	10,000		
Fixed Deposit	1,30,000		
Repairs	6,000		
Maintenance	2,000		
Total	28,00,000	Total	28,00,000

Other Adjustments

1. Closing Stock as on 31st March, 2026 as follows:

Particulars	₹
Rice	1,60,000
Vegetable	40,000
Wheat	60,000
Fish	1,00,000
Fish Spawn	60,000
Seed	10,000
Fertilizers	8,000
Fish Stuff	2,000

2. Proprietor consumed farm produce during the year

Farm Produce	Amount (₹)
Wheat	20,000
Rice	16,000
Vegetable	4,000
Fish	3,000

3. Workers consumed farm produce during the year Wheat ₹ 10,000, Rice ₹ 8,000, Vegetable ₹ 2,000 and Fish ₹ 6,000.
4. Rice of ₹ 12,000 was used for fishery section during the year.
5. Machinery and Tractor were depreciated by 10% and 20% respectively.
6. Insurance premium was allocated in a proportion of 2:1.

Solution:

Shri. Sudarshan of Kolhapur

Crop Account for the year ending 31st March, 2026

Particulars	₹	Particulars	₹
To Opening Stock (1-4-2025)		By Sales	
Paddy (Rice)	2,00,000	Rice	3,60,000
Vegetable	40,000	Vegetable	80,000
Growing Crop (Wheat)	1,60,000	Wheat	2,00,000
Seeds	40,000	By Drawings (Proprietor's Consumption)	
Fertilizers	30,000	Wheat	20,000
To Purchases		Rice	16,000
Seeds	36,000	Vegetable	4,000
Fertilizers	28,000	By Wages (in Kinds)	
To Expenses		Wheat	10,000
Insurance Premium	8,000	Rice	8,000
		Vegetable	2,000
		By Fishery A/c (Contra)	12,000
		By Closing Stock	
		Rice	1,60,000
		Vegetable	40,000
		Wheat	60,000
		Seeds	10,000
		Fertilizers	8,000
To Gross Profit (<i>Taken to General Profit and Loss A/c</i>)	4,48,000		
Total	9,90,000	Total	9,90,000

Shri. Sudarshan of Kolhapur Fishery Account
for the year ending 31st March, 2020

Dr.		Cr	
Particulars	₹	Particulars	₹
To Opening Stock (1-4-2025)		By Sales	
Fish	1,00,000	Fish	3,20,000
Fish Spawn	80,000	Fish Spawn	1,30,000
Fish Stuff	20,000	By Drawings (Fish Consumed by Proprietor)	3,000
To Purchases		By Wages (in Kinds of Fish)	6,000
Fish Spawn	20,000	By Closing Stock	
Fish Stuff	16,000	Fish	1,00,000
To Insurance Premium	4,000	Fish Spawn	60,000
To Crop Account (Contra)	12,000	Fish Stuff	2,000
To Gross Profit (<i>to General Profit and Loss A/c</i>)	3,69,000		
Total	6,21,000	Total	6,21,000

Shri. Sudarshan of Kolhapur General Profit and Loss Account

for the year ending 31st March, 2026

Dr.		Cr	
Particulars	₹	Particulars	₹
To Wages		By Gross Profit	
In cash	80,000	Crop A/c	4,48,000
In Kind	26,000	Fishery A/c	3,69,000
Total Wages	1,06,000	Total Gross Profit	8,17,000
To Rent and Taxes	20,000	By Interest on Fixed Deposit	10,000
To Land Revenue	1,60,000		

To Interest on Loan	10,000		
To Repairs	6,000		
To Maintenance	2,000		
To Depreciation			
On Tractor	60,000		
On Machinery	18,000		
Total Depreciation	78,000		
To Net Profit	4,45,000		
Total	8,27,000	Total	8,27,000

Shri. Sudarshan of Kolhapur

Balance Sheet As on 31st March, 2026

Liabilities	₹	₹	Assets	₹	₹
Capital	12,00,000		Fixed Assets		
Add : Net Profit	4,45,000		Fish Tank		1,50,000
	16,45,000		Tractor	3,00,000	
Less : Drawings			Less : Dep. @ 20%	(60,000)	2,40,000
Wheat 20,000			Farm House		5,00,000
Rice 16,000			Machinery	1,80,000	
Vegetable 4,000			Less : Dep. @ 10%	(18,000)	1,62,000
Fish 3,000	(43,000)	16,02,000	Equipment's		90,000
Current Liabilities			Fixed Deposit		1,30,000
Bank Loan		4,00,000	Current Assets		
Sundry Creditors		1,00,000	Sundry Debtors		1,20,000
			Stock		4,40,000
			Cash in Hand		1,50,000
			Cash at Bank		1,20,000
Total		21,02,000	Total		21,02,000

Illustration - 4.

Mr. Nibhish has a small poultry business in Kagal as Bright Poultry. The following information is available for the year 2026. Prepare Poultry account for the year ended 31st March 2026.

- Opening stock: 400 birds @ ₹35
- Purchases: 600 birds @ ₹45
- Feed: ₹15,000
- Medicines: ₹3,000
- Mortality: 50 birds
- Sales: 800 birds @ ₹75
- Closing stock valued @ ₹55

Solution

Total birds = opening stock + Purchase = 400 + 600 = 1,000

Remaining birds = Total birds – sales – Mortality

$$= 1,000 - 800 - 50 = 150$$

Closing stock = 150 × 55 = ₹ 8,250

Poultry Account

For the year ended 31st March, 2026

Dr.

Cr.

Particulars	₹	Particulars	₹
To Opening Stock	14,000	By Sales	60,000
To Purchases	27,000	By Closing Stock	8,250
To Feed	15,000		
To Medicines	3,000		
To Gross Profit	9,250		
Total	68,250	Total	68,250

Illustration - 5

Mr. Atharv is running a small poultry business in Kolhapur. The following information is available for the year 2026. Prepare Poultry account, Profit and Loss Account for the year ended 31st March 2026 and Balance sheet as on that date.

- Opening stock: 500 birds @ ₹40 each
- Purchases: 1,000 birds @ ₹50 each
- Feed expenses: ₹20,000
- Wages: ₹10,000
- Mortality: 100 birds
- Sales: 1,200 birds @ ₹80 each
- Closing stock: Remaining birds valued @ ₹60 each
- Other Income: ₹2,000
- Administrative Expenses: ₹3,000
- Selling Expenses: ₹2,000
- Capital: ₹50,000
- Drawings: ₹3,000
- Creditors: ₹10,000
- Cash: ₹15,000
- Poultry Stock: ₹12,000
- Equipment: ₹35,000

Solution:

Poultry Account

For the year ended 31st March, 2026

Dr.		Cr.	
Particulars	Amount (₹)	Particulars	Amount (₹)
To Opening Stock (500 × 40)	20,000	By Sales (1,200 × 80)	96,000
To Purchases (1,000 × 50)	50,000	By Closing Stock (200 × 60)	12,000
To Feed Expenses	20,000		
To Wages	10,000		
To Gross Profit (Balancing Figure)	8,000		
Total	1,08,000	Total	1,08,000

Working Note:

Closing stock of birds =

Opening stock + Purchases - Sales - Mortality

= 500 + 1000 - 1200 - 100 = 200

Profit & Loss Account

For the year ended 31st March, 2026

Dr.

Cr.

Particulars	Amount (₹)	Particulars	Amount (₹)
To Administrative Expenses	3,000	By Gross Profit	8,000
To Selling Expenses	2,000	By Other Income	2,000
To Net Profit	5,000		
Total	10,000	Total	10,000

Balance Sheet as on 31st March, 2026

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital	50,000	Cash	15,000
Add: Net Profit	5,000	Poultry Stock	12,000
Less: Drawings	(3,000)	Equipment	35,000
Adjusted Capital	52,000		
Creditors	10,000		
Total	62,000	Total	62,000

Illustration 6

Following is the trial balance of M/S Venkatesh Poultry, Kowad . Prepare Poultry Account, Profit and Loss Account and balance Sheet as on 31st March, 2025.

Trial Balance as on 31 March 2025

Particulars	Dr. (₹)	Cr. (₹)
Capital		1,20,000
Drawings	20,000	
Cash	25,000	
Opening Poultry Stock	30,000	
Purchases (Birds)	80,000	

Sales		1,80,000
Feed Expenses	40,000	
Wages	25,000	
Salaries	15,000	
Rent	10,000	
Furniture	50,000	
Poultry Equipment	48000	
Creditors		35,000
Commission Received		8,000
Total	3,43,000	3,43,000

Adjustments:

1. Closing poultry stock: ₹35,000
2. Outstanding wages: ₹5,000
3. Prepaid rent: ₹2,000
4. Depreciation on furniture @10%
5. Commission received in advance: ₹2,000

Solution:

Poultry Account

For the year ended 31st March, 2026

Dr

Cr

Particulars	₹	Particulars	₹
To Opening Stock	30,000	By Sales	1,80,000
To Purchases	80,000	By Closing Stock	35,000
To Feed	40,000		
To Wages 25,000	30,000		
Add: O/S 5,000			
To Gross Profit	35,000		
Total	2,15,000	Total	2,15,000

Profit & Loss Account

For the year ended 31st March, 2026

Dr		Cr	
Particulars	₹	Particulars	₹
To Salaries	15,000	By Gross Profit	35,000
To Rent 10,000	8,000	By Commission 8,000	6,000
Less- Prepaid 2,000		Less-Prepaid 2,000	
To Depreciation on Furniture	5,000		
To Net Profit	13,000		
Total	41,000	Total	41,000

Balance Sheet as on 31st March, 2026

Liabilities	₹	Assets	₹
Capital 1,20,000		Poultry Equipment	48,000
Add: Net profit 13,000	1,13,000	Cash	25,000
Less: Drawings 20,000		Closing Stock	35,000
Creditors	35,000	Prepaid Rent	2,000
Outstanding Wages	5,000	Furniture 50,000	
Commission Received in Advance	2,000	Less Dep 5,000	45,000
Total	1,55,000	Total	1,55,000

Illustration - 7

Following is the trial balance of
M/S. Sun Agro Ltd, Ajara as on 31st March, 2026.

Particulars	Dr. (₹)	Cr. (₹)
Capital		3,00,000
Drawings	40,000	
Cash	50,000	
Bank	70,000	
Land & Buildings	1,20,000	
Farm Equipment	80,000	
Livestock (Opening)	1,00,000	
Seeds & Fertilizers	60,000	
Feed Expenses	50,000	
Wages	70,000	
Crop Sales		1,00,000
Milk Sales		1,20,000
Poultry Sales		80,000
Creditors		90,000
Debtors	40,000	
Insurance	10,000	
Total	6,90,000	6,90,000

Additional Adjustments

1. Closing stock of crops: ₹70,000, livestock ₹1,20,000 and Poultry ₹30,000
2. Wages are to be allocated in Crop, Dairy and Poultry in 3:2:2 respectively.
3. Outstanding wages: ₹10,000 is to be shown P/L account.
4. Prepaid insurance: ₹2,000
5. Depreciation: Equipment @10%and Buildings @5%
6. Bad debts ₹5000 and create provision @5% on debtors
7. Accrued income (milk) ₹10,000
8. Charge Interest on capital @5% and Interest on drawings @10%

Show Crop account, Dairy Account, Poultry account, Profit and Loss account the year ended 31st March, 2026 and Balance sheet as on that date.

Solution:**1. Crop Account**

Particulars	₹	Particulars	₹
To Seeds & Fertilizers	60,000	By Crop Sales	1,00,000
To Wages (allocated)	30,000	By Closing Stock	70,000
To Gross Profit	80,000		
Total	1,70,000	Total	1,70,000

2. Dairy Account

Particulars	₹	Particulars	₹
To Opening Livestock	1,00,000	By Milk Sales	1,20,000
To Feed	50,000	By Closing Livestock	1,20,000
To Wages (allocated)	20,000		
To Gross Profit	70,000		
Total	2,40,000	Total	2,40,000

3. Poultry Account

Particulars	₹	Particulars	₹
To wages (allocated)	20,000	By Poultry Sales	80,000
To Gross Profit	90,000	By Closing Stock	30,000
Total	1,10,000	Total	1,10,000

4. Profit & Loss Account for the year ended 31st March, 2026

Particulars	₹	Particulars	₹
To Outstanding Wages	10,000	By Crop Profit	80,000
To Insurance 10,000		By Dairy Profit	70,000
Less -Prepaid 2,000	8,000		
To Depreciation on:		By Poultry Profit	90,000
Equipment 8,000	14,000		
Building 6,000			
To Bad Debts 5000		By Accrued Income	10,000
Add: Provision for bad	6750		
debts 1750			

To Interest on Capital	15,000	By Interest on Drawings	4,000
To Net Profit	2,00,250		
Total	2,54,000	Total	2,54,000

Balance Sheet as on 31st March, 2026

Liabilities	₹	Assets	₹
Capital 300000			
Add : Interest 15000			
Add Net profit 2,00,250			
Less: Drawings (40000)	471250	Cash	50,000
Less :Interest on Drawings (4000)			
Creditors	90,000	Bank	70,000
		Debtors 40000	
Outstanding Wages	10,000	Less: Bad debts 5,000	33,250
		Less: Prov.forBaddebts 1,750)	
		Stock (Crops)	70,000
		Livestock	1,20,000
		Poultry	30,000
		Prepaid Insurance	2,000
		Accrued Income	10,000
		Equipment 80,000	
		Less Depreciation	72,000
		8,000	
		Buildings 1,20,000	
		Less Depreciation	1,14,000
		6,000	
Total	571250	Total	571250

Illustration - 8

Following is the trial balance of Laxmi Farm, Washi for the year ended 31st March 2026

Trial Balance as on 31 March 2026

Particulars	Dr. (₹)	Cr. (₹)
Capital		4,80,000
Drawings	40,000	
Land & Buildings	2,00,000	
Machinery	1,20,000	
Livestock (Opening)	1,00,000	
Crop Expenses	80,000	
Fodder Expenses	50,000	
Purchases (Livestock)	60,000	
Sales (Crop)		1,50,000
Milk Sales		1,20,000
Cash	70,000	
Loan		50,000
Wages	40,000	
Fertilizers	25,000	
Veterinary Expenses	15,000	
Total	8,00,000	8,00,000

Adjustments

1. Closing stock of crop ₹20,000 and live stock ₹1,30,000
2. Outstanding wages ₹5,000
3. Prepaid fertilizers ₹3,000
4. Depreciate machinery @10%
5. Interest on loan unpaid ₹5,000

Solution

Crop Account for the year ended 31st March, 2026

Particulars	Amount (₹)	Particulars	Amount (₹)
To opening Stock	Nil	By Crop Sales	1,50,000
To Crop Expenses	80,000	By Closing stock	20,000
To Wages	45,000		
To Fertilizers	22,000		
To Gross Profit c/d	23,000		
Total	1,70,000	Total	1,70,000

Livestock Account for the year ended 31st March, 2026

Particulars	Amount (₹)	Particulars	Amount (₹)
To Opening Stock	1,00,000	By Milk Sales	1,20,000
To Purchases	60,000	By Closing Stock	1,30,000
To Fodder	50,000		
To Veterinary	15,000		
To Gross Profit c/d	25,000		
Total	2,50,000	Total	2,50,000

Profit & Loss Account for the year ended 31st March, 2026

Particulars	Amount (₹)	Particulars	Amount (₹)
To Depreciation	12,000	By Gross Profit – Crop	23,000
To Interest on Loan	5,000	Livestock	25,000
To Net Profit c/d	31,000		
Total	48,000	Total	48,000

Balance Sheet as on 31st March, 2026

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital- 4,80,000	4,71,000	Land & Building	2,00,000
Add: Net profit 31000			
Less-Drawings- 40,000	55,000	Machinery	
		120000	1,08,000
Loan 50,000	5,000	Less: Dep	
Add: O/S 5000		12000	
	5,000	Closing	1,30,000
Outstanding Wages		Livestock	
		Closing Crop	20,000
		Stock	
		Cash	70,000
		Prepaid Fertilizer	3,000
Total	5,31,000	Total	5,31,000

Illustration 9

Following is the Trial Balance of Shri. Sagar. You are required to prepare Crop A/c, Livestock A/c and Profit and Loss Account for the year ending 31st March 2026 and Balance Sheet as on that date.

Trial Balance

Particulars	Dr. ₹	Particulars	Cr. ₹
Opening Stock		Sales	
Crop	75,000	Livestock	1,42,500
Fertilizers	15,000	Carcasses	37,500
Livestock	1,05,000	Milk	15,000
Cattle Food	12,000	Crop	1,80,000
Purchases		Fruits	30,000
Fertilizers	7,500		6,00,000
Livestock	22,500	Capital	1,95,000
Seed	30,000	Creditors	7,500
Cattle Food	18,000	O/s Wages	2,25,000
Livestock Expenses		Bank Loan	2,17,500

Wages	13,500	Bank Overdraft	
Medicine	4,500		
Animal Insurance	1,500		
Miscellaneous Expenses	3,000		
Crop Expenses			
Wages	18,000		
Crop Insurance	3,000		
Miscellaneous Expenses	4,500		
General Expenses	2,250		
Rent and Taxes	3,750		
Transport Expenses	1,500		
Harvester Machine	4,50,000		
Land and Building	6,00,000		
Machinery	1,50,000		
Doctor	45,000		
Cash in Hand	40,500		
Cash at Bank	24,000		
Total	16,50,000	Total	16,50,000

Other Adjustments

1. Stock as on 31st March, 2020:

Particulars	₹
Crop	60,000
Seeds	15,000
Livestock	15,000
Fertilizers	6,000
Cattle Feed	4,500

2. Depreciation on Harvester Machine @ 10% charged to Crop Account.
3. Grass worth ₹1,500 was used for Livestock.
4. Cow Dung of ₹750 was used for Crop section.
5. The owner has consumed the following farm products: Crop ₹ 10,500, Milk ₹

3000 and Fruits ₹ 600.

6. Crop Insurance claim lodged against Insurance Company of ₹7,500 has been admitted by the company but has not yet been received.

Solution:

In the books of Shri Sagar
Crop Account for the year ended 31st March, 2026

Dr		Cr	
Particulars	₹	Particulars	₹
To Opening Stock		By Sales	
Crop	75,000	Crop	1,80,000
Fertilizers	15,000	Fruits	30,000
To Purchases		By Drawing	
Fertilizers	7,500	Crop	10,500
Seeds	30,000	Fruit	600
To Expenses		By Live stock A/c –	1,500
		Grass (Contra)	
Wages	18,000	By Insurance Company's	
		A/c	
Insurance	3,000	(Outstanding Insurance	7,500
		Claim)	
Depreciation on:		By Closing Stock	
Harvesting Machine	45,000	Crop	60,000
Miscellaneous Expenses	4,500	Seeds	15,000
To Live stock A/c–Cow Dung (Contra)	750	Fertilizers	6,000
To Gross Profit (<i>Transferred to</i>	1,12,350		
<i>General Profit & Loss A/c</i>)			
Total	3,11,100	Total	3,11,100

Shri. Sagar
Live stock Account
For the year ended 31st March, 2020

Dr		Cr	
Particulars	₹	Particulars	₹
To Opening Stock		By Sales	
Livestock	1,05,000	Livestock	1,42,500
Cattle Feed	12,000	Carcasses	37,500
To Purchases		Milk	15,000
Livestock	22,500	By Drawings–Milk	3,000
Cattle Feed	18,000	By Crop A/c – Cow Dung (Contra)	750
To Expenses		By Closing Stock	
Wages	13,500	Livestock	15,000
Insurance	1,500	Cattle Feeds	4,500
To Depreciation on Machine	4,500		
To Miscellaneous Expenses	3,000		
To Crop A/c–Grass(Contra)	1,500		
To Gross Profit (<i>Taken to General Profit & Loss A/c</i>)	36,750		
Total	2,18,250	Total	2,18,250

Shri. Sagar
General Profit and Loss Account for the year ended
31st March, 2020

Dr.		Cr.	
Particulars	₹	Particulars	₹
To General Expenses	2,250	By Gross Profit	
To Rent and Taxes	3,750	Crop A/c	1,12,350
To Transport Expenses	1,500	Live stock A/c	36,750
To Net Profit	1,41,600		1,49,100
Total	1,49,100	Total	1,49,100

Shri. Sagar
Balance Sheet
As on 31st March, 2026

Liabilities	₹	Assets	₹
Capital	6,00,000	Harvesting Machine	4,50,000
Add: Net Profit	1,41,600	Less: Depreciation @ 10%	(45,000)
	7,41,600	Harvesting Machine (Net)	4,05,000
Less: Drawing	14,100	Land and Building	6,00,000
Closing Capital	7,27,500	Machinery	1,50,000
Current Liabilities		Current Assets	
Creditors	1,95,000	Insurance Company's A/c	7,500
Outstanding Wages	7,500	Debtor	45,000
Bank Loan	2,25,000	Stock	1,00,500
Bank Overdraft	2,17,500	Cash in Hand	40,500
		Cash at Bank	24,000
Total	13,72,500	Total	13,72,500

Problem 10

From the following Trial Balance of Mohite Farm House, you are required to prepare Crop A/c, Livestock A/c, Profit and Loss Account for the year ending 31st March, 2026 and Balance Sheet as on that date.

Trial Balance

Dr.

Cr.

Particulars	₹	Particulars	₹
Opening Stock		Sundry Creditors	7,500
Growing Crop	5,000	Bank Overdraft	1,500
Wheat	2,500	Manager's Personal A/c	1,000
Fertilizers	2,500	Sales	
Livestock	12,500	Wheat	17,500
Feeding Materials	3,000	Livestock	37,500
Crop Expenses	5,000	Loan	30,000

Live stock Expenses	14,150	Provision for Depreciation	15,000
Farm House Expenses	600	Profit and Loss Account	5,000
Interest on Loan(Crop)	2,000	Capital	1,35,000
Salary and Wages			
Manager Salary	3,000		
Farm Labour	2,500		
Staff Meals	500		
Land and Building	1,05,000		
Farm Machinery	54,000		
Sundry Debtors	15,000		
Cash in Hand	13,000		
Repairs to Machinery	500		
Tools and Implements	1,250		
Office Expenses	2,000		
Live stock Purchases	6,250		
Total	2,50,000	Total	2,50,000

Additional Information

1. Stock as on 31st March, 2026

Particulars	₹
Growing Crop	2,000
Wheat	2,000
Livestock	20,000
Fertilizers	1,000
Feeding Material	500
Tools and implements	1,000

2. Depreciation on Tools and Implements is to be allocated equally between Crop Account and Live stock Account.
3. Manager's Salary and Staff Meals are charged 20% to Live stock Account and 80% to Crop Account.
4. Farm product worth ₹500 is consumed by cattle.

5. Farm House Expenses and Farm Labour are in tribute between Crop and Live stock in the ratio of 3:2.

Solution:

Mohite Farm House Crop Account
For the year ended 31st March, 2026

Dr. Particulars	₹	Cr. Particulars	₹
To Opening Stock		By Sales—Wheat	17,500
Growing Crop	5,000	By Live stock A/c(Contra)	500
Wheat	2,500	By Closing Stock	
Fertilizers	2,500	Growing Crop	2,000
To Expenses		Wheat	2,000
Crop Expenses	5,000	Fertilizers	1,000
Farm House Expenses	360		
Interest on Loan	2,000		
Manager Salary	2,400		
Farm Labour	1,500		
Staff Meals	200		
Repairs to Machinery	500		
Depreciation on Tools & Implements	125		
To Gross Profit (<i>Taken to General Profit and Loss A/c</i>)	915		
Total	23,000	Total	23,000

Mohite Farm house Live stock Account
For the year ended 31st March, 2026

Dr.		Cr.	
Particulars	₹	Particulars	₹
To Opening Stock		By Sales	
Livestock	12,500	Livestock	37,500
Feeding Material	3,000	By Closing Stock	
To Purchases		Livestock	20,000
Livestock	6,250	Feeding Material	500
To Expenses			
Livestock Expenses	14,150		
Farm House Expenses	240		
Manager Salary	600		
Farm Labour	1,000		
Staff Meals	50		
Depreciation on Tools and Implements	125		
To Crop A/c–Farm Product(Contra)	500		
To Gross Profit (<i>Taken to General Profit and Loss Account</i>)	19,585		
Total	58,000	Total	58,000

Mohite Farm House
General Profit and Loss Account for the year ended 31st March, 2026

Dr.		Cr.	
Particulars	₹	Particulars	₹
To Office Expenses	2,000	By Gross Profit	
		Crop A/c	915
		Live stock A/c	19,585
To Net profit	18,500		
Total	20,500	Total	20,500

Mohite Farm House Balance Sheet

As on 31st March, 2026

Liabilities	₹	Assets	₹
Capital	1,35,000	Land and Building	1,05,000
Add: Profit and Loss A/c Balance	5,000	Farm Machinery	54,000
	1,40,000	Less: Provision for Depreciation	(15,000)
Add: Net Profit for the Year	18,500	Farm Machinery (Net)	39,000
Closing Capital	1,58,500	Tools and Implements	1,250
		Less: Depreciation	(250)
		Tools and Implements (Net)	1,000
Current Liabilities		Current Assets	
Sundry Creditors	7,500	Sundry Debtors	15,000
Bank Overdraft	1,500	Stock:	
Manager's Personal A/c	1,000	Growing Crop	2,000
Loan	30,000	Wheat	2,000
		Fertilizers	1,000
		Livestock	20,000
		Feeding Material	500
		Total Stock	25,500
		Cash in Hand	13,000
Total	1,98,500	Total	1,98,500

1.3. Summary

Agriculture or farming activity is a predominant activity in India. Recently, due to technology, AI based agriculture or farming activities is initiated by the farmer. Farming activities now comprises not only of growing crops but also include animal husbandry (rearing of livestock), poultry farming, sericulture (silkworm breeding), pisciculture (rearing of fish), floriculture (growing flowers) etc. it has a need to maintain financial accounting for understanding expenditures on farming or allied activities, income from production, utilisation of resources, and profit and loss in farming activities.

1.4. Terms to Remember

- 1. Farm** -it refers to agricultural land, livestock, crops and farm buildings.
- 2. Barter Transactions:** Exchange of goods/items for other goods/items.
- 3. Poultry Farming**

Poultry farming is another branch of animal husbandry which involves raising birds for eggs, meat, and other products.

1.5 Answers to Check your progress -1

1. Animal husbandry 2. Poultry farming 3. barter system 4. for self-consumption. 5. market price 6. home-made 7. agriculture land 8. unorganized and dominated 9. realisable value 10. standing crops 11. manure **1.6 Exercise**

(Theory and Practical Problems)

- A) Write short notes
- a) Feature of farm Accounting
 - b) Farm, Farming and Poultry farming
 - c) Farm Accounting

Problems for Practice

1. Mr. Samarjeet is running a Star poultry business in Nesari. The following information is available for the year 2026. Prepare Poultry account, Profit and Loss Account for the year ended 31st March 2026 and Balance sheet as on that date
 - Opening birds: 300 @ ₹30
 - Purchases: 700 @ ₹45
 - Feed: ₹10,000
 - Wages: ₹5,000
 - Sales: 800 birds @ ₹70
 - Closing stock: 200 birds @ ₹50
 - Office Expenses: ₹4,000
 - Selling Expenses: ₹3,000
 - Interest Income: ₹2,000

- Capital: ₹80,000
- Drawings: ₹10,000
- Creditors: ₹20,000
- Cash: ₹30,000
- Stock: ₹40,000

2. From the following Trial Balance, extracted from the books of Raj Farms, draw up the final accounts for the year ending 30th March, 2026.

Debit Balances	₹	Credit Balances	₹
Stock on 1-4-2025	26,000	Sundry Creditors Outstanding	2,600
Live Stock 15,000		Sales :	400
Paddy 6,000			
Cattle feed 1,000		Live stock 4,800	
Fertilizers 500		Paddy 42,500	
Seeds 500	23,000	Milk 25,700	73,000
Purchases :		Capital Account	50,300
Live stock 3,000			
Cattle feed 10,800			
Fertilizers Seeds 1,600			
Sundry Debtors 500	15,900		
Repairs and maintenance of farm machinery	2,100		
Farm Machinery	2,200		
Crop expenses	15,000		
Live stock expenses	5,400		
	3,800		
General expenses	3,900		

Cash in hand	1,500		
Cash at bank	8,500		
Land	45,000		
	1,26,300		1,26,300

Additional Information:

- Closing stocks :Live stock, ₹ 10,000; Paddy ₹ 5,000; Cattle feed ₹ 600; Fertilizers ₹ 400.
- Mr. Rajhas consumed the following items out of his farm
output: Milk ₹ 3,000
Paddy ₹ 500
Provide 10% depreciation on farm machinery.
- From the following Trial Balance of Viraj, prepare trading and profit and loss account for the year ending 31st March, 2026 and a balance sheet as on that date.

Debit Balances		₹	Credit Balances		₹
Opening Stock			Sales:		
Paddy	500		Paddy		3,000
Potatoes	800		Potatoe		2,000
Cattle	1,000		Sugarcane		3,000
Sheep	700		Cattle		10,000
		3,000	Milk etc.		2,000
Purchases:			Sheep		3,000
Cattle	8,000		Loan from Land		
Sheep	1,000		Development Bank		8,700
Seeds	500		Capital Balance		20,000
Manures	1,000		Creditors for supplies		2,000
Cattle feed	1,000	11,500			

Crop expenses:				
Labour	400			
Other expenses	300	700		
Livestock expenses:		1,000		
Veterinary and medicine	500			
Labour	200			
Dairy expenses	300			
Expenses of machinery		1000		
Repairs	300			
Diesel and oil	500			
Electricity	200			
General overheads:				
Rent and rates Insurance	1,000			
Wages for permanen	200			
labour	800			
Bank interest	500			
		2,500		
Farm Machinery		10,000		
Cash in hand		1,000		
Cash at Bank		3,000		
Land		20,000		
Total		53,700	Total	53,700

Additional Information:

1. Closing stock:	₹
Paddy	1,000
Potatoes	600
Cattle	1,500
Sheep	1,000

2. 50% of rent and rates may be taken as the share of Mr. Viraj for his residence.
3. Mr. Viraj has consumed the following from out off armout put:

Milk etc.	200
Potatoes	100
Paddy	700
4. Provide 10% depreciation on machinery.

4. From the following trial balance of Sandhya Farm, prepare Corp Account, Live-stock Account, Profit & Loss Account for the year ended 31st March, 2026, and Balance Sheet as on that date.

Trial Balance

Debit Balance	₹	Credit Balance	₹
Opening Stock:		Sundry Creditors	7,500
GrowingCrops	5,000	Bank Overdraft	1,500
Wheat	2,500	Managers Personal Account	1,000
Fertilizer	2,500	Sales :	
Live-stock	12,500	Wheat	17,500
Feeding Materials	3,000	Live-stock	37,500
Crop Expenses	5,000	Loan	30,000
Live-stock Expenses	14,150	Provision for Depreciation	15,000
Farm House Expenses	600	Profit & Loss A/c	5,000
Interest on Loan(Crop)	2,000	Capital	1,35,000
Salaries &Wages:			
Manager's Salary	3,000		
Farm Labour	2,500		
Staff Meals	250		
Loan & Building	1,05,000		

Farm Machinery	54,000		
Sundry Debtors	15,000		
Cash in Hand	13,000		
Repairs to Machinery	500		
Tools & Implements	1,250		
Office Expenses	2,000		
Live-stock Purchases	6,250		
Total	2,50,000	Total	2,50,000

Additional Information:

- Stock on 31st March, 2026 Growing crops ₹2,000; Wheat ₹ 2,000; Fertilizer ₹ 1,000; Live-stock ₹ 20,000; Feeding materials ₹ 500; Tools and Implements ₹ 1,000.
- Depreciation on Tools & Implements is to be allocated between Crop and Live-stock equally.
- Manager's salary and staff meals are charged 30% to the Live-stock Account and 80% to the Crop Account.
- Farm product worth ₹500 is consumed by cattles.
- Farm house expenses and Farm Labour distributed between Crop and Live-stock in the ratio of 3 : 2.

5. From the following prepare : (i) Crop A/c, (ii) Live-stock A/c, (iii) Profit & Loss A/c for the year ended 31-3-2026 and (iv) Balance Sheet as on that date.

Particulars	Debit ₹	Credit ₹
Stocks(1-4-2025)		
Live-stock	6,000	--
Crops	4,000	--
Feed	200	--
Farm House Expenses	240	--
Crop Expenses	2,000	--
Live-stock Expenses	5,500	--
Live-stock Purchases	2,500	--
Salaries & Wages		
Farm Labour (Crop)	1,000	--
Manager's Salary	1,200	--
Legal Fees	600	--
Office Expenses	200	--
Staff Meals	100	--
Sundry expenses (Live-stock)	160	--
Repairs to Machinery	400	--
Repairs & Maintenance (Live-stock)	100	--
Interest on Loan (Crop)	600	--
Cash in Hand	2,800	--
Sundry Debtors	8,000	--
Tools & Implements	300	--
Sheds(Live-stock)	100	--
Farm Machinery	22,000	--
Land & Building	40,000	--
Sales:		
Live-stock	--	15,000
Corn & Strand	--	7,000
Provision for Depreciation	--	8,000
Manager's Personal Account	--	100

Sundry Creditors	--	1,000
Bank Overdraft	--	900
Loan	--	10,000
Capital	--	56,000
Total	98,000	98,000

Adjustments:

1. Depreciate machinery by ₹100 and charge it to Crop A/c only.
2. Cropworth ₹400 was used for feeding Live-stock.
3. Office expenses and legal fees are purely of Administrative nature.
4. Charge 10% of salaries and staff meals to Live-stock A/c.
5. Depreciation on tools and implements is to be apportioned between Crop and Live-stock in the ratio of 3 : 1.
6. The manager of the farm resides in the Farm House as Free Residence but chargeable only 1/3 of the Farm House Expenses and is also entitled to a commission of 5% on profit made by Live-stock A/c before his commission.
7. Closing Stocks on 31-3-2026 were :

Growing Crops	Rs 2,000
---------------	----------
8. Tools & Implements ₹ 100

Live-stock	₹ 8,000
Feed	₹ 400

6. From the following information prepare a Crop Account to ascertain the profit made

Opening stock:

Wheat	Rs 10000
Seeds	Rs 2000
Fertilizers	Rs 3000

Purchases:

Seed	₹ 1200
Fertilizers	₹ 1800

Wages:

Pain in cash	₹ 13600
Paid in kind by giving wheat	₹ 9200
Sales of wheat	₹ 70800
Wheat consumed by the proprietors	₹ 3200
Depreciation on machinery	₹ 4000

Closing stock-wheat ₹ 8000, seeds ₹ 1400 and fertilizers ₹ 1600

7. From the information given below of Jadhav & sons prepare Poultry Account and profit and loss account for the year ended 31st March 2016

Debit	₹	Credit	₹
Opening stock		Sales	
Poultry	20000	Eggs	30000
Poultry food	30000	Poultry	36000
Purchases		Closing stock	
Poultry	50000	Poultry	40000
Poultry food	10000	Poultry food	5000
Expenses			
Wages	24000		
Insurance	2000		
Depreciation	3000		
Repairs	3000		

Proprietors consumed the following products:

Poultry Rs 1000, Eggs Rs 1600.

8. From the following trial balance of Mr. Mahamuni prepare Crop A/c, Live stock A/c and profit & loss A/c for the year ending 31.3.2026 and balance sheet as on that date.

Debit	₹	Credit	₹
Opening stock:		Sales:	
Live stock. 61,000		Milk. 30,400	
Paddy. 4,000		Paddy. 52,000	
Cattle feed. 2,800		Live stock. 9,000	92,000
Fertilize ₹ 2,200	70,000	Creditor's	11,800
Purchase:		Capital	1,71,200
Live stock. 11,600			
Fertilize ₹ 2,400			
Seeds. 1,200			
Cattle feed. 6,800	22,000		
Crop Expenses:			
Labour. 7,200			
Other Expenses. 800			
Live stock Expenses:			
Medicine. 1,200			
Labour. 7,200			
Dairy exp. 1,600	10,000		
General Expenses	12,000		
Tractor	36,000		
Land	1,00,000		
Cash at bank	17,000		
Total	2,75,000	Total	2,75,200

Adjustments:

1. Closing stock: Live stock ₹ 60,000: Paddy ₹ 3,000: Cattle Feed ₹1,800: Fertilize ₹ ₹1,200
2. The proprietor has consumed the following items for his family use out of his farm output. Milk. ₹4,800, Paddy. ₹1,200
3. Provide 10% depreciation on tractor and charge it to crop account
4. Cow- dung of ₹4,000 has been used as manure in crop section.

9: From the following trial balance of Patil farm house for the year ending 31 March, 2026.

Debit balance	₹	Credit balance	₹
Stock on 1.4.2025			
Live stock. 3,75,000		Sales	
Paddy. 1,50,000		Livestock. 1,20,000	
Cattle feed. 25,000		Paddy. 10,62,500	
Fertilize ₹ 12,500		Milk. 6,42,500	18,25,000
Seeds. 12,500	5,75,000		
Purchases:			
Live stock 75,000		Sundry creditors	65,000
Cattle feed. 2,70,000		Outstanding expenses	10,000
Fertilize ₹ 40,000		Capital	12,57,500
Seeds. 12,500	3,97,500		
Sundry debtors	52,500		
Repair and maintenance	55,000		
Of farm equipment			
Farm Machinery	3,75,000		
Crop Expenses	1,35,000		
Live stock Expenses	95,000		
General Expenses	97,500		
Cash in hand	37,500		
Cash at bank	2,12,500		
Land	11,25,000		
Total	31,57,500	Total	31,57,500

Additional information:

1. Closing stock: Livestock ₹2, 50,000 Paddy ₹1, 25,000, Cattle feed. ₹ 15,000
Fertilizers ₹10,000
2. The patil has consumed the following items out of his farm output.
Milk. ₹ 75,000
Paddy ₹12,500
3. Provide 10% depreciation on farm machinery

From the above information you are required to prepare trading profit and loss A/c balance sheet as on 31.3.2026.

10. From the following information prepare Crop account, poultry account P & L account of Shri. Solanki for the year ended 31.3.2026.

A) Stock on 1.4.2025.

Wheat	₹10, 000
Rice	₹ 8,000
Chickens	R.s 5,000
Poultry food	₹ 2,000

B) Stock as on 31.3.2026

Wheat	7,000
Rice	4,500
Chickens	6,000
Poultry food	3,000
Fertilizers	1,000
Seeds	2,000
Emu bird's	5,000

C) Purchases during the year

Fertilizers	3,000
Seeds	7,000
Chickens	10,000

Poultry food	4,000
Emu bird's	17,000
Pesticides	2,000

D. Sales during the year

Wheat.	20,000
Rice	12,000
Chickens	10,000
Emu bird's	15,000

D) Expenses during the year Depreciation 4,000 Interest on loan 3,000, Rent & Taxes 1,000 Insurance 1,500 ,Wages & salary 2,000 ,General Expenses 700, Selling expenses 500

E) Wages and salary distributed between crop a/c and poultry a/c in the ratio of 3:1

1.7 References to Further Study.

- i) Advanced Accountancy– Shukla & Grewal
- ii) Advanced Accountancy– Chakrabhorthy
- iii) Advanced Accountancy– R. R. Gupta
- iv) Advanced Accountancy– R. L.Gupta
- v) Advanced Accountancy– Tulsian
- vi) Steps in Advanced Accounting– Maheshwari



Unit II

Accounting for the dairy Business Producing milk products

Introduction to Dairy Business Producing milk products– Meaning, nature and features, preparation of ledger accounts and final accounts

2.0 Objectives

2.1 Introduction

2.2 Presentation of Subject Matter

2.2.1 Meaning and Definitions

2.2.2 Nature and Features of the dairy business and the dairy Accounting

2.2.3 Need for Specialized Accounting in the dairy Business Producing Milk Products

- Check Your Progress - 1

2.2.4 Preparation of Ledger Accounts

- Check Your Progress – 2

2.2.5 Preparation of Final Accounts of the dairy Business Producing Milk Products

- Check Your Progress – 3

2.3 Summary

2.4 Glossary

2.5 Answers to Check Your Progress

2.6 Exercises

2.7 References for Further Study

2.0 Objectives:

After studying this unit, you will be able to:

1. Understand the basics of the dairy business producing milk products.
2. Explain the accounting treatment of the dairy business transactions.

3. Prepare ledger accounts and final accounts of the dairy business.
4. Identify major sources of income and expenses in the dairy operations.
5. Analyze the profitability and financial position of the dairy enterprise.

2.1 Introduction:

In the previous unit, we studied farming and animal husbandry including poultry its meaning, nature, features, and the preparation of ledger accounts and final accounts. That unit laid the foundation for understanding agricultural accounting as a specialized branch where:

- Biological assets (livestock, plants) play a central role.
- Income arises from both the sale of produce (eggs, milk, crops) and sale of assets (poultry, cull animals, produce).
- Accounting must handle unique issues such as valuation of living assets, natural growth, reproduction, disease, mortality, and seasonal the production cycles.

‘Farming’ refers to the cultivation of land for growing crops and/or raising livestock for the production of food, fiber, and other products. Animal husbandry is the branch of agriculture concerned with the care, breeding, and management of domestic animals.

Poultry farming is a form of animal husbandry where birds (chickens, ducks, turkeys, etc.) are raised for meat and eggs.

The dairy farming is a specialized form of animal husbandry focused on the long-term production of milk, which is either sold raw or processed into the dairy products.

Key similarities between farming, poultry, and the dairy:

- All involve biological assets (crops, birds, cattle).
- All have production cycles that are influenced by nature (seasons, fertility, disease).
- All require continuous investment in feed, labour, health care, and infrastructure.

- All generate revenue from sale of produce (crops, eggs, and milk) and sometimes from the sale of animals.
- Key differences:

Aspect	Crop Farming	Poultry Farming	Dairy Farming
Main biological asset	Plants/crops	Birds (chickens, layers)	The dairy cattle (cow, buffalo)
Main produce	Cereals, vegetables, etc.	Eggs, meat	Milk and milk products
Production cycle	Seasonal (months)	Relatively short (weeks)	Continuous, year-round
Income pattern	Often seasonal lump sums	Frequent (eggs daily/weekly)	Daily/regular milk sales
Perishability	Varies	Eggs highly perishable	Milk highly perishable
Capital intensity	Land-heavy	Shed + feed + birds	Livestock + shed + cooling + plant

The present unit builds on that foundation by focusing specifically on the dairy Business Producing Milk Products. While the previous unit gave a broad view of farming and animal husbandry, this unit goes deeper into one of the most important and economically significant agricultural enterprises in India: the dairy farming and milk production. The dairy farming is not just about keeping cows or buffaloes; it is a business enterprise that involves:

1. Herd management (breeding, calf rearing, health care)
2. Feed and fodder management
3. Milk production, collection, cooling, and storage
4. Processing into value-added products (curd, ghee, cheese, paneer, ice cream, etc.)
5. Marketing and distribution of milk and milk products
6. Financial planning, cost control, and performance evaluation

The dairy business is unique because:

1. Milk is produced daily, leading to regular cash inflows.
2. The herd is both a productive asset and a reproducing asset (calves born).
3. There is a clear distinction between the animal (biological asset) and the milk (agricultural produce).
4. There is significant potential for value addition through processing (curd, ghee, paneer, etc.).

Accounting for the dairy business must reflect these operational realities while conforming to general accounting principles and, where applicable, specific accounting standards (e.g., AS 6 on Depreciation, AS 2 on Valuation of Inventories, and the conceptual framework for biological assets, though in India, full adoption of IAS 41 is limited).

2.2 Presentation of Subject Matter:

2.2.1 Meaning and Definitions:

The dairy business refers to the economic activity of rearing the dairy animals such as cows and buffaloes for the production, processing, and sale of milk and milk products. The dairy accounting is the systematic recording, classification, and analysis of financial transactions relating to the dairy operations to determine profitability, financial position, and operational efficiency. Hence, it is necessary to understand the key concept of the dairy business and its accounting.

1. The dairy Business: A The dairy business is an economic enterprise engaged in the rearing of the dairy animals for the production and sale of milk and milk products, either in raw or processed form.

The dairy business is a commercial enterprise involved in the production, collection, processing, and marketing of milk and milk products. It includes the dairy farming, animal management, milk procurement, storage, transportation, and distribution activities. The primary objective of the dairy business is to provide quality the dairy products while generating sustainable income and profit.

2. The dairy Business Producing Milk Products: It refers to a commercial agricultural enterprise engaged in rearing the dairy animals and producing, processing, and marketing milk and milk-based products such as curd, butter, ghee, cheese, paneer, and ice cream with the objective of generating income and profit while meeting consumer demand.

A dairy business producing milk products is an enterprise engaged in the following:

- 1 Rearing The dairy animals (primarily cows and buffaloes) for the purpose of milk production.
- 2 Producing raw milk on a regular basis.
- 3 Possibly processing that milk into value-added products such as:
 1. Pasteurized milk
 2. Curd/yoghurt
 3. Ghee
 4. Cheese
 5. Paneer
 6. Butter
 7. Ice cream
 8. Milk powder
 9. Flavored milk, etc.
- 4 Selling raw milk and/or milk products to consumers, retailers, wholesalers, cooperatives (e.g., Amul), or government agencies.

In India, the dairy farming ranges from the followings;

- Small-scale backyard dairy (2–5 animals, mainly for household + local sale)
- Medium commercial dairy (10–50 animals, selling to local markets/cooperatives)
- Large commercial dairy farms (hundreds of animals, with modern processing and cold-chain facilities).

The accounting treatment becomes more complex as the scale increases and value-

added processing is introduced. A dairy business producing milk products involves following activities:

- a. Primary Activity: Rearing the dairy animals for milk production.
 - b. Secondary Activity: Processing milk into value-added products.
 - c. Tertiary Activity: Marketing and distribution.
3. The dairy accounting: It is the systematic process of identifying, recording, classifying, summarizing, and analyzing financial transactions related to the dairy farming and the production of milk products. It helps determine the cost of production, ascertain profit or loss, evaluate the financial position of the dairy enterprise, facilitate planning and decision-making, comply with taxation and regulatory requirements, and assess business performance through financial analysis.

The dairy accounting is the systematic process of:

1. Identifying,
2. Recording,
3. Classifying,
4. Summarizing, and
5. Analysing

It seems that the financial transactions and events specifically related to the dairy farming and milk product production, in order to:

1. Determine cost of milk production,
2. Ascertain profit or loss,
3. Evaluate financial position,
4. Support budgeting and decision-making,
5. Provide data for taxation, credit, and government schemes, and
6. Enable performance evaluation using financial ratios.

Thus, it is understood that the dairy business and its accounting refer to the organized commercial activity of producing, processing, and marketing milk and milk products

through the dairy farming, along with the systematic recording and analysis of all related financial transactions. The dairy accounting provides information on production costs, revenues, profits, assets, and liabilities, enabling effective management, financial control, decision-making, taxation compliance, and performance evaluation of the dairy enterprise.

2.2.2 Nature and Features of the dairy business and the dairy Accounting:

The nature and features of the dairy business and its accounting can be understood under the following points:

1. **Biological Assets and Agricultural Produce:** The dairy business deals with living animals such as cows and buffaloes, known as biological assets. Milk, manure, and calves produced from these animals are agricultural products. Proper accounting of both helps in accurate financial reporting.
2. **Valuation Methods:** Different assets in the dairy business requires different valuation methods. Livestock, milk products, buildings, and machinery are valued according to suitable accounting principles. Correct valuation ensures accurate profit measurement.
3. **Seasonal and Cyclical Nature of Operations:** Milk production is influenced by seasons, climate, and animal productivity cycles. Costs and income may vary during different periods of the year. The dairy accounting records these variations for better planning and control.
4. **Long-Term Investment before Revenue Generation:** Considerable expenditure is incurred on raising calves before they begin producing milk. Income starts only during the lactation period. Accounting helps distinguish between capital investment and operating expenses.
5. **Use of Accounting Methods:** The dairy enterprises may follow cash basis, accrual basis, or a combination of both accounting methods. The choice depends on the size and complexity of the dairy farm. Appropriate methods improve the

usefulness of financial information.

6. **Multiple Sources of Income:** Income in the dairy business comes from milk sales, milk products, manure, calves, and subsidies. Each source contributes differently to total earnings. Accounting records them separately for profitability analysis.
7. **Multiple Cost Centres:** The dairy farming includes several activities such as feeding, breeding, milk production, processing, and marketing. Each activity incurs specific costs. Accounting helps allocate expenses to determine product-wise profitability.
8. **Importance of Cost Control:** Feed, labour, veterinary care, and maintenance form major dairy expenses. Effective monitoring of these costs is essential for improving profitability. The dairy accounting provides information for cost control and efficiency.
9. **Need for Detailed Record Keeping:** Accurate records of livestock, milk production, feed consumption, and financial transactions are essential. These records help prepare financial statements and evaluate farm performance. They also support loans, subsidies, and tax compliance.
10. **Support for Financial and Managerial Decision-Making:** The dairy accounting provides information about profit, costs, and financial position. It assists farmers in making decisions regarding expansion, replacement of animals, and resource utilization. Thus, it serves as an important management tool.

Hence, it is understood that the dairy business involves the rearing of dairy animals for producing and selling milk and milk products. The dairy accounting focuses on recording, classifying, and reporting transactions related to biological assets, milk production, and dairy operations. The dairy business accounting focuses on recording and analyzing transactions related to dairy animals, milk production, and dairy products. It helps in valuation, cost control, record keeping, profitability measurement, and effective decision-making. Its key features include

specialized asset valuation, seasonal production cycles, multiple income sources, cost control, and detailed record-keeping. It provides essential financial information for measuring profitability and supporting effective managerial decisions.

2.2.3 Need for Specialized Accounting in the dairy Business Producing Milk Products:

General business accounting is designed for trading and manufacturing enterprises where:

1. **Accounting for Biological Assets:** The dairy businesses maintain living animals such as cows and buffalo as assets. These assets continuously change due to growth, reproduction, and aging. Specialized accounting is required to record and value these biological assets properly.
2. **Recording Natural Increase in Assets:** The new calves are born naturally and increase the value of the herd. Such increases do not arise from purchases but from biological processes. The dairy accounting provides methods to record and value these additions accurately.
3. **Measuring Milk Production:** Milk is the primary output of the dairy business and is produced daily. Specialized accounting helps record milk yield, sales, and inventory systematically. This assists in evaluating productivity and profitability.
4. **Valuation of Livestock:** The value of the dairy animals changes according to age, breed, health, and milk-producing capacity. Specialized accounting methods are required to determine their correct value. Proper valuation ensures accurate financial statements.
5. **Accounting for Perishable Products:** The milk and milk products have a short shelf life and must be sold or processed quickly. The dairy accounting helps monitor stock levels and reduce losses due to spoilage. This improves inventory management.
6. **Managing Seasonal Variations:** Feed availability, fodder costs, and milk

production vary across seasons. Specialized accounting records these fluctuations and their impact on costs and income. This supports better planning and budgeting.

7. **Cost Determination and Cost Control:** Feed, labour, veterinary care, and maintenance are major thedairy expenses. The dairy accounting helps identify and control these costs. It also assists in calculating the cost per litre of milk produced.
8. **Separation of Capital and Revenue Expenditure:** Expenses on purchasing thedairy animals, sheds, and machinery are capital expenditures, while feed and veterinary expenses are revenue expenditures. The specialized accounting ensures proper classification. This helps in determining true profit.
9. **Accounting for Multiple Revenue Sources:** The dairy businesses earn income from milk, milk products, calves, manure, and cull animals. Specialized accounting records each source separately. This enables analysis of the profitability of different activities.
10. **Accounting for Government Subsidies and Grants:** It seems that the many the dairy enterprises receive subsidies, incentives, and financial assistance from government agencies. Specialized accounting is needed to record and report such assistance correctly. This ensures transparency and compliance.
11. **Preparation of Accurate Financial Statements:** The dairy accounting provides a true picture of income, expenses, assets, and liabilities. It helps in preparing reliable Trading Accounts, Profit and Loss Accounts, and Balance Sheets. These statements support financial decision-making.
12. **Support for Management Decisions:** Specialized accounting provides information regarding production efficiency, profitability, and financial position. It helps farmers make decisions about herd expansion, animal replacement, and investment. Thus, it plays an important role in thedairy business management.

Thus, it is noted that the specialized accounting in thedairy business is essential

because it deals with biological assets, perishable products, seasonal operations, and multiple income sources. It helps in proper valuation, cost control, financial reporting, and effective decision-making, thereby ensuring the successful management of the dairy enterprises.

• **Check Your Progress - 1**

A. True or False

1. The dairy accounting treats cows as biological assets and milk as agricultural products.
2. Cash basis accounting is preferred over accrual basis for giving a true picture of profitability in the dairy business.
3. In The dairy accounting, the purchase of livestock is recorded as a revenue expense.
4. Seasonality affects both feed cost and milk yield in the dairy business.
5. Depreciation on milking machines is not relevant in the dairy accounting.

B. Fill in the Blanks

1. The value of closing stock of milk products is shown on the _____ side of the Trading Account.
2. A cow is a _____ asset, while milk is _____ produce.
3. In accrual accounting, income is recorded when it is _____ and expenses when they are _____.
4. The statement that shows cash inflows and outflows in the dairy business is called the _____ statement.
5. Return on _____ is a key ratio used to measure the profitability of a dairy farm.

C. Match the Following

Match Column A with Column B:

Column A	Column B
1. Purchase of feed	a. Depreciation Expense
2. Sale of milk	b. Feed Expense
3. Purchase of cow	c. Cash/Bank (Debit)
4. Depreciation on machine	d. Livestock Asset Account
5. Wages of milker	e. Wages Expense

2.2.4 Preparation of Ledger Accounts:

Ledger accounts are prepared in the dairy business to systematically classify and summarize transactions recorded in the journal or cash book. These accounts provide detailed information about assets, liabilities, income, and expenses related to the dairy operations. Important ledger accounts include Livestock Account, The dairy Account, Feed Account, Milk Sales Account, Wages Account, Veterinary Expenses Account, and Capital Account. Each account shows debit and credit entries separately to determine balances at the end of the accounting period. Ledger accounts help in calculating profit or loss and preparing final accounts. They also assist in monitoring milk production costs, livestock value, and business performance. Proper maintenance of ledger accounts ensures accuracy, transparency, and effective financial management in the dairy enterprises.

- Accounting Rules for the dairy Business Producing Milk Products

The accounting rules for the dairy business producing milk products are based on the Golden Rules of Accounting. These rules help in recording transactions relating to livestock, milk production, milk processing, and sales of the dairy products accurately.

1. Personal Account Rule: debit the receiver, credit the giver
2. Real Account Rule: debit what comes in, credit what goes out
3. Nominal Account Rule: debit all expenses and losses, credit all incomes and gains

- **Accounting Systems: Single-Entry vs. Double-Entry:**

An accounting system is the method used to record, classify, and summarize financial transactions of a business. In the dairy businesses, the two commonly used accounting systems are the Single-Entry System and the Double-Entry System.

1. **Single-Entry System:** The Single-Entry System is a simple method of accounting in which only one aspect of a transaction is recorded. It mainly records cash receipts and payments and does not follow the dual aspect principle. As a result, complete financial information is not available. It is suitable only for small dairy units with limited transactions.
2. **Double-Entry System:** The Double-Entry System records both aspects of every transaction, namely debit and credit. It follows the dual aspect concept and ensures complete and systematic recording of transactions. This system helps in preparing the Trial Balance, Trading Account, Profit and Loss Account, and Balance Sheet accurately. It is recommended for all commercial dairy businesses.

The Single-Entry System is simple but incomplete, whereas the Double-Entry System is comprehensive and reliable. Due to its accuracy and ability to prepare proper financial statements, the Double-Entry System is preferred for dairy businesses producing milk and milk products.

- **Practical Steps for Ledger Preparation:**

Ledger preparation is an important stage in the accounting process where transactions recorded in the journal are classified into separate accounts. It helps in determining account balances and forms the basis for preparing the trial balance and final accounts.

1. **Open Separate Ledger Accounts:** A separate ledger account should be opened for each item appearing in the chart of accounts, such as Cash Account, Livestock Account, Feed Account, Milk Sales Account, Wages Account, and Capital Account. This helps in systematic classification of transactions and provides detailed information about each account.
2. **Post Journal Entries to Respective Ledger Accounts:** After recording transactions in the journal, each transaction is transferred to the appropriate ledger account.

This process is known as posting. Every debit and credit entry recorded in the journal is posted to the corresponding accounts in the ledger to maintain complete records.

3. **Balance the Ledger Accounts:** At the end of the accounting period, each ledger account is balanced by totalling both the debit and credit sides. The difference between the two sides is determined and shown as the account balance. This balance is then carried forward to the next accounting period.
4. **Prepare a Trial Balance:** The balances of all ledger accounts are extracted and listed in a Trial Balance. The total of debit balances should equal the total of credit balances. The Trial Balance helps verify the arithmetical accuracy of accounting records and identifies possible errors.
5. **Prepare Final Accounts:** The Trial Balance serves as the foundation for preparing the final accounts. Using the balances shown in the Trial Balance, the Trading Account, Profit and Loss Account, and Balance Sheet are prepared. These statements reveal the profitability and financial position of the dairy business.

Ledger preparation involves opening ledger accounts, posting journal entries, balancing accounts, preparing a Trial Balance, and finally preparing the final accounts. It ensures proper classification of transactions and provides reliable financial information for decision-making and financial reporting.

- **Ledger Accounts of the dairy Business Producing Milk Products – Transaction Effect**

The following table shows the effect of transactions on the debit and credit sides of important ledger accounts commonly maintained in the dairy business engaged in milk and milk product production.

Ledger Account	Debit Side (Receives/Increase)	Credit Side (Gives/Decrease)
Feed and Fodder Expense A/c	Purchase and consumption of feed and fodder	Transfer to Profit & Loss A/c, closing stock adjustment
Closing Stock of Feed	Value of unused feed at	Utilization or adjustment

A/c	year-end	of stock
Bank A/c	Cash deposited, collections from customers, loans received	Payments for feed, livestock, expenses, and assets
Cash A/c	Cash sales of milk, manure, calves, and other receipts	Cash payments for wages, purchases, and expenses
Livestock – Productive A/c	Purchase of cows, buffaloes, and other productive animals	Sale, disposal, or depreciation of livestock
Livestock – Young Stock A/c	Birth or purchase of calves and young animals	Sale, transfer, or disposal of young stock
Sundry Debtors A/c	Credit sale of milk and milk products	Amounts collected from customers
Sales – Milk A/c	Transfer of sales to Profit & Loss A/c	Revenue from milk sales
Sales – Milk Products A/c	Transfer of sales to Profit & Loss A/c	Revenue from sale of curd, ghee, butter, paneer, etc.
Sales – Manure A/c	Transfer of income to Profit & Loss A/c	Revenue from manure sales
Wages Expense A/c	Wages paid or payable to the dairy workers	Transfer to Profit & Loss A/c
Veterinary Expense A/c	Animal treatment and medicine expenses incurred	Transfer to Profit & Loss A/c
Outstanding Wages A/c	Payment of outstanding wages	Wages accrued but unpaid
Depreciation Expense A/c	Depreciation charged on assets and livestock	Transfer to Profit & Loss A/c
Accumulated Depreciation A/c	Adjustment on sale of asset	Depreciation accumulated during the year
The dairy Herd Revaluation / Other Income A/c	Transfer of income to Profit & Loss A/c	Increase in value of biological assets

Gain on Sale of Livestock A/c	Transfer of gain to Profit & Loss A/c	Profit earned on livestock sale
Loss on Sale of Livestock A/c	Loss incurred on livestock sale	Transfer to Profit & Loss A/c
Work-in-Progress (Milk Products) A/c	Milk transferred for processing and processing costs incurred	Transfer of completed products to finished goods inventory
Inventory – Milk A/c	Milk produced and available for sale	Milk sold or transferred for processing
Inventory – Milk Products A/c	Finished products received from production	Sale of milk products
Packaging Material A/c	Purchase or consumption of packaging materials	Transfer to production or Profit & Loss A/c
Utilities Expense A/c	Electricity, water, fuel and other utility expenses incurred	Transfer to Profit & Loss A/c
Machinery A/c	Purchase of the dairy equipment and machinery	Disposal or depreciation adjustment
Building A/c	Purchase or construction of the dairy buildings	Disposal or depreciation adjustment

In the dairy business producing milk products, accounting rules ensure proper recording of transactions related to livestock, milk production, processing activities, expenses, and revenues. The rules of Personal, Real, and Nominal Accounts help in maintaining accurate records and preparing reliable final accounts. In the dairy accounting, debit entries generally record the receipt, purchase, or increase of assets and expenses, while credit entries record sales, income, payments, transfers, or reductions in assets. These ledger accounts help classify the dairy transactions systematically and facilitate the preparation of Trial Balance and Final Accounts.

Illustration 1: Record the following transactions of Shree Krishna the dairy Farm in the journal for April 2025:

1. April 1: Started business with capital ₹ 5,00,000 deposited in the bank.

2. April 3: Purchased 5 milking cows for ₹ 2,50,000, paid by bank.
3. April 5: Purchased cattle feed for ₹ 30,000, paid by cash.
4. April 10: Sold milk for ₹ 45,000, received cash.
5. April 15: Paid wages to milkers ₹ 12,000 by cash.
6. April 20: Purchased milking machine for ₹ 50,000, paid by bank.
7. April 25: Veterinary expenses ₹ 8,000, paid by cash.
8. April 30: Sold calves for ₹ 15,000, cash received.

Prepare the journal entries and following ledger accounts:

1. Cash A/c
2. Bank A/c
3. Livestock – Productive A/c
4. Sales – Milk A/c

Solution:

Journal of Shree Krishna the dairy Farm
For the month of April 2025

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
Apr 1	Cash A/c Dr To Capital A/c (Being capital introduced)		5,00,000	5,00,000
Apr 1	Bank A/c Dr To Cash A/c (Being cash deposited into bank)		5,00,000	5,00,000
Apr 3	Livestock – Productive A/c Dr To Bank A/c (Being purchased 5 milking cows)		2,50,000	2,50,000
Apr 5	Feed and Fodder Expense A/c Dr To Cash A/c (Being purchased cattle feed)		30,000	30,000
Apr 10	Cash A/c Dr To Sales – Milk A/c (Being sold milk for cash)		45,000	45,000
Apr 15	Wages Expense A/c Dr To Cash A/c (Being paid wages to milkers)		12,000	12,000
Apr 20	Machinery A/c Dr To Bank A/c		50,000	50,000

Apr 25	(Being purchased milking machine)			
	Veterinary Expense A/c Dr To Cash A/c (Being paid veterinary expenses)		8,000	8,000
Apr 30	Cash A/c Dr To Sales – Calves A/c (Being sold calves for cash)		15,000	15,000

Ledger Accounts of Shree Krishna Dairy Farm
Cash A/c

Dr.				Cr.			
Date	Particulars	J F	Amount (₹)	Date	Particulars	JF	Amount (₹)
Apr 1	To Capital A/c		5,00,000	Apr 1	By Bank A/c		5,00,000
Apr 10	To Sales – Milk A/c		45,000	Apr 5	By Feed Expense A/c		30,000
Apr 30	To Sales – Calves A/c		15,000	Apr 15	By Wages Expense A/c		12,000
				Apr 25	By Vet Expense A/c		8,000
				Apr 30	By Balance c/d		1,10,000
	Total		5,60,000		Total		5,60,000

Bank A/c

Dr.				Cr.			
Date	Particulars	JF	Amount (₹)	Date	Particulars	JF	Amount (₹)
Apr 1	To Cash A/c		5,00,000	Apr 3	By Livestock A/c		2,50,000
				Apr 20	By Machinery A/c		50,000
				Apr 30	By Balance c/d		2,00,000
	Total		5,00,000		Total		5,00,000

Livestock – Productive A/c

Dr.				Cr.			
Date	Particulars	JF	Amount (₹)	Date	Particulars	JF	Amount (₹)
Apr 3	To Bank A/c		2,50,000	Apr 30	By Balance c/d		2,50,000
	Total		2,50,000		Total		2,50,000

Sales – Milk A/c

Dr.				Cr.			
Date	Particulars	JF	Amount (₹)	Date	Particulars	JF	Amount (₹)
Apr 30	To P&L A/c		45,000	Apr 10	By Cash A/c		45,000
	Total		45,000		Total		45,000

Illustration 2: From the following transactions of Gomati thedairy, pass journal entries and prepare Feed and Fodder Expense A/c, Sundry Debtors A/c, Wages Expense A/c and Outstanding Wages A/c for the year ended 31 March 2026:

1. Purchased 10 buffaloes for ₹4,00,000, paid by bank.
2. Purchased feed for ₹1,50,000, ₹1,00,000 paid by cash, balance on credit from Ram Feed Store.
3. Sold milk for ₹6,00,000, ₹5,00,000 received in cash, balance due from cooperative.
4. Paid wages ₹2,00,000 by cash.
5. Outstanding wages at year-end ₹10,000.
6. Depreciation on machinery ₹25,000.
7. A cow gave birth to a calf valued at ₹20,000.

Solution:

Journal of Gomati Dairy
For the year ended 31 March 2026

Date	Particulars	L. F.	Debit (₹)	Credit (₹)
1	Livestock – Productive A/c Dr To Bank A/c (Being purchased 10 buffaloes)		4,00,000	4,00,000
2	Feed and Fodder Expense A/c Dr To Cash A/c		1,50,000	1,00,000

	To Ram Feed Store A/c (Being purchased feed partly cash, partly credit)			50,000
3	Cash A/c Dr	5,00,000		
	Sundry Debtors A/c Dr	1,00,000		
	To Sales – Milk A/c (Being sold milk; cash and credit)		6,00,000	
4	Wages Expense A/c Dr	2,00,000		
	To Cash A/c (Being paid wages)		2,00,000	
5	Wages Expense A/c Dr	10,000		
	To Outstanding Wages A/c (Being outstanding wages)		10,000	
6	Depreciation Expense A/c Dr	25,000		
	To Accumulated Depreciation (Machinery A/c) (Being depreciation on machinery)		25,000	
7	Livestock – Young Stock A/c Dr	20,000		
	To dairy Herd Revaluation A/c (Being calf born and valued)		20,000	

Ledger Accounts

Gomati Dairy

For the year ended 31st March 2026

Feed and Fodder Expense A/c

Dr.				Cr.			
Date	Particulars	J F	Amount (₹)	Date	Particulars	J F	Amount (₹)
	To Cash A/c		1,00,000		By P&L A/c		1,50,000
	To Ram Feed Store A/c		50,000				
	Total		1,50,000		Total		1,50,000

Sundry Debtors A/c.

Dr.				Cr.			
Date	Particulars	JF	Amount (₹)	Date	Particulars	JF	Amount (₹)
	To Sales – Milk A/c		1,00,000		By Balance c/d		1,00,000
	Total		1,00,000		Total		1,00,000

Wages Expense A/c.

Dr.				Cr.			
Date	Particulars	JF	Amount (₹)	Date	Particulars	JF	Amount (₹)
	To Cash A/c		2,00,000		By P&L A/c		2,10,000
	To Outstanding Wages A/c		10,000				
	Total		2,10,000		Total		2,10,000

Outstanding Wages A/c

Dr.				Cr.			
Date	Particulars	JF	Amount (₹)	Date	Particulars	JF	Amount (₹)
	To Balance c/d		10,000		By Wages Expense A/c		10,000
	Total		10,000		Total		10,000

Illustration 3: Record the following in the journal and prepare Work-in-Progress – Milk Products A/c, Inventory – Milk Products A/c and Machinery A/c of Amul thedairy Products for the year:

1. Purchased machinery for processing milk products ₹3,00,000, paid by bank.
2. Transferred milk worth ₹1,00,000 to processing unit.
3. Incurred processing wages ₹40,000, paid by cash.
4. Incurred packaging material cost ₹30,000, paid by cash.
5. Finished goods (curd, paneer) transferred to inventory ₹1,70,000.
6. Sold milk products for ₹2,50,000, received by bank.
7. Sold manure for ₹8,000, cash.
8. Received rent from leased land ₹15,000, bank.

Solution:**Journal of Amul Dairy Products**For the year ended 31st March 2026

Date	Particulars	L.F.	Debit (Rs.)	Credit (Rs.)
1	Machinery A/c Dr. To Bank A/c (Being purchased processing machinery)		3,00,000	3,00,000
2	Work-in-Progress – Milk Products A/c Dr. To Inventory – Milk A/c (Being milk transferred to processing)		1,00,000	1,00,000
3	Work-in-Progress – Milk Products A/c Dr. To Cash A/c (Being processing wages paid)		40,000	40,000
4	Work-in-Progress – Milk Products A/c Dr. To Cash A/c (Being packaging material used)		30,000	30,000
5	Inventory – Milk Products A/c Dr. To Work-in-Progress – Milk Products A/c (purchased finished goods transferred to inventory)		1,70,000	1,70,000
6	Bank A/c Dr. To Sales – Milk Products A/c (purchased sold milk products)		2,50,000	2,50,000
7	Cash A/c Dr. To Sales – Manure A/c (purchased sold manure)		8,000	8,000
8	Bank A/c Dr. To Rent Received A/c (purchased rent received from leased land)		15,000	15,000

Work-in-Progress – Milk Products A/c

Dr.				Cr.			
Date	Particulars	JF	Amount (₹)	Date	Particulars	JF	Amount (₹)
	To Inventory – Milk A/c		1,00,000		By Inventory – Milk Products A/c		1,70,000
	To Cash A/c (Wages)		40,000				
	To Cash A/c (Packaging)		30,000				
	Total		1,70,000		Total		1,70,000

Inventory – Milk Products A/c

Dr.				Cr.			
Date	Particulars	JF	Amount (₹)	Date	Particulars	JF	Amount (₹)
	To WIP – Milk Products A/c		1,70,000		By Balance c/d		1,70,000
	Total		1,70,000		Total		1,70,000

Machinery A/c

Dr.				Cr.			
Date	Particulars	JF	Amount (₹)	Date	Particulars	JF	Amount (₹)
	To Bank A/c		3,00,000		By Balance c/d		3,00,000
	Total		3,00,000		Total		3,00,000

• **Check Your Progress – 2**

A. Multiple Choice Questions:

- _____ accounting rule is applied when feed is purchased for the dairy farm.
 - Debit the Giver, Credit the Receiver
 - Debit All Incomes and Gains
 - Debit All Expenses and Losses
 - Credit What Comes In
- _____ accounting system records both debit and credit aspects of a transaction.
 - Single-Entry System
 - Cash System
 - Double-Entry System
 - Memorandum System

3. _____ ledger account is debited when productive the dairy animals are purchased.
 - a) Milk Sales Account
 - b) Livestock – Productive Account
 - c) Capital Account
 - d) Wages Account
4. _____ is the next step after balancing ledger accounts.
 - a) Prepare Journal Entries
 - b) Prepare Trial Balance
 - c) Prepare Cash Book
 - d) Prepare Inventory Register
5. Revenue earned from the sale of milk products such as ghee and paneer is recorded in: _____
 - a) The dairy Account
 - b) Feed Account
 - c) Sales – Milk Products Account
 - d) Veterinary Expense Account

B. True or False

1. Ledger accounts help classify and summarize transactions recorded in the journal.
2. The Single-Entry System records both debit and credit aspects of every transaction.
3. Veterinary expenses are treated as expenses and are debited to the Veterinary Expense Account.
4. Trial Balance is prepared before posting transactions to ledger accounts.
5. In The dairy accounting, milk sales are generally recorded on the credit side of the Sales – Milk Account.

2.2.5 Preparation of Final Accounts of the dairy Business Producing Milk Products

The Final Accounts of the dairy business are prepared at the end of an accounting period to ascertain the operating results and financial position of the dairy enterprise. The dairy businesses not only produce and sell milk but may also manufacture milk products such as curd, butter, ghee, paneer, cheese, and other the dairy products. Therefore, proper accounting is necessary to determine the profitability of milk production and processing activities.

The preparation of final accounts involves summarizing information from the Trial Balance and making necessary adjustments relating to closing stock, outstanding expenses, depreciation, accrued income, and valuation of livestock. The final accounts generally consist of the Trading Account, Profit and Loss Account, and Balance Sheet.

- Steps in Preparation of Final Accounts

1. Preparation of Trading Account

The Trading Account is prepared to determine the Gross Profit or Gross Loss from the dairy operations. It includes all direct costs related to milk production and processing. If the credit side exceeds the debit side, Gross Profit is earned; otherwise, Gross Loss is incurred.

- Proforma of Trading Account of the dairy Business Producing Milk Products

Trading Account for the Year Ended _____

Dr.		Cr.	
Particulars	Amount (₹)	Particulars	Amount (₹)
To Opening Stock		By Sales	
Milk Stock	xxx	Milk	xxx
Feed and fodder	xxx	Curd	xxx
Butter	xxx	Butter	xxx
Ghee	xxx	Ghee	xxx
Paneer	xxx	Paneer	xxx
Cheese	xxx	Cheese	xxx
Packaging Material	xxx	Cream	xxx
To Purchases		Other Milk Products	xxx
Milk Purchased	xxx	By Sale of Manure	xxx
Feed and Fodder Purchased	xxx	By Closing Stock	
Packaging Material Purchased	xxx	Milk Stock	xxx
The dairy Consumables Purchased	xxx	Feed and fodder	xxx

To Direct Expenses		Milk Products	xxx
Direct Labour	xxx	Packaging Material	xxx
Milking Expenses	xxx	Work-in-Progress	xxx
Feed and Feeding Expenses	xxx	By Gross Loss (if any)	xxx
		<i>(Transferred to P & L A/c)</i>	
Veterinary Expenses	xxx		
Processing Labour	xxx		
Fuel and power	xxx		
Refrigeration Expenses	xxx		
Milk Collection Expenses	xxx		
Transportation Inward	xxx		
Other Direct Expenses	xxx		
To Gross Profit c/d	xxx		
<i>(Transferred to P & L A/c)</i>			
Total	xxx	Total	xxx

Notes:

1. Milk Sales include revenue from the sale of fresh milk.
2. Milk Product Sales include sales of curd, butter, ghee, paneer, cheese, and other the dairy products.
3. Feed and Fodder Expenses are direct costs related to the dairy production.
4. Work-in-Progress represents milk products that are under processing at the year-end.
5. If the debit side exceeds the credit side, Gross Loss c/d will appear on the credit side instead of Gross Profit.

The Gross Profit obtained from the Trading Account is transferred to the Profit and Loss Account for determining the Net Profit of the dairy business.

2. Preparation of Profit and Loss Account

The Gross Profit obtained from the Trading Account is transferred to the Profit and Loss Account. This account determines the Net Profit or Net Loss of the dairy business.

- Proforma of Profit and Loss Account of the dairy Business Producing Milk Products

Profit and Loss Account
for the Year Ended _____

Dr.		Cr.	
Particulars	Amount (₹)	Particulars	Amount (₹)
To Administrative Expenses		By Gross Profit b/d	xxx
Office Salaries	xxx	By Other Income	
Office Rent	xxx	Sale of Manure (if not shown in Trading A/c)	xxx
Printing and Stationery	xxx	Gain on Sale of Livestock	xxx
Postage and Communication	xxx	Interest Received	xxx
To Selling & Distribution Expenses		Commission Received	xxx
Advertisement	xxx	Miscellaneous Income	xxx
Sales Promotion	xxx	The dairy Herd	xxx
		Revaluation Gain	
Delivery Expenses	xxx		
Transportation Outward	xxx		
To General Expenses			
Electricity and Water	xxx		
Insurance	xxx		
Audit Fees	xxx		
Legal Charges	xxx		
Bank Charges	xxx		
To Financial Expenses			
Interest on Loan	xxx		
Interest on Bank Overdraft	xxx		
To Depreciation			
Buildings	xxx		
Machinery & Equipment	xxx		
The dairy Vehicles	xxx		

Productive Livestock	xxx		
Furniture & Fixtures	xxx		
To Loss on Sale of Livestock	xxx		
To Net Profit (<i>transferred to Capital A/c</i>)	xxx		
Total	xxx	Total	xxx

Notes:

1. Gross Profit obtained from the Trading Account is brought down on the credit side of the Profit and Loss Account.
2. Administrative Expenses include office and management-related expenses.
3. Selling and Distribution Expenses are incurred for marketing and delivering milk and milk products.
4. Depreciation is charged on the dairy buildings, machinery, equipment, and productive livestock.
5. Gain or Loss on Sale of Livestock is adjusted in the Profit and Loss Account.
6. The balancing figure represents Net Profit (if the credit side exceeds the debit side) or Net Loss (if the debit side exceeds the credit side).

The Net Profit determined from the Profit and Loss Account is transferred to the Capital Account and is subsequently reflected in the Balance Sheet of the dairy business.

3. Preparation of Balance Sheet

The Balance Sheet shows the financial position of the dairy business on a specific date by presenting assets and liabilities.

- Proforma: Balance Sheet of the Dairy Business Producing Milk Products

Organisation Name _____

Balance Sheet
as on 31st March

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital Account		Fixed Assets	
Opening Capital	xxx	The dairy Land and Buildings	xxx
Add: Net Profit	xxx	Less: Depreciation	(xxx)
Less: Drawings	(xxx)	Net Value of Buildings	xxx
Closing Capital	xxx	Machinery and Equipment	xxx
		Less: Depreciation	(xxx)
Long-Term Liabilities		Net Value of Machinery	xxx
Bank Loan	xxx	Furniture and Fixtures (Net)	xxx
Mortgage Loan	xxx	The dairy Vehicles (Net)	xxx
Other Long-Term Loans	xxx	Productive Livestock (Net)	xxx
		Young Stock (Calves)	xxx
Current Liabilities		Current Assets	
Sundry Creditors	xxx	Closing Stock of Feed and Fodder	xxx
Outstanding Wages	xxx	Closing Stock of Milk	xxx
Outstanding Salaries	xxx	Closing Stock of Milk Products	xxx
Outstanding Expenses	xxx	Work-in-Progress (Milk Products)	xxx
Bills Payable	xxx	Sundry Debtors	xxx
Bank Overdraft	xxx	Bills Receivable	xxx
Interest Accrued but not Due	xxx	Cash in Hand	xxx
		Cash at Bank	xxx
		Accrued Income	xxx
		Prepaid Expenses	xxx
Total	xxx	Total	xxx

Important Notes

1. Productive Livestock (milking cows, buffaloes, etc.) are shown as fixed/biological assets after deducting depreciation, where applicable.
2. Young Stock (Calves) are shown separately under assets.
3. Closing Stock of Feed, Milk, and Milk Products appears under current assets.
4. Work-in-Progress represents milk products under processing at the balance sheet date.
5. Outstanding Wages and Other Outstanding Expenses are shown as current liabilities.
6. Net Profit from the Profit and Loss Account is added to Capital, while drawings are deducted.

Accounting Equation: Assets = Capital + Liabilities

The balance sheet of the dairy business producing milk products presents the financial position of the enterprise on a specific date. It shows the sources of funds (capital and liabilities) on one side and the utilization of those funds in the form of fixed assets, livestock, inventories, receivables, and cash balances on the other side. A properly prepared Balance Sheet helps assess the liquidity, solvency, and overall financial health of the dairy enterprise.

Thus, it is understood that the preparation of Final Accounts in the dairy business producing milk products involves the preparation of the Trading Account, Profit and Loss Account, and Balance Sheet. The Trading Account determines Gross Profit from milk and milk product operations, the Profit and Loss Account determine Net Profit after considering indirect expenses and incomes, and the Balance Sheet presents the financial position of the dairy enterprise by showing its assets, liabilities, and capital on the closing date.

Illustration 4: From the following trial balance of Shree Krishna the dairy Farm, prepare Trading Account, Profit & Loss Account, and Balance Sheet for the year ended 31 March 2026:

Trial Balance:

Account	Debit (₹)	Credit (₹)
Capital		5,00,000
Land & Building	6,00,000	
Livestock	4,00,000	
Machinery	2,00,000	
Opening Stock (Feed)	30,000	
Purchases (Feed)	2,00,000	
Wages	1,50,000	
Veterinary Expenses	50,000	
Salaries	1,00,000	
Depreciation	30,000	
Sales (Milk)		10,00,000
Cash	25,000	
Bank	75,000	
Debtors	80,000	
Creditors		60,000
Total	15,85,000	15,85,000

Adjustments:

1. Closing Stock: Feed ₹40,000
2. Outstanding Wages: ₹10,000
3. Depreciation: Building 5%, Machinery 10%, Livestock 5%

Solution:

Shree Krishna Dairy Farm
Trading Account
For the year ended 31st March 2026

Dr.		Cr.	
Particulars	Amount (₹)	Particulars	Amount (₹)
To Opening Stock	30,000	By Sales	10,00,000
To Purchases	2,00,000	By Closing Stock	40,000
To Wages 1,50,000			
Add: Outstanding wages 10,000	160000		
To Veterinary	50,000		
To Gross Profit	6,00,000		
Total	10,40,000	Total	10,40,000

Shree Krishna Dairy Farm
Profit & Loss Account
For the year ended 31st March 2026

Dr.		Cr.	
Particulars	Amount (₹)	Particulars	Amount (₹)
To Salaries	1,00,000	By Gross Profit b/d	6,00,000
To Depreciation (30,000 + 40,000)	70,000		
To Net Profit	4,30,000		
Total	6,00,000	Total	6,00,000

Shree Krishna Dairy Farm
Balance Sheet
as on 31st March 2026

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital (5,00,000 + 4,30,000)	9,30,000	Land & Building 6,00,000	
Creditors	60,000	Less: Depreciation <u>30,000</u>	5,70,000
Outstanding Wages	10,000	Machinery 2,00,000	
		Less: Depreciation <u>20,000</u>	1,80,000
		Livestock 4,00,000	
		Less: Depreciation <u>20,000</u>	3,80,000
		Cash	25,000
		Bank	75,000
		Debtors	80,000
		Closing Stock	40,000
Total	10,00,000	Total	10,00,000

Working Notes:

1. Depreciation:

1. Building: $6,00,000 \times 5\% = ₹30,000$
2. Machinery: $2,00,000 \times 10\% = ₹20,000$
3. Livestock: $4,00,000 \times 5\% = ₹20,000$
4. Total = ₹70,000 (already charged ₹30,000, additional ₹40,000)

2. Closing Capital: 5,00,000 + Net Profit – Nil

Illustration 5: Prepare final accounts from the following trial balance of Gomati the dairy Products:

Trial Balance:

Particulars	Debit (₹)	Credit (₹)
Capital		8,00,000
Drawings	50,000	
Land	5,00,000	
Building	4,00,000	
Machinery	3,00,000	
Livestock	6,00,000	
Opening Stock	40,000	
Purchases	3,00,000	
Wages	2,00,000	
Veterinary	80,000	
Salaries	1,20,000	
Depreciation	40,000	
Sales – Milk		14,00,000
Sales – Products		4,00,000
Sales – Calves		50,000
Manure Sales		20,000
Cash	60,000	
Bank	1,40,000	
Debtors	1,00,000	
Creditors		80,000
Total	28,30,000	28,30,000

Adjustments:

1. Closing Stock ₹60,000
2. Outstanding Wages ₹10,000
3. Depreciation: Building 5%, Machinery 10%, Livestock 5%

Solution:

Gomati Dairy Products
Trading Account
For the year ended 31st March 2026

Dr.		Cr.	
Particulars	Amount (₹)	Particulars	Amount (₹)
To Opening Stock	40,000	By Sales – Milk 14,00,000	
To Purchases	3,00,000	By Sales – Products 4,00,000	
To Wages 2,00,000, Add: Outstanding Wages 10,000	2,10,000	By Total Sales	18,00,000
To Veterinary	80,000	By Closing Stock	60,000
Gross Profit	12,30,000		
	18,60,000		18,60,000

Gomati Dairy Products
Profit & Loss Account
For the year ended 31st March 2026

Dr.		Cr.	
Particulars	Amount (₹)	Particulars	Amount (₹)
To Salaries	1,20,000	By Gross Profit b/d	12,30,000
To Depreciation	80,000	By Sales – Calves	50,000
To Net Profit	10,80,000	By Manure Sales	20,000
	12,50,000		12,50,000

Gomati Dairy Products
Balance Sheet
As on 31st March 2026

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital (8,00,000 + 10,80,000 – 50,000)	18,30,000	Land	5,00,000
Creditors	80,000	Building 4,00,000 Less: Dep. <u>20,000</u>	3,80,000

Outstanding Wages	10,000	Machinery	3,00,000	
		Less: Dep.	<u>30,000</u>	2,70,000
		Livestock	6,00,000	
		Less: Dep.	<u>30,000</u>	5,70,000
		Cash		60,000
		Bank		1,40,000
		Debtors		1,00,000
		Closing Stock		60,000
Total	18,40,000	Total		18,40,000

Working Notes:

1. Depreciation:

- Building: $4,00,000 \times 5\% = ₹20,000$
- Machinery: $3,00,000 \times 10\% = ₹30,000$
- Livestock: $6,00,000 \times 5\% = ₹30,000$
- Total = ₹80,000 (already 40,000, additional ₹40,000)

Illustration 6: Prepare Trading, P&L, and Balance Sheet from trial balance of Amul the dairy on year-end 31st March 2026:

Trial Balance

Particulars	Debit (₹)	Credit (₹)
Capital		10,00,000
Land	8,00,000	
Building	6,00,000	
Machinery	5,00,000	
Livestock	10,00,000	
Opening Stock	50,000	
Purchases	4,00,000	
Wages	3,50,000	
Veterinary	1,00,000	
Salaries	2,00,000	
Electricity	1,20,000	
Depreciation	80,000	
Interest	1,00,000	

Sales – Milk		20,00,000
Sales – Products		8,00,000
Cash	1,00,000	
Bank	2,00,000	
Debtors	1,50,000	
Creditors		1,20,000
Total	47,50,000	47,50,000

Adjustments:

1. Closing Stock ₹1,00,000
2. Outstanding Electricity ₹20,000
3. Depreciation: Building 5%, Machinery 10%, Livestock 5%

Solution

Amul Dairy
Trading Account
For the year ended 31st March 2026

Dr.		Cr.	
Particulars	Amount (₹)	Particulars	Amount (₹)
To Opening Stock	50,000	By Sales – Milk	20,00,000
To Purchases	4,00,000	By Sales – Products	8,00,000
To Wages	3,50,000	By Closing Stock	1,00,000
To Veterinary	1,00,000		
To Electricity	1,40,000		
1,20,000			
Add: Outs.Expanses <u>20,000</u>			
To Gross Profit	19,60,000		
Total	29,00,000	Total	29,00,000

Amul Dairy
Profit & Loss Account
For the year ended 31 March 2026

Dr.		Cr.	
Particulars	Amount (₹)	Particulars	Amount (₹)
To Salaries	2,00,000	By Gross Profit b/d	19,60,000
To Depreciation (80,000 + 50,000)	1,30,000		
To Interest	1,00,000		
To Net Profit	15,30,000		
Total	19,60,000	Total	19,60,000

Amul Dairy
Balance Sheet
As on 31 March 2026

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital 10,00,000		Land	8,00,000
		Building 6,00,000	
Add: Net Profit <u>15,30,000</u>	25,30,000	Less: Dep. <u>30,000</u>	5,70,000
Creditors	1,20,000	Machinery 5,00,000	
		Less: Depreciation <u>50,000</u>	4,50,000
Outstanding Electricity	20,000	Livestock 10,00,000	
		Less: Depreciation <u>50,000</u>	9,50,000
		Cash	1,00,000
		Bank	2,00,000
		Debtors	1,50,000
		Closing Stock	1,00,000
Total	26,70,000	Total	26,70,000

Working Notes:

1. Depreciation:

- Building: $6,00,000 \times 5\% = ₹30,000$
- Machinery: $5,00,000 \times 10\% = ₹50,000$
- Livestock: $10,00,000 \times 5\% = ₹50,000$
- Total = ₹1,30,000 (already 80,000, additional ₹50,000)

Illustration 7:

Prepare final accounts on year ending 31st March 2026 from trial balance of Divine The dairy:

Trial Balance:

Particulars	Debit (₹)	Credit (₹)
Capital		6,00,000
Drawings	40,000	
Land & Building	7,00,000	
Livestock	5,00,000	
Vehicles	3,00,000	
Opening Stock	45,000	
Purchases	2,50,000	
Wages	1,80,000	
Feed	1,50,000	
Veterinary	70,000	
Salaries	1,00,000	
Depreciation	50,000	
Sales		12,00,000
Other Income		30,000
Cash	35,000	
Bank	95,000	
Debtors	70,000	
Creditors		50,000
Total	21,20,000	21,20,000

Adjustments:

1. Closing Stock ₹65,000
2. Outstanding Wages ₹15,000
3. Depreciation: Building 5%, Livestock 5%, Vehicles 10%

Solution:

Divine Dairy
Trading Account
For the year ended 31st March 2026

Dr.		Cr.	
Particulars	Amount (₹)	Particulars	Amount (₹)
To Opening Stock	45,000	By Sales	12,00,000
To Purchases	2,50,000	By Closing Stock	65,000
To Wages 1,80,000	1,95,000		
Add: Outstanding Exp. <u>15,000</u>			
To Feed	1,50,000		
To Veterinary	70,000		
To Gross Profit	7,50,000		
Total	12,65,000	Total	12,65,000

Divine Dairy
Profit & Loss Account
For the year ended 31st March 2026

Dr.		Cr.	
Particulars	Amount (₹)	Particulars	Amount (₹)
To Salaries	1,00,000	By Gross Profit b/d	7,50,000
To Depreciation (50,000 + 40,000)	90,000	By Other Income	30,000
To Net Profit	5,90,000		
Total	7,80,000	Total	7,80,000

Divine Dairy
Balance Sheet
As on 31st March 2026

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital 6,00,000 Add: Net Profit 5,90,000 Less: Drawings 40,000	11,50,000	Land & Building 7,00,000 Less: Depreciation <u>35,000</u>	6,65,000
Creditors	50,000	Livestock 5,00,000 Less: Depreciation <u>25,000</u>	4,75,000

Outstanding Wages	15,000	Vehicles 3,00,000 Less: Depreciation <u>30,000</u>	2,70,000
		Cash	35,000
		Bank	95,000
		Debtors	70,000
		Closing Stock	65,000
Total	12,15,000	Total	12,15,000

Working Notes:

1. Depreciation:

- Building: $7,00,000 \times 5\% = ₹35,000$
- Livestock: $5,00,000 \times 5\% = ₹25,000$
- Vehicles: $3,00,000 \times 10\% = ₹30,000$
- Total = ₹90,000 (already 50,000, additional ₹40,000)

Illustration 8:

From the following trial balance of Green Pastures The dairy, prepare complete financial statements:

Trial Balance:

Particulars	Debit (₹)	Credit (₹)
Capital		12,00,000
Drawings	80,000	
Land	10,00,000	
Building	8,00,000	
Machinery	6,00,000	
Livestock	12,00,000	
Opening Stock	80,000	
Purchases	5,00,000	
Wages	5,00,000	
Veterinary	1,20,000	
Salaries	2,50,000	
Depreciation	1,00,000	
Interest	1,20,000	
Sales – Milk		30,00,000
Sales – Products		12,00,000

Sales – Calves		80,000
Cash	1,20,000	
Bank	2,80,000	
Debtors	2,00,000	
Creditors		1,50,000
Loan		10,00,000
Total	68,30,000	68,30,000

Adjustments:

1. Closing Stock ₹1,20,000
2. Outstanding Wages ₹20,000
3. Depreciation: Building 5%, Machinery 10%, Livestock 5%

Solution :

Green Pastures Dairy
Trading Account
For the year ended 31st March 2026

Dr.		Cr.	
Particulars	Amount (₹)	Particulars	Amount (₹)
To Opening Stock	80,000	By Sales – Milk	30,00,000
To Purchases	5,00,000	By Sales – Products	12,00,000
To Wages 5,00,000	5,20,000	By Closing Stock	1,20,000
Add: Outstanding Exp. <u>20,000</u>			
To Veterinary	1,20,000		
To Gross Profit	29,00,000		
Total	43,20,000	Total	43,20,000

Green Pastures Dairy
Profit & Loss Account
For the year ended 31st March 2026

Dr.		Cr.	
Particulars	Amount (₹)	Particulars	Amount (₹)
To Salaries	2,50,000	By Gross Profit b/d	29,00,000
To Depreciation (1,00,000 + 60,000)	1,60,000	By Sales – Calves	80,000
To Interest	1,20,000		
To Net Profit	25,50,000		
	29,80,000		29,80,000

Green Pastures Dairy
Balance Sheet
As on 31st March 2026

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital 12,00,000		Land	10,00,000
Add: Net Profit 25,50,000		Building 8,00,000	
Less: Drawings <u>80,000</u>	36,62,000	Less: Depreciation <u>40,000</u>	7,60,000
Loan (Long-term)	10,00,000	Machinery 6,00,000	
		Less: Depreciation <u>60,000</u>	5,40,000
Creditors	1,50,000	Livestock 12,00,000	
		Less: Depreciation <u>60,000</u>	11,40,000
Outstanding Wages	20,000	Cash	1,20,000
		Bank	2,80,000
		Debtors	2,00,000
		Closing Stock	1,20,000
Total	48,32,000	Total	48,32,000

Working Notes:

1. Depreciation:

- Building: $8,00,000 \times 5\% = ₹40,000$
- Machinery: $6,00,000 \times 10\% = ₹60,000$
- Livestock: $12,00,000 \times 5\% = ₹60,000$
- Total = ₹1,60,000 (already 1,00,000, additional ₹60,000)

Illustration 9:

From the following trial balance of Shri Krishna thedairy Farm, prepare Trading Account, Profit & Loss Account, and Balance Sheet for the year ended 31st March 2026:

Trial Balance:

Particulars	Debit (₹)	Credit (₹)
Capital		10,00,000
Land	5,00,000	
Buildings	4,00,000	
Machinery	3,00,000	
Livestock	8,00,000	
Opening Stock	50,000	
Purchases – Feed	3,00,000	
Wages	2,00,000	
Veterinary	80,000	
Salaries	1,50,000	
Depreciation	60,000	
Sales		15,00,000
Cash	50,000	
Bank	1,00,000	
Debtors	1,20,000	
Creditors		1,00,000
Total	23,10,000	23,10,000

Adjustments:

1. Closing Stock ₹75,000
2. Depreciate Buildings 5%, Machinery 10%, Livestock 5%

Solution:

Trading Account
Shri Krishna Dairy Farm
For the year ended 31st March 2026

Dr.		Cr.	
Particulars	Amount (₹)	Particulars	Amount (₹)
To Opening Stock	50,000	By Sales	15,00,000
To Purchases – Feed	3,00,000	By Closing Stock	75,000
To Wages	2,00,000		
To Veterinary	80,000		
To Gross Profit	11,45,000		
Total	15,75,000	Total	15,75,000

Shri Krishna Dairy Farm
Profit & Loss Account
For the year ended 31st March 2026

Dr.		Cr.	
Particulars	Amount (₹)	Particulars	Amount (₹)
To Salaries	1,50,000	By Gross Profit	11,45,000
To Depreciation (60,000 + 20,000 + 40,000)	1,20,000		
To Net Profit	10,25,000		
Total	11,45,000	Total	11,45,000

Shri Krishna Dairy Farm
Balance Sheet
as on 31st March 2026

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital 10,00,000	20,25,000	Land	5,00,000
Add: Net Profit 10,25,000		Buildings 4,00,000	
		Less: Dep. <u>20,000</u>	3,80,000
Creditors	1,00,000	Machinery 3,00,000	2,70,000

		Less: Dep.	<u>30,000</u>	
		Livestock	8,00,000	
		Less: Dep.	<u>40,000</u>	7,60,000
		Cash		50,000
		Bank		1,00,000
		Debtors		1,20,000
		Closing Stock		75,000
Total	21,25,000	Total		21,25,000

Illustration 10

From the following Trial Balance of Sunrise Dairy Farm, prepare Trading Account, Profit & Loss Account and Balance Sheet as on 31st March 2026.

Trial Balance

Particular	Debit (₹)	Credit (₹)
Capital		8,00,000
Land & Building	6,00,000	
Machinery	3,00,000	
Livestock	5,00,000	
Opening Stock (Feed)	50,000	
Purchases	3,50,000	
Wages	2,20,000	
Veterinary Expenses	80,000	
Insurance	24,000	
Salaries	1,20,000	
Debtors	1,50,000	
Cash	70,000	
Bank	1,00,000	
Sales		18,00,000
Creditors		1,64,000
Total	25,64,000	25,64,000

Adjustments:

1. Closing Stock ₹80,000
2. Outstanding Wages ₹20,000
3. Insurance prepaid ₹4,000
4. Interest accrued on bank deposit ₹10,000
5. Bad Debts ₹15,000
6. Depreciate Machinery @10%

Solution:

Sunrise Dairy Farm

Trading Account

as on 31st March 2026

Dr.		Cr.	
Particular	Amount (₹)	Particular	Amount (₹)
To Opening Stock	50,000	By Sales	18,00,000
To Purchases	3,50,000	By Closing Stock	80,000
To Wages 2,20,000			
Add: Oust. Expenses 20,000	2,40,000		
To Veterinary Expenses	80,000		
To Gross Profit c/d	11,60,000		
Total	18,80,000	Total	18,80,000

Sunrise Dairy Farm

Profit & Loss Account

As on 31st March 2026

Dr.		Cr.	
Particular	Amount (₹)	Particular	Amount (₹)
Salaries	1,20,000	Gross Profit	11,60,000
Insurance (24,000–4,000)	20,000	Interest Accrued	10,000
Bad Debts	15,000		
Depreciation	30,000		
Net Profit	9,85,000		
Total	11,70,000	Total	11,70,000

Sunrise Dairy Farm
Balance Sheet
As on 31st March 2026

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital 8,00,000	17,85,000	Land & Building	6,00,000
Add: Net Profit 9,85,000			
Creditors	1,64,000	Machinery 3,00,000	2,70,000
		Less: Depreciation 30,000	
Outstanding Wages	20,000	Livestock	5,00,000
		Closing Stock	80,000
		Debtors 1,50,000	1,35,000
		Less: RDD 15,000	
		Cash	70,000
		Bank	1,00,000
		Prepaid Insurance	4,000
		Accrued Interest	10,000
Total	19,69,000	Total	19,69,000

Working Notes: Depreciation of Machinery = ₹ 3,00,000 × 10% = ₹ 30,000

Illustration 11

Prepare Trading Account, Profit & Loss Account and Balance Sheet from the following Trial Balance of Gokul Dairy Products for the year ended 31st March 2026.

Trial Balance

Particular	Debit (₹)	Credit (₹)
Capital		10,00,000
Drawings	50,000	
Building	5,00,000	

Machinery	4,00,000	
Livestock	7,00,000	
Opening Stock	60,000	
Purchases	4,50,000	
Wages	2,80,000	
Feed Expenses	2,00,000	
Salaries	1,50,000	
Debtors	2,00,000	
Cash	80,000	
Bank	1,10,000	
Sales		25,00,000
Creditors		7,80,000
Total	31,80,000	31,80,000

Adjustments

1. Closing Stock ₹1,20,000
2. Outstanding Salaries ₹20,000
3. Depreciate Machinery @10%
4. Create Provision for Doubtful Debts @5%
5. Interest on Capital @10%

Solutions:

Gokul Dairy Products

Trading Account

As on 31st March 2026

Dr.		Cr.	
Particular	Amount (₹)	Particular	Amount (₹)
Opening Stock	60,000	Sales	25,00,000
Purchases	4,50,000	Closing Stock	1,20,000
Wages	2,80,000		
Feed Expenses	2,00,000		
Gross Profit	16,30,000		
Total	26,20,000	Total	26,20,000

Gokul Dairy Products
Profit & Loss Account
As on 31st March 2026

Dr.		Cr.	
Particular	Amount (₹)	Particular	Amount (₹)
Salaries	1,50,000	Gross Profit	16,30,000
Add: Outstanding	20,000		
Interest on Capital	1,00,000		
Depreciation	40,000		
Provision for Doubtful Debts	10,000		
Net Profit	13,10,000		
Total	16,30,000	Total	16,30,000

Gokul Dairy Products
Balance Sheet of
As on 31st March 2026

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital Account		Building	5,00,000
Opening Capital	10,00,000	Machinery	4,00,000
Add: Net Profit	13,10,000	Less: Dep.	<u>40,000</u>
Add: Int. on Capital	1,00,000	Livestock	7,00,000
Less: Drawings	<u>50,000</u>	Closing Stock	1,20,000
Closing Capital	23,60,000		
Creditors	7,80,000	Debtors	2,00,000
Outstanding Salaries	20,000	Less: RDD	<u>10,000</u>
		Cash	80,000
		Bank	1,10,000
Total	31,60,000	Total	31,60,000

Working Notes

1. Depreciation on Machinery
= ₹4,00,000 × 10%
= ₹40,000
2. Provision for Doubtful Debts
= ₹2,00,000 × 5%
= ₹10,000
3. Interest on Capital
= ₹10,00,000 × 10%
= ₹1,00,000

• Check Your Progress – 3

A. Fill in the Blanks:

1. The process of transferring journal entries to respective ledger accounts is known as _____.
2. The _____ System records both debit and credit aspects of every transaction.
3. Revenue earned from the sale of milk is recorded in the _____ Account.
4. The balances of all ledger accounts are extracted to prepare a _____.
5. Expenses incurred on animal treatment and medicines are recorded in the _____ Account.

2.3 Summary:

The dairy business producing milk products is a specialized agricultural enterprise that involves the rearing and management of the dairy animals for the production of milk and value-added products such as curd, butter, ghee, paneer, cheese, and cream. The dairy accounting records and reports all financial transactions related to livestock, feed, milk production, processing, and sales. It requires proper accounting for biological assets, agricultural produce, and various production expenses. Ledger accounts are maintained using the double-entry system to record purchases, sales, expenses, and incomes accurately. Final accounts, including the

Trading Account, Profit and Loss Account, and Balance Sheet, help determine profitability and financial position. The dairy business may also earn additional income from the sale of calves, manure, and culled animals. Accurate record-keeping supports cost control, performance evaluation, taxation compliance, and managerial decision-making. Thus, systematic accounting plays a vital role in ensuring the efficiency, sustainability, and profitability of the dairy business producing milk products.

2.4 Glossary:

- **Biological Asset:** A living animal or plant (e.g., cow, buffalo, calf) owned or controlled by the dairy business.
- **Agricultural Produce:** The harvested product from a biological asset (e.g., milk, eggs, crops).
- **Capital Expenditure:** Spending on acquisition or improvement of long-term assets (e.g., purchase of cows, machinery).
- **Revenue Expenditure:** Spending on day-to-day operations (e.g., feed, wages, veterinary expenses).
- **Accrual Basis Accounting:** Recording income when earned and expenses when incurred, regardless of cash movement.
- **Cash Basis Accounting:** Recording income and expenses only when cash is received or paid.
- **Trading Account:** An account prepared to determine gross profit or loss from core operations.
- **Profit & Loss Account:** An account showing net profit or loss after all incomes and expenses.
- **Balance Sheet:** A statement showing assets, liabilities, and net worth at a specific date.
- **Net Worth:** $\text{Owner's equity} = \text{Total Assets} - \text{Total Liabilities}$.
- **Return on Assets (ROA):** A ratio measuring profitability relative to total assets.

- Closing Stock: Inventory remaining at the end of the accounting period.
- Opening Stock: Inventory at the beginning of the accounting period.
- Herd: The group of the dairy animals (cows/buffaloes) maintained on a farm.
- Lactation: The period during which an animal produces milk after calving.
- Dry Period: The period before next calving when the animal does not produce milk.
- Cull Animal: An animal removed from the herd and sold, usually for slaughter.
- Manure: Organic waste from animals used as fertilizer; also, a source of income.

2.5 Answers to Check Your Progress

• Check Your Progress – 1

A. True or False

- | | | |
|---|--|--|
| 1. True | 3. False (Purchase of livestock is capital expenditure.) | 5. False (Depreciation on milking machines is relevant.) |
| 2. False (Accrual basis is preferred for true profitability.) | 4. True | |

B. Fill in the Blanks

- | | |
|-----------------------------|---------------------|
| 1. Credit | 3. earned; incurred |
| 2. biological; agricultural | 4. cash flow |
| | 5. Assets |

C. Match the Following

- | | | |
|-------|-------|-------|
| 1 – b | 3 – d | 5 – e |
| 2 – c | 4 – a | |

• Check Your Progress – 2

A. MCQs:

- | | |
|-------|-------|
| 1 – c | 4 – b |
| 2 – c | 5 – c |
| 3 – b | |

B. True/False:

- | | |
|-----------|-----------|
| 1 – True | 4 – False |
| 2 – False | 5 – True |
| 3 – True | |

• **Check Your Progress – 3**

A. Fill in the Blanks

- | | | |
|-----------------|------------------|---------------|
| 1. Posting | 3. Milk Sales | 5. Veterinary |
| 2. Double-Entry | 4. Trial Balance | 6. Expense |

2.6 Exercises

A. Short-Type Questions

1. Define The dairy business and the dairy accounting.
2. Distinguish between biological assets and agricultural produce with examples.
3. Write any four features of the dairy accounting.
4. Why is accrual basis preferred over cash basis for the dairy business?
5. What is the purpose of a Trading Account in the dairy business?
6. Define Gross Profit and Net Profit.
7. What is a Balance Sheet? What does it show?
8. Give two examples of capital and revenue expenditure in the dairy business.

B. Long-Type Questions

9. Explain the nature and features of the dairy accounting. How does it differ from general business accounting?
10. Describe the process of preparing ledger accounts for the dairy business. Give journal entries and ledger format for at least five typical transactions.
11. Explain the structure and preparation of the Trading Account and Profit & Loss Account for the dairy business producing milk products.
12. Prepare a specimen Balance Sheet of the dairy business and explain the classification of assets and liabilities.

C. Practical Problems

13. From the following transactions of Shree thedairy Farm, prepare Ledger

Accounts:

1. April 1: Started business with capital ₹5,00,000 (cash)
2. April 2: Cash deposited into bank ₹4,00,000
3. April 5: Purchased cows for ₹2,50,000 (bank)
4. April 10: Purchased feed for ₹30,000 (cash)
5. April 15: Sold milk for ₹45,000 (cash)
6. April 20: Paid wages ₹12,000 (cash)
7. April 25: Sold calves for ₹15,000 (cash)

14. From the following, prepare Ledger Accounts:

1. Purchased feed ₹1,50,000 (₹1,00,000 cash, ₹50,000 credit)
2. Sold milk ₹6,00,000 (₹5,00,000 cash, ₹1,00,000 credit)
3. Paid wages ₹2,00,000 (cash)
4. Outstanding wages ₹10,000
5. Depreciation on machinery ₹25,000

15. From the following transactions of the dairy Products Ltd., prepare Ledger

Accounts:

1. Purchased machinery ₹3,00,000 (bank)
2. Transferred milk worth ₹1,00,000 to processing
3. Processing wages ₹40,000 (cash)
4. Packaging material ₹30,000 (cash)
5. Finished goods transferred to inventory ₹1,70,000
6. Sold products ₹2,50,000 (bank)

16. XYZ The dairy Farm had the following transactions during April 2025:

1. Started business with capital ₹10,00,000, deposited into bank.
2. Purchased 10 milking cows for ₹5,00,000, paid by bank.
3. Purchased a milking machine for ₹1,00,000, paid by bank.

4. Purchased cattle feed for ₹80,000, paid by cash.
 5. Paid wages to milkers ₹25,000 by cash.
 6. Paid veterinary expenses ₹12,000 by bank.
 7. Sold milk for ₹1,20,000; received ₹1,00,000 in cash and ₹20,000 is due from a cooperative.
 8. A cow gave birth to a calf; estimated value ₹15,000.
 9. Sold a male calf for ₹18,000 (cash). Its book value was ₹12,000.
 10. Paid electricity bill ₹8,000 by bank.
 11. Purchased packaging material ₹10,000, paid by cash.
 12. Provided depreciation:
 - Machinery: ₹5,000
 - Livestock: ₹25,000
- Required:
- (a) Pass journal entries.
 - (b) Prepare relevant ledger accounts.
 - (c) Extract a trial balance.

17. From the following Trial Balance of M/s the dairy Fresh Farm as on 31st March 2026, prepare the Trading Account, Profit & Loss Account and Balance Sheet:

Particulars	Amount (₹)
Opening Stock of Feed	20,000
Opening Stock of Milk Products	15,000
Purchases of Feed	80,000
Wages	40,000
Veterinary Expenses	10,000
Milk Sales	2,50,000
Ghee Sales	75,000
Machinery	1,50,000
Cash in Hand	30,000
Capital	1,20,000

Adjustments:

1. Closing Stock of Feed ₹25,000.
2. Closing Stock of Milk Products ₹20,000.
3. Depreciate Machinery by 10%.

18. The following balances are extracted from the books of Shree the dairy Products for the year ended 31st March 2026:

Particulars	Amount (₹)
Opening Stock of Feed	18,000
Feed Purchases	70,000
Processing Labour	25,000
Packaging Expenses	12,000
Milk Sales	2,20,000
Paneer Sales	60,000
Office Salaries	15,000
Machinery	1,00,000
Capital	1,50,000
Bank Balance	40,000

Adjustments:

1. Closing Stock of Feed ₹15,000.
2. Closing Stock of Paneer ₹10,000.
3. Depreciation on Machinery @ 10%.

Prepare the Final Accounts.

19. From the following information prepare the Trading Account, Profit & Loss Account and Balance Sheet:

Particulars	Amount (₹)
Feed and fodder	90,000
The dairy Wages	45,000
Veterinary Expenses	15,000
Milk Sales	3,00,000
Butter Sales	80,000
Sale of Manure	10,000
Buildings	2,00,000
Cash	25,000
Capital	2,50,000

Adjustments:

1. Closing Stock of Feed ₹20,000.
2. Outstanding Wages ₹5,000.
3. Depreciation on Building @ 5%.

20. The following Trial Balance relates to Green Valley The dairy Farm:

Particulars	Amount (₹)
Opening Stock of Feed	12,000
Purchases of Feed	65,000
Direct Labour	30,000
Refrigeration Expenses	8,000
Milk Sales	2,10,000
Curd Sales	50,000
Ghee Sales	40,000
Furniture	50,000
Cash at Bank	35,000
Capital	1,00,000

Adjustments:

1. Closing Stock of Feed ₹18,000.
2. Closing Stock of Curd ₹8,000.
3. Depreciation on Furniture @ 10%.

Prepare Final Accounts.

21. Prepare the Trading Account, Profit & Loss Account and Balance Sheet of Mahalaxmi The dairy Products from the following:

Particulars	Amount (₹)
Feed Purchases	1,00,000
The dairy Wages	50,000
Veterinary Expenses	12,000
Packaging Expenses	18,000
Milk Sales	3,20,000
Cheese Sales	90,000
Interest Received	5,000
Machinery	2,00,000
Debtors	40,000
Capital	2,50,000

Adjustments:

1. Closing Stock of Feed ₹22,000.
2. Closing Stock of Cheese ₹15,000.
3. Depreciation on Machinery @ 10%.
4. Outstanding Veterinary Expenses ₹2,000.

Required: Prepare Trading Account, Profit & Loss Account and Balance Sheet.

2.7 References for Further Study:

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Unit I

Introduction to Banking Business

Introduction to Banking Business – Definition of bank, nature of banking business, types of banks, ledger accounts generally prepared by banks, Functions of Banks

- 1.0 Objectives
- 1.1 Introduction
- 1.2 Presentation of Subject Matter
 - 1.2.1. Section I
 - 1.2.1.1 Definitions of Bank
 - 1.2.1.2 Nature of Banking Business
 - 1.2.1.3 Check Your Progress -1
 - 1.2.2 Section II
 - 1.2.2.1 Types of Banks
 - 1.2.2.2 Ledger Accounts Generally Prepared by Banks
 - 1.2.2.3 Check Your Progress - 2
 - 1.2.3 Section III
 - 1.2.3.1 Functions of Banks
 - 1.2.3.2 Check Your Progress – 3
- 1.3 Summary
- 1.4 Glossary
- 1.5 Answers to Check Your Progress
- 1.6 Exercise
- 1.7 Reference for Further Study

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1.0 Objectives:

After studying this unit, you will be able to:

1. Understand the meaning and concept of banking business.
2. Explain the definitions of a bank and describe the nature of banking business
3. Classify & understand the different types & functions of banks operating in India.
4. Explain the ledger accounts generally maintained by banks.
5. Interpret the basic structure of a bank's Balance Sheet.
6. Appreciate the role of banks in economic development and financial inclusion.

1.1 Introduction:

Money plays a vital role in the economic life of every individual, business organization and government. In the early stages of civilization, people exchanged goods through the barter system. However, the barter system suffered from several limitations such as the lack of a common measure of value and the difficulty of finding persons willing to exchange goods. The invention of money solved many of these problems and facilitated trade and commerce. As economic activities expanded, the need for institutions that could safely keep money, transfer funds, provide loans and facilitate payments became increasingly important. This need led to the emergence of banks. It plays a vital role in facilitating financial transactions, promoting savings, providing credit, and supporting economic development. The banking business involves accepting deposits from the public and using those funds for lending and investment purposes. Banks act as intermediaries between individuals or organizations that have surplus funds and those who require funds for productive activities.

The banking sector forms the backbone of the financial system. They provide financial services to individuals, businesses, industries, agricultural sectors and governments. Modern banks not only accept deposits and grant loans but also offer various services such as internet banking, mobile banking, ATM facilities, foreign exchange services, credit cards, debit cards and investment advisory services.

In India, the banking system has undergone significant transformation over the years. The nationalization of major banks, financial sector reforms, technological advancements and digital banking initiatives have increased the reach and efficiency of banking services. Banks now play a crucial role in promoting financial inclusion by providing banking facilities to rural and underserved areas. Banking business is therefore not merely a profit-oriented activity. It is an essential service that supports

economic development, employment generation, industrial growth and social welfare. A sound banking system contributes to the stability and prosperity of a nation. To understand banking business in detail, it is necessary to first understand the meaning and definitions of a bank.

1.2 Presentation of Subject Matter:

This unit will cover the concept, definition, nature of banking business and helps to understand the functions, types and the ledger accounts generally prepared by the banks.

1.2.1. Section – I

1.2.1.1. Definitions of Bank - Different economists, banking experts and legal authorities have defined a bank in various ways. Some important definitions are given below:

1. Dr. H. L. Hart - "A banker or bank is a person or company carrying on the business of receiving money and collecting drafts for customers subject to the obligation of honouring cheques drawn upon them from time to time by customers to the extent of the amounts available on their current accounts."

This definition emphasizes the acceptance of deposits and the honouring of cheques.

2. Crowther - "The bank's essential function is to collect the idle money of the community and make it available for productive purposes."

This definition highlights the role of banks in mobilizing savings and promoting investment.

3. Sir John Paget - "No person or body corporate can be a banker who does not take deposit accounts, take current accounts, issue and pay cheques and collect cheques crossed and uncrossed for customers."

This definition stresses the operational characteristics of a banking institution.

4. David Kinley - "A bank is an establishment which makes to individuals such advances of money as may be required and safely made, and to which individuals entrust money when not required by them for use."
5. Section 5(b), Indian Banking regulation Act, 1949 -"Banking means the accepting, for the purpose of lending or investment, of deposits of money from the public, repayable on demand or otherwise, and withdrawable by cheque, draft, order or otherwise."

This is the most widely accepted legal definition of banking in India. It clearly specifies the essential features of banking business:

1.2.1.2. Nature of Banking

Banking is an important part of the financial system of every country. Banks help people save money, obtain loans and make payments safely and conveniently. Over the years, banking has changed from simple deposit and lending activities to providing a wide range of financial services. To understand banking properly, it is necessary to know its nature and characteristics.

1. Service Oriented Business - Banking is mainly a service business because banks provide various services to their customers. Unlike factories, banks do not produce physical goods. They offer services such as accepting deposits, granting loans, transferring money and providing locker facilities. The success of a bank depends upon the quality of services provided to customers. A good customer service help banks to attract and retain customers. Therefore, banking is considered a service-oriented industry. When a customer deposits money in a savings account or transfers money through UPI, the bank is providing a financial service.

2. Deals in Money and Credit - The main business of a bank is dealing with money and credit. Banks collect money from people who have surplus funds and lend it to those who need funds. In this way, banks ensure that money is used productively in the economy. They also create credit by lending a portion of the deposits received from customers. This helps businesses and individuals meet their financial

requirements. Therefore, money and credit are the foundation of banking business. Example: A customer deposits ₹50,000 in a bank, and the bank provides a loan to another person from those funds.

3. Banking Business Acts as a Financial Intermediary - Banks act as a bridge between money lenders and borrowers. Many people save money but do not know where to invest it safely. At the same time, many businesses and individuals require funds for various purposes. Banks collect savings from depositors and provide loans to borrowers. This process helps in the proper utilization of financial resources. Thus, banks play an important role in connecting people who have money with those who need money. Money deposited by people in a bank may be used to provide loans to industries for purchasing machinery.

4. Based on Trust and Public Confidence - The banking system functions successfully only when people trust banks. Customers deposit their money because they believe that it will remain safe and can be withdrawn whenever needed. If people lose confidence in banks, they may withdraw their deposits, creating difficulties for the banking system. Therefore, banks work hard to maintain transparency, honesty and financial stability. Public confidence is the backbone of banking business. People keep their savings in banks because they trust that their money will be safe and secure.

5. Highly regulated Industry - Banking activities are governed by various laws and regulations. These rules are designed to protect depositors' money and maintain stability in the financial system. In India, banks operate under the supervision of the Reserve Bank of India (RBI). Banks must follow guidelines regarding lending, investments and reserve requirements. Such regulations help prevent financial problems and ensure smooth functioning of banks. Banks must maintain certain cash reserves as prescribed by the Reserve Bank of India.

6. Banking business Involves Risk Management - Every banking activity involves some degree of risk. There is always a possibility that borrowers may fail to repay

loans. Banks also face risks arising from changes in interest rates, technology failures and economic conditions. Therefore, banks carefully evaluate customers before granting loans. They also adopt various measures to reduce risks and protect their financial position. Effective risk management is essential for the success of a bank. Before granting a business loan, a bank checks the applicant's income, assets and repayment capacity.

7. Contributes to Economic Development - Banks play an important role in the economic growth of a country. They provide financial assistance to agriculture, industries, trade and service sectors. By providing loans and credit facilities, banks encourage investment and production. They also help to generate employment opportunities and improve living standards of the people. Therefore, banking is considered an important driver of economic development. A bank finances a new manufacturing unit, which creates jobs and increases production.

8. Banking Business Creates Credit - Credit creation is one of the unique features of banking business. Banks do not keep all deposits idle; they lend a major portion of these funds to borrowers. As a result, additional money becomes available in the economy. Credit creation helps businesses to expand their operations and supports economic activities. This process increases investment and contributes to economic growth. E.g. A bank receives deposits of ₹10 lakh and lends a major portion of the amount to different borrowers in different sectors.

9. Banking Business Facilitates Modern Payment Systems - Banks provide various payment facilities that make transactions easier and faster. Customers can transfer money, pay bills and make purchases without carrying cash. Modern banking services such as UPI, NEFT, RTGS, debit cards and internet banking have simplified financial transactions. These facilities save time and reduce the risk of carrying cash. Thus, banks play an important role in promoting a cashless economy. E.g. A student pays college fees online through UPI services (G Pay, Phone Pay, Net Banking, etc.) without visiting the bank.

10. Operates on the Principle and Liquidity - Like every business, banks aim to earn profits. However, they must also maintain sufficient cash to meet customers' withdrawal demands. Therefore, banks maintain a balance between profitability and liquidity. They invest funds in loans and securities to earn income while keeping adequate cash reserves. Proper management of liquidity ensures smooth banking operations. A bank earns interest by giving loans while keeping enough cash available for customer withdrawals.

11. Supports Financial Inclusion - Banks aim to provide financial services to all sections of society, including rural and economically weaker groups. Financial inclusion ensures that every person has access to banking facilities such as savings accounts, loans and payment services. It helps reduce dependence on moneylenders and improves financial security. Governments and banks work together to achieve this objective. E.g. People in villages can open bank accounts and receive government benefits directly into their accounts.

12. Dynamic and Technology Driven - Modern banking depends heavily on technology. Banks use computers, mobile applications, internet banking and digital payment systems to provide quick and efficient services. Technology has reduced paperwork and improved customer convenience. Today, customers can perform most banking activities from their homes. As technology advances, banking services continue to become more efficient and user-friendly. E.g. A customer can check account balance, transfer money and pay bills using a mobile banking application.

13. Banking Business has National and International Dimensions - Modern banks operate not only within a country but also across international borders. They help businesses and individuals carry out foreign trade and international transactions. Banks facilitate foreign exchange services, overseas remittances and international payments. These services promote global trade and economic cooperation. Therefore, banking has become an important part of the global economy. E.g. An exporter in India receives payment from a buyer in another country through banking channels.

The nature of banking business is much broader than simply accepting deposits and providing loans. Banking is a service-oriented, regulated and technology-driven activity that deals with money, credit, financial services, also facilitate modern payment systems and financial inclusion. Therefore, banks play a vital role in the growth and stability of the economy.

Check Your Progress – 1

A. Choose the Correct Answer

1. Which of the following is the most widely accepted legal definition of banking in India?
 - a) Dr. H.L. Hart's definition
 - b) Crowther's definition
 - c) Sir John Paget's definition
 - d) Definition under Section 5(b) of the Banking Regulation Act, 1949
2. The principal business of a bank is:
 - a) Manufacturing goods
 - b) Dealing in money and credit
 - c) Collecting taxes
 - d) Selling insurance policies
3. Which of the following is a characteristic of banking?
 - a) Production of tangible goods
 - b) Service-oriented activity
 - c) Agricultural activity
 - d) Transportation service
4. Banks act as a bridge between:
 - a) Producers and consumers
 - b) Government and citizens
 - c) Savers and borrowers
 - d) Importers and exporters
5. Which authority regulates and supervises banks in India?
 - a) SEBI
 - b) NABARD
 - c) RBI
 - d) SIDBI

B. State Whether the Following Statements are True or False

1. Banking is a service-oriented business.
2. Banks manufacture goods for sale to customers.

3. Public confidence is essential for the smooth functioning of banks.
4. Credit creation is one of the important functions of banking.
5. Modern banking is technology driven.
6. Financial inclusion means providing banking services only to urban customers.
7. Banks facilitate modern payment systems such as UPI and NEFT.
8. Banking activities involve various forms of risk.

C. Fill in the Blanks

1. The legal definition of banking is given under Section _____ of the Banking Regulation Act, 1949.
2. Banks act as financial _____ between depositors and borrowers.
3. The Reserve Bank of India is the _____ bank of the country.
4. The process by which banks increase the supply of money through lending is called _____.
5. Banking is based on public _____.
6. Providing banking facilities to all sections of society is known as financial ____

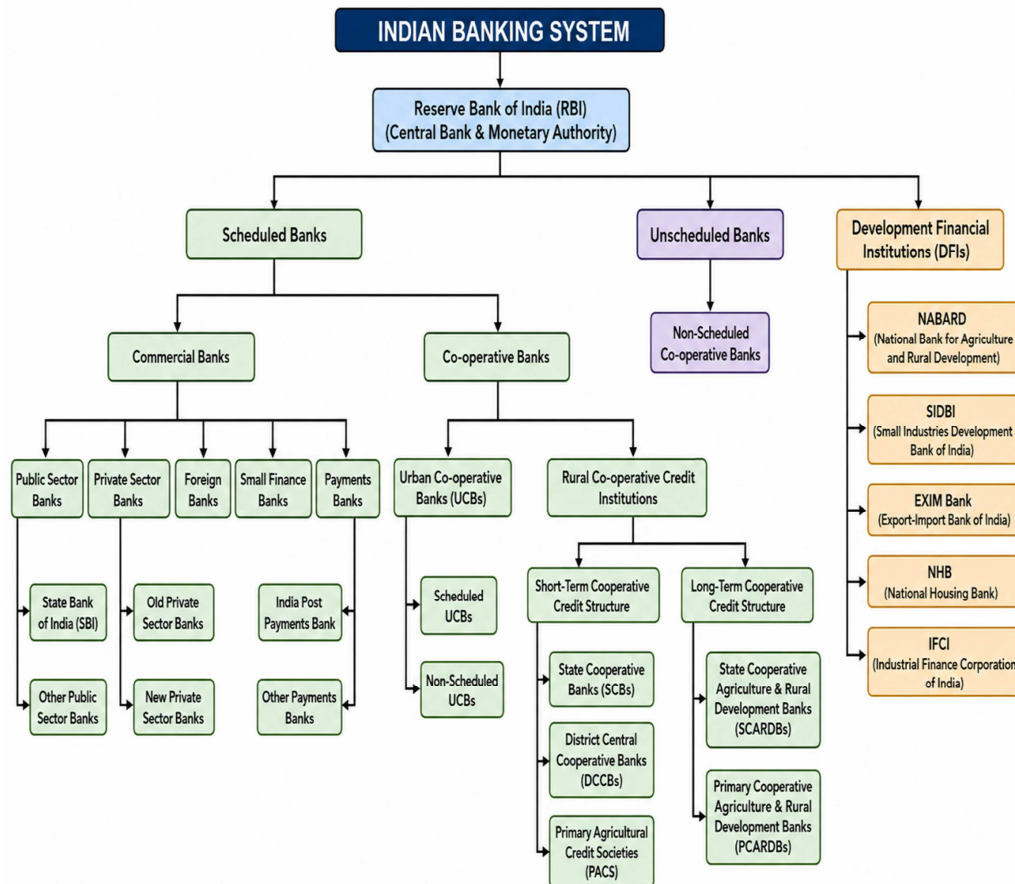
D. Match the Following

Group A	Group B
1. Dr. H.L. Hart	a. Public confidence
2. Crowther	b. Idle money for productive purposes
3. Sir John Paget	c. Acceptance of deposits and honouring cheques
4. Banking Regulation Act, 1949	d. Legal definition of banking
5. Banking System	e. Based on trust

1.2.2. Section – II

1.2.2.1. Types of Banks

The banking system is an essential component of a country's financial structure. Different types of banks have been established to meet the diverse financial requirements of individuals, businesses, industries, agriculture and governments. No single bank can satisfy all financial needs; therefore, various categories of banks operate with specific objectives and functions. The Indian banking system is one of the largest and most diversified banking systems in the world. It consists of several types of banks working together to promote economic growth, financial inclusion and financial stability. The major types of banks are discussed below.



1. Reserve Bank of India (RBI) – Central Bank of India : The Reserve Bank of India (RBI) is the central bank and apex monetary authority of India. It was established on 1 April 1935 and is responsible for regulating and supervising the country's entire banking and financial system. RBI issues and manages the Indian currency, controls the supply of money and credit in the economy, and formulates monetary policies to maintain price stability and economic growth. It acts as the banker, agent, and financial advisor to the Central and State Governments and also serves as the banker's bank by providing financial assistance and guidance to commercial banks. RBI regulates banking operations, manages foreign exchange reserves, promotes financial inclusion, and ensures the stability and smooth functioning of the Indian financial system. Through its various functions, RBI plays a vital role in maintaining public confidence in the banking sector and supporting the overall economic development of the country.

1.1. Objectives of the Reserve Bank of India (RBI)

- To maintain price stability in the economy.
- To regulate the supply of money and credit.
- To control inflation and support economic growth.
- To ensure the stability of the banking and financial system.
- To regulate and supervise commercial banks.
- To promote financial inclusion.
- To manage the country's foreign exchange reserves.
- To maintain public confidence in the banking sector.

1.2. Functions of the Reserve Bank of India (RBI)

1. Issue of Currency - RBI issues and manages Indian currency (except Rs.1 notes and coins) and ensures an adequate supply of clean and genuine currency.
2. Formulation of Monetary Policy - RBI formulates and implements monetary policy to maintain price stability, control inflation, and promote economic growth.

3. Control of Money and Credit - RBI regulates the supply of money and credit in the economy to maintain monetary stability.
4. Banker, Agent, and Financial Advisor to the Government - RBI acts as the banker, agent, and financial advisor to the Central and State Governments and manages government accounts and public debt.
5. Banker's Bank - RBI acts as the bank for commercial banks by maintaining their cash reserves, providing financial assistance, and serving as the lender of last resort.
6. Regulator and Supervisor of Banks - RBI regulates and supervises banks by granting licences, conducting inspections, and ensuring the safety and soundness of the banking system.
7. Management of Foreign Exchange - RBI manages India's foreign exchange reserves and regulates foreign exchange transactions to maintain exchange rate stability.
8. Promotion of Financial Inclusion - RBI promotes financial inclusion by encouraging banking services, digital payments, and financial literacy, especially in rural and underserved areas.
9. Maintenance of Financial Stability - RBI ensures the stability of the banking and financial system by monitoring financial institutions and maintaining public confidence.

2. Scheduled Banks : Scheduled Banks are those banks whose names are included in the Second Schedule of the Reserve Bank of India (RBI) Act, 1934. These banks fulfill the conditions prescribed by the RBI regarding capital, reserves, and operational standards. Scheduled Banks enjoy various facilities from the RBI, such as borrowing funds at the bank rate and access to clearing house facilities. They play a significant role in the Indian banking system by accepting deposits from the public, providing loans and advances, facilitating payments, and supporting economic development. Scheduled Banks include both Commercial Banks and Co-operative

Banks, and they operate under the supervision and regulation of the RBI to ensure the safety and stability of the banking system.

Scheduled Banks are divided into: A) Commercial Banks and B) Co-Operative Banks

A) Commercial Banks- Commercial Banks are financial institutions that accept deposits from the public and provide loans and advances for business, trade, industry, agriculture, and personal purposes. Their main objective is to earn profits while providing banking services to customers.

Commercial Banks are classified into the following categories:

1. Public Sector Banks (PSBs) -Public Sector Banks are banks in which the majority ownership is held by the Government of India, usually more than 50 percent of the total share capital. These banks are owned and controlled by the government and play an important role in economic development and financial inclusion. There are 12 Public Sector Banks working now in India such as Public Sector Banks include State Bank of India, Punjab National Bank, Bank of Baroda, Canara Bank, etc.

Features and Functions of Public sector Banks -

- Public Sector Banks are owned and controlled mainly by the government.
- Public Sector Banks provide banking services to all sections of society.
- Public Sector Banks offer loans for agriculture, education, housing, and business.
- Public Sector Banks help in implementing government schemes.
- Public Sector Banks have a wide branch network across rural and urban areas.
- Public Sector Banks encourage savings among people.
- Public Sector Banks contribute to the economic development of the country.

2. Private Sector Banks—These are commercial banks in which the majority of the ownership and shareholding is held by private individuals, companies, or institutions

rather than the government. These banks operate with the objective of providing efficient banking services while earning profits. Examples of Private Sector Banks include HDFC Bank, ICICI Bank, Axis Bank, and Kotak Mahindra Bank, etc.

Private banks are divided into - a) Old Private Sector Banks and b) New Private Sector Banks

- a) Old Private Sector Banks - These banks were established before the banking reforms and have been operating for many years.
- b) New Private Sector Banks - These banks were established after the banking sector reforms initiated by RBI in the 1990s.

Features and Functions of Private Sector Banks

- Private Sector Banks are managed by private shareholders.
- Private Sector Banks provide efficient and technology-driven banking services.
- Private Sector Banks offer internet banking, mobile banking, and digital payment facilities.
- Private Sector Banks provide loans to individuals and businesses.
- Private Sector Banks focus on customer satisfaction and quick service.
- Private Sector Banks contribute to economic growth through credit creation.
- Private Sector Banks encourage innovation in banking services.

3. Foreign Banks : Foreign Banks are banks that are incorporated and headquartered in another country but operate branches or offices in India. These banks provide banking and financial services to individuals, businesses, multinational companies, and international traders. Foreign Banks play an important role in facilitating international trade, foreign exchange transactions, and cross-border investments. They offer services such as accepting deposits, granting loans, trade finance, foreign currency exchange, remittance services, and investment banking. These banks bring advanced banking technology, global expertise, and international financial practices to the Indian banking sector. Although they are owned by foreign entities, they operate in India under the regulations and supervision of the Reserve Bank of India

(RBI). Foreign Banks help strengthen India's integration with the global financial system and contribute to the growth of international business and trade. Foreign Banks operating in India are HSBC Bank, Standard Chartered Bank, Citibank, and Deutsche Bank, etc.

4. Small Finance Banks : Small Finance Banks are specialized banks established by the Reserve Bank of India (RBI) to provide banking and financial services to small farmers, micro and small industries, street vendors, unorganized sector workers, small business units, and low-income households. Their primary objective is to promote financial inclusion by extending banking facilities to sections of society that have limited access to traditional banking services. Small Finance Banks accept deposits from the public and provide loans and advances, particularly to small borrowers and rural entrepreneurs. They help in promoting savings, encouraging entrepreneurship, supporting rural and semi-urban development, and reducing dependence on informal sources of finance such as moneylenders. These banks operate under the regulation and supervision of the RBI and play an important role in inclusive economic growth. AU Small Finance Bank, Equitas Small Finance Bank, Ujjivan Small Finance Bank, and Jana Small Finance Bank, etc. are operating in India as Small Finance Banks.

5. Payment Banks : Payment Banks are a special category of banks established by the Reserve Bank of India (RBI) with the objective of promoting financial inclusion and providing basic banking services to small customers, migrant workers, low-income households, and people in rural and remote areas. These banks can accept deposits from individuals and businesses up to the limit prescribed by the RBI, but they are not allowed to provide loans or issue credit cards. Payment Banks offer services such as savings accounts, current accounts, money transfers, mobile banking, internet banking, debit cards, and digital payment facilities. They play an important role in promoting cashless transactions, facilitating secure and quick fund transfers, and expanding access to banking services for underserved sections of society. By leveraging technology and digital platforms, Payment Banks contribute

significantly to the growth of India's digital economy and financial inclusion initiatives. Airtel Payment Bank is the first Payment Bank working as payment bank in India and later various banks started such as India Post Payment Bank, Fino Payment Bank, Jio Payment Bank, etc.

B. Co-operative Banks - Co-operative Banks are financial institutions owned and managed by their members and operate on the principle of mutual cooperation. Their main objective is to provide affordable banking and credit facilities to their members, especially farmers, small businesses, and local communities.

Co-operative Banks are broadly classified into -

Urban Co-operative Banks (UCBs) and Rural Co-operative Credit Institutions.

1. Urban Co-operative Banks (UCBs) - Urban Co-operative Banks mainly operate in urban and semi-urban areas. They provide banking services such as accepting deposits, granting loans, and encouraging savings among their members. These banks primarily serve small traders, self-employed individuals, salaried employees, and middle-income groups. They play an important role in meeting the financial needs of local communities and supporting local economic development. Urban Co-operative Banks are classified into **Scheduled UCBs** and **Non-Scheduled UCBs**.

2. Rural Co-operative Credit Institutions - Rural Co-operative Credit Institutions provide financial assistance and credit facilities to farmers and the rural population. Their main objective is to support agricultural activities and promote rural development. These institutions are divided into **Short-Term Co-operative Credit Structure** and **Long-Term Co-operative Credit Structure**.

I. Short-Term Co-operative Credit Structure

(a) **State Co-operative Banks (SCBs)** - State Co-operative Banks operate at the state level and serve as the apex institutions in the short-term co-operative credit system. They coordinate and supervise the activities of District Central Co-operative Banks and provide them with financial assistance. These banks play a crucial role in implementing rural credit policies and supporting agricultural financing across the state.

(b) District Central Co-operative Banks (DCCBs) - District Central Co-operative Banks operate at the district level and act as a link between State Co-operative Banks and Primary Agricultural Credit Societies. They provide loans and other banking services to farmers, co-operative societies, and rural customers. These banks help mobilize rural savings and contribute significantly to agricultural and rural development.

(c) Primary Agricultural Credit Societies (PACS) - Primary Agricultural Credit Societies operate at the village level and are the foundation of the co-operative credit structure. They provide short-term and medium-term loans directly to farmers for agricultural purposes. PACS also supply essential agricultural inputs such as seeds, fertilizers, and pesticides, helping farmers meet their financial and farming requirements while promoting rural development.

II. Long-Term Co-operative Credit Structure

(a) State Co-operative Agriculture and Rural Development Banks (SCARDBs) - State Co-operative Agriculture and Rural Development Banks provide long-term financial assistance for agricultural and rural development projects. They finance the activities such as irrigation projects, land development, farm modernization, and rural infrastructure development. These banks help to increase agricultural productivity and support long-term economic growth in rural areas.

(b) Primary Co-operative Agriculture and Rural Development Banks (PCARDBs) - Primary Co-operative Agriculture and Rural Development Banks provide long-term loans directly to farmers for agricultural development. They finance the purchase of agricultural machinery, equipment, and other capital-intensive investments. These banks also support land improvement projects and help farmers expand and modernize their agricultural operations, thereby promoting sustainable rural development.

3. Unscheduled Banks

Unscheduled Banks are banks whose names are not included in the Second Schedule of the Reserve Bank of India (RBI) Act, 1934. These banks are generally smaller in size and have limited operations compared to Scheduled Banks. They do not enjoy certain facilities provided by the RBI, such as borrowing and clearing house facilities available to Scheduled Banks. Unscheduled Banks usually serve specific local areas or communities and have a smaller branch network. Although their role in the banking system is limited, they help to meet the financial needs of local customers and contribute to the development of the areas they serve. Most Unscheduled Banks in India are Non-Scheduled Co-operative Banks.

4. Development Financial Institutions (DFIs)

Development Financial Institutions (DFIs) are specialized financial institutions established to provide long-term financial assistance for the development of important sectors of the economy. Their primary objective is to support economic growth by financing agriculture, industry, exports, housing, infrastructure, and small-scale enterprises. DFIs provide both financial and technical assistance, promote investment, generate employment opportunities, and contribute to national development. Unlike commercial banks, they focus mainly on long-term development projects rather than routine banking activities.

- a) NABARD (National Bank for Agriculture and Rural Development) - NABARD is the apex development financial institution responsible for promoting agriculture and rural development in India. It provides financial assistance and refinance facilities to rural banks, co-operative banks, and other rural financial institutions. NABARD supports farmers, rural entrepreneurs, self-help groups, and rural industries by facilitating credit and development programs. It also plays a significant role in strengthening rural infrastructure, improving agricultural productivity, and enhancing the overall rural economy.

- b) SIDBI (Small Industries Development Bank of India) - SIDBI is the principal financial institution established for the promotion, financing, and development of Micro, Small, and Medium Enterprises (MSMEs) in India. It provides financial assistance, refinance facilities, and various support services to small businesses and entrepreneurs. SIDBI encourages entrepreneurship, innovation, and industrial growth by helping MSMEs access credit and business development services. Through its activities, SIDBI contributes significantly to employment generation and economic development.
- c) EXIM Bank (Export-Import Bank of India) - EXIM Bank is a specialized financial institution established to promote and support India's international trade. It provides financial assistance to exporters and importers through loans, guarantees, and other trade-related services. EXIM Bank helps Indian businesses expand their presence in global markets by facilitating export and import transactions. It plays an important role in strengthening India's foreign trade relations and enhancing the country's competitiveness in international markets.
- d) NHB (National Housing Bank) - NHB is the apex financial institution for housing finance in India. It was established to promote and regulate housing finance activities and support the development of the housing sector. NHB provides refinance assistance to housing finance companies and financial institutions engaged in housing finance. It also encourages affordable housing projects and helps increase the availability of housing loans to individuals. Through its efforts, NHB contributes to the growth and development of the housing sector in India.
- e) IFCI (Industrial Finance Corporation of India) - IFCI is one of India's oldest development financial institutions established to provide long-term financial assistance to industrial and business enterprises. It supports industrial projects by providing loans, financial services, and project financing. IFCI plays a crucial role in promoting industrial growth, modernization, and infrastructure development. By assisting large-scale business enterprises and development

projects, IFCI contributes significantly to the economic development and industrial progress of the country.

The Indian Banking System is a well-organized structure headed by the RBI. It includes Scheduled Banks, Unscheduled Banks, and Development Financial Institutions. Commercial Banks provide general banking services, Co-operative Banks support local and agricultural communities, and Development Financial Institutions finance specific sectors for national development. Together, these institutions ensure smooth functioning of the economy, promote savings and investments, provide credit, and support the overall growth of India.

2.2.2. Ledger Accounts Generally Prepared by Banks

Banks conduct a large number of financial transactions every day, such as accepting deposits, granting loans, collecting cheques and making payments. To maintain proper records of these transactions, banks prepare various ledger accounts. A ledger account is a principal book of accounts in which transactions relating to a particular item are recorded systematically. These accounts help banks determine their financial position, profitability and compliance with statutory requirements. The important ledger accounts generally prepared by banks are explained below.

1. Cash Account - Cash Account is one of the most important accounts maintained by a bank. It records all cash receipts and cash payments made by the bank. Since banks deal with large volumes of cash transactions every day, proper maintenance of this account is essential. The account helps the bank know the amount of cash available at any point of time. It also assists in maintaining liquidity and meeting customer withdrawal requirements. Regular verification of cash balances helps prevent errors and fraud. Therefore, the Cash Account forms the foundation of banking operations. E.g. A customer deposits ₹20,000 in cash into his savings account. The amount is recorded on the receipt side of the Cash Account. Similarly, when another customer withdraws ₹5,000, it is recorded on the payment side.

2. Deposits Account - The Deposits Account records all deposits received from customers. Deposits may be in the form of savings deposits, current deposits, fixed deposits or recurring deposits. Since the bank is liable to repay these amounts to customers, deposits are treated as liabilities. This account helps the bank monitor the total funds collected from the public. Deposits are the primary source of funds for lending and investment activities. Proper maintenance of this account ensures accurate reporting of liabilities. Therefore, the Deposits Account is a vital ledger account in banking.

3. Loans and Advances Account - The Loans and Advances Account records all loans granted by the bank to customers. It includes housing loans, vehicle loans, educational loans, personal loans and business loans. Loans are considered assets because they generate interest income for the bank. This account helps the bank to track outstanding loan balances and repayments. It also assists in assessing the quality of loan portfolios and identifying non-performing assets. Proper maintenance of this account is important for profitability and risk management. Example: A bank grants a housing loan of ₹15,00,000 to a customer. The loan amount is recorded in the Loans and Advances Account.

4. Interest Received Account - The Interest Received Account records interest earned by the bank on loans, advances and investments. Interest income is one of the major source of revenue for banks. The account helps to determine the earnings generated from lending activities. At the end of the accounting period, the balance of this account is transferred to the Profit and Loss Account. Monitoring interest income helps evaluate the bank's financial performance. Therefore, it is an important revenue account. E.g. A borrower pays ₹12,000 as interest on a personal loan. The amount is credited to the Interest Received Account.

5. Interest Paid Account - The Interest Paid Account records the interest paid by the bank on deposits such as savings accounts, fixed deposits and recurring deposits. Since interest paid is an expense for the bank, it is debited to this account. The

account helps to determine the cost of funds mobilized from depositors. Banks aim to maintain a balance between interest paid and interest earned. Effective management of this account contributes to profitability. E.g. The bank pays ₹6,000 as annual interest on a customer's fixed deposit. The amount is recorded in the Interest Paid Account of the concerned bank.

6. Investment Account - Banks invest a portion of their funds in government securities, bonds, debentures and other approved investments. These investments provide additional income and ensure liquidity. The Investment Account records all such investment transactions. It helps banks monitor investment performance and comply with regulatory requirements. Proper investment management contributes to the safety and profitability of the bank. E.g. A bank purchases Government Securities worth ₹10,00,000. The transaction is recorded in the Investment Account.

7. Bills Discounted Account - The Bills Discounted Account records bills of exchange that are discounted by the bank before their maturity date. Through bill discounting, banks provide immediate funds to businesses and earn discount income. This account helps track discounted bills and related earnings. It is an important source of short-term finance for traders and business organizations. Proper maintenance ensures effective monitoring of outstanding bills. E.g. A trader discounts a bill of Rs.50,000 with the bank before maturity. The transaction is recorded in the Bills Discounted Account.

8. Bills for Collection Account - Banks often collect bills, drafts and cheques on behalf of customers. Such transactions are recorded in the Bills for Collection Account. In this case, the bank acts as an agent and not as the owner of the bill. The account helps monitor bills sent for collection until payment is received. This service provides convenience to customers and facilitates smooth business transactions. E.g. A customer deposits a bill of ₹30,000 for collection. The bank records the transaction in the Bills for Collection Account.

9. Branch Adjustment Account - Large banks operate through numerous branches across different locations. The Branch Adjustment Account records transactions between branches of the same bank. It helps reconcile inter-branch transfers and balances. Proper maintenance of this account ensures accuracy in consolidated financial statements. It also facilitates smooth coordination among branches. E.g. The Mumbai branch transfers Rs.2,00,000 to the Pune branch. The transaction is recorded through the Branch Adjustment Account.

10. Premises Account- The Premises Account records the cost of land, buildings and office premises owned by the bank. These assets are used for conducting banking operations and are shown as fixed assets in the Balance Sheet. The account helps determine the value of the bank's immovable property. Depreciation is charged on buildings wherever applicable. E.g. A bank purchases a new branch building for ₹2 Crore. The amount is recorded in the Premises Account.

11. Furniture and Fixtures Account - This account records the cost of furniture, counters, computers, cupboards, chairs and other office equipment used in banking operations. These items are essential for providing banking services efficiently. The account helps track the value of office assets and calculate depreciation. Proper maintenance ensures accurate reporting of fixed assets. E.g. The bank purchases office furniture worth Rs.1,50,000 for a new branch. The transaction is recorded in the Furniture and Fixtures Account.

12. Profit and Loss Account - The Profit and Loss Account summarizes all incomes and expenses of the bank during an accounting period. It helps determine whether the bank has earned a profit or incurred a loss. Interest income, commission income and investment income are credited, while salaries, rent and administrative expenses are debited. This account reflects the overall financial performance of the bank. E.g. A bank earns total income of Rs.50 Crore and incurs expenses of Rs.40 Crore. The resulting profit of Rs.10 Crore is shown in the Profit and Loss Account.

13. Reserve Fund Account - Banks transfer a portion of their profits to the Reserve Fund Account as required by law and prudent financial management. This reserve strengthens the financial position of the bank and provides protection against unforeseen losses. It enhances the confidence of depositors and investors. The account represents accumulated reserves created from profits. Example: A bank transfers ₹ 5 Crore from its annual profit to the Reserve Fund Account for future contingencies.

14. Suspense Account - The Suspense Account is a temporary account used when the exact nature of a transaction is not immediately known. Once the correct information becomes available, the amount is transferred to the appropriate account. This account helps maintain the continuity of accounting records and prevents delays in recording transactions. Example: A deposit of Rs.10,000 is received without proper details of the depositor. The amount is temporarily recorded in the Suspense Account until identification is completed.

15. Current Account Ledger

The Current Account Ledger records all transactions relating to customers maintaining current accounts. It includes deposits, withdrawals, cheque payments and fund transfers. This account helps monitor the activities of business customers and firms. Proper maintenance ensures accurate recording of account balances and transactions. E.g. A trading firm deposits Rs.2,00,000 and later issues cheques worth Rs.75,000. Both transactions are recorded in the Current Account Ledger.

16. Balance Sheet - The Balance Sheet is an important financial statement prepared by a bank at the end of every accounting year. It presents the financial position of the bank on a particular date by showing its assets, liabilities and capital. The Balance Sheet helps management, shareholders, depositors and regulatory authorities understand the financial strength and stability of the bank. On the liabilities side, it includes capital, reserves, deposits, borrowings and other obligations of the bank. On the assets side, it shows cash balances, investments, loans and advances, fixed assets

and other resources owned by the bank. The Balance Sheet is prepared according to the guidelines prescribed by banking regulations and accounting standards. Therefore, it provides a true and fair view of the financial position of the bank and serves as an important tool for financial analysis and decision-making.

Main Items Shown in a Bank's Balance Sheet

Liabilities – Share Capital, Reserves and Surplus, Deposits, Borrowings, Other Liabilities and Provisions

Assets -Cash in Hand and Balances with RBI, Balances with Other Banks, Investments, Loans and Advances, Fixed Assets (Premises, Furniture, Equipment, etc.), Other Assets, etc.

The Balance Sheet shows the financial position of the bank on a particular date. The left side represents the sources of funds, known as liabilities, which include share capital, reserves, deposits and borrowings. The right side represents the use of funds, known as assets, which include cash balances, investments, loans and advances, fixed assets and other assets. The total of both sides must always be equal, reflecting the accounting principle that $\text{Assets} = \text{Liabilities}$.

17. Share Capital Account - The Share Capital Account records the capital invested by shareholders in the bank as a permanent source of funds and is shown on the liabilities side of the Balance Sheet. It helps the bank expand its operations and maintain financial stability.

18. Borrowings Account - The Borrowings Account records funds borrowed by the bank from the central bank, other banks or financial institutions.

19. Commission and Brokerage Account - This account records income earned from services such as issuing demand drafts, bank guarantees, letters of credit and fund transfers. It is an important source of non-interest income for banks.

20. Bank Charges Account - The Bank Charges is one of the most important source of bank income. The Bank Charges Account records service charges collected from customers. These may include ATM charges, cheque book charges and account maintenance fees. It helps to increase the bank's income.

C. Fill in the Blanks

1. The names of Scheduled Banks are included in the ___ Schedule of the RBI Act, 1934.
2. The _____ is known as the Central Bank of India.
3. _____ Banks are owned and managed by their members.
4. _____ Bank promotes and finances MSMEs.
5. The account that records cash receipts and cash payments is called the _____ Account.
6. Interest paid on deposits is recorded in the _____ Account.
7. The _____ Account records investments made by banks in securities and bonds.
8. The _____ Account summarizes the incomes and expenses of a bank.
9. The financial position of a bank is shown through the _____.
10. Funds borrowed by a bank are recorded in the _____ Account.

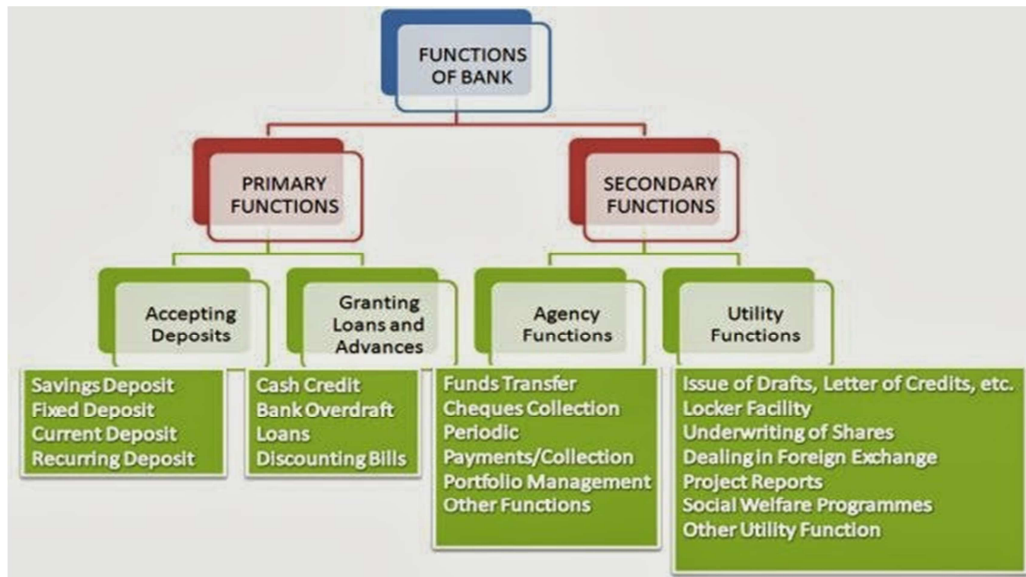
D. Match the Following

Group A	Group B
1. NABARD	a. Housing Finance
2. SIDBI	b. Agriculture and Rural Development
3. EXIM Bank	c. Promotion of MSMEs
4. NHB	d. International Trade
5. RBI	e. Central Bank of India

Group A	Group B
1. Cash Account	a. Records temporary unidentified transactions
2. Deposits Account	b. Records cash transactions
3. Suspense Account	c. Records customer deposits
4. Investment Account	d. Records investments made by banks
5. Profit and Loss Account	e. Determines profit or loss

2.3. Section – III

2.3.1.Functions of Banks



Banks are important financial institutions that perform various functions for individuals, businesses and society. They help people save money, obtain loans, transfer funds and conduct financial transactions safely. The functions performed by banks can be broadly divided into two categories: Primary Functions and Secondary Functions. Primary functions are the basic activities of banks, while secondary functions are additional services provided for the convenience of customers.

A. Primary Functions

Primary functions are the main activities for which banks are established. These functions include accepting deposits and granting loans and advances.

1. Accepting Deposits : Accepting deposits from the public is the most important function of a bank. As a matter of fact, the banking business has its origin in this function. People deposit their surplus money in banks for safety and convenience. Banks keep this money secure and pay interest on certain types of deposits. Deposits provide the necessary funds that banks use for lending and investment purposes. This

function encourages the habit of saving among people and helps in mobilizing financial resources. The types of deposits are as under.

Types of Deposits

a) Savings Deposit (Savings Bank Account) : A Savings Deposit is one of the most common types of bank deposits designed primarily for individuals who wish to save a part of their income for future needs. It encourages the habit of regular saving while ensuring the safety of money. Under this account, customers can deposit and withdraw money according to their requirements, subject to the rules of the bank. Banks pay interest on the balance maintained in the account, which helps depositors earn additional income on their savings. A savings account can be opened by salaried employees, students, professionals, pensioners and other individuals. Nowadays, banks provide various facilities with savings accounts such as ATM cards, debit cards, internet banking, mobile banking, cheque books and UPI services. Savings deposits play an important role in mobilizing small savings from the public and channelling them into productive economic activities through the banking system.

E.g. Mr. Raj, a school teacher, deposits ₹3,000 every month from his salary into his savings account. He earns interest on the balance and uses the account for paying utility bills, transferring funds and meeting emergency expenses whenever required.

b) Fixed Deposit (FD) : A Fixed Deposit is a type of bank deposit in which a customer deposits a lump sum amount with a bank for a fixed period of time, such as six months, one year, three years or even longer. The amount deposited remains with the bank until the maturity date, and in return, the bank pays a higher rate of interest compared to a savings account. Fixed Deposits are considered one of the safest investment options because they provide assured returns and involve very low risk. Customers can choose the deposit period according to their financial goals and needs. Although the amount is generally withdrawn after maturity, banks may allow premature withdrawal subject to certain conditions and penalties. Fixed Deposits are suitable for individuals who want to earn stable income on their surplus funds while

ensuring the safety of their capital. These deposits help banks mobilize long-term funds, which can be used for lending and investment purposes.

E.g. Mrs. Priya deposits Rs.2,00,000 in a Fixed Deposit account for a period of three years at an interest rate offered by the bank. At the end of the maturity period, she receives the original amount along with the accumulated interest, helping her to achieve her savings objective safely and securely.

c) Current Deposit (Current Account) : A Current Deposit, commonly known as a Current Account, is a type of bank account mainly designed for businessmen, traders, firms, companies and other organizations that carry out a large number of financial transactions regularly. This account allows customers to deposit and withdraw money any number of times during banking hours without significant restrictions. Unlike savings accounts, current accounts generally do not earn interest because they provide greater flexibility and liquidity to account holders. The main objective of a current account is to facilitate smooth and uninterrupted business transactions. Banks offer various facilities with current accounts such as cheque books, overdraft facilities, internet banking, mobile banking and fund transfer services. Current deposits help businesses manage their day-to-day financial operations efficiently and ensure easy access to funds whenever required. Therefore, current accounts play an important role in supporting trade, commerce and business activities.

E.g. M/s ABC Traders maintains a current account with a bank. The firm receives payments from customers and makes payments to suppliers several times a day through cheques, online transfers and other banking channels. The current account enables the business to conduct these transactions conveniently without any restriction on the number of deposits and withdrawals.

d) Recurring Deposit (RD) : A Recurring Deposit (RD) is a type of deposit account that enables individuals to save a fixed amount of money regularly every month for a specified period. It is specially designed for people who may not have a large lump sum amount to invest but wish to develop a disciplined habit of saving. Under this scheme, the depositor agrees to deposit a predetermined amount every month, and

the bank pays interest on the accumulated deposits. The deposit period may range from six months to ten years, depending on the bank's rules. At the end of the maturity period, the depositor receives the total amount deposited along with the interest earned. Recurring Deposits are suitable for salaried employees, students and small savers who want to build a fund for future needs such as education, marriage, purchasing assets or meeting emergencies. This type of deposit provides both safety and assured returns, making it a popular savings option among individuals.

E.g. Mr. Amit, a salaried employee, deposits Rs.2,000 every month in a Recurring Deposit account for five years. At the end of the maturity period, he receives the total amount deposited along with interest, which helps him arrange funds for his daughter's higher education.

2. Granting Loans and Advances

After collecting deposits, banks lend money to individuals, businesses and institutions. Lending is one of the major sources of income for banks because interest is charged on loans. Banks provide different forms of credit according to customers' needs. Loans help in business expansion, agricultural development, housing construction and educational advancement.

Types of Loans and Advances

a) Cash Credit (CC) : Cash Credit is a short-term loan facility provided by banks mainly to businessmen, traders and business organizations to meet their working capital requirements. Under this arrangement, the bank sanctions a specific credit limit to the borrower based on the value of securities or assets pledged as collateral. The borrower can withdraw money from the cash credit account whenever funds are required, up to the approved limit. Interest is charged only on the amount actually utilized and not on the entire sanctioned limit, making it a flexible and economical source of finance. This facility helps businesses manage day-to-day expenses such as purchasing raw materials, paying wages and meeting operational costs. Cash credit can be availed repeatedly within the sanctioned limit during the agreed period.

Therefore, it is one of the most popular forms of bank finance for business enterprises.

E.g. M/s XYZ Traders obtains a cash credit limit of Rs.10,00,000 from a bank against its stock of goods. During a particular month, the firm utilizes only Rs.4,00,000 for purchasing inventory. The bank charges interest only on Rs.4,00,000 and not on the entire sanctioned limit of Rs.10,00,000. This helps the business meet its working capital needs efficiently while reducing interest costs.

b) Bank Overdraft : A Bank Overdraft is a credit facility provided by banks that allows a customer to withdraw more money than the balance available in his or her current account, up to a predetermined limit approved by the bank. This facility is generally granted to reliable customers, business firms and current account holders to meet short-term financial needs. An overdraft helps customers manage temporary shortages of funds without interrupting their business activities. Interest is charged only on the amount overdrawn and for the period for which the facility is utilized. The overdraft limit is determined by the bank based on the customer's financial position, creditworthiness and relationship with the bank. This facility provides flexibility and ensures that urgent payments can be made even when sufficient funds are not available in the account. Therefore, an overdraft is considered a convenient source of short-term finance for businesses and individuals.

E.g. Mr. Rahul maintains a current account with a bank and has an overdraft limit of Rs. 1,00,000. Although his account balance is only Rs.20,000, he issues a cheque for Rs.60,000 to a supplier. The bank honours the cheque by allowing him to overdraw Rs.40,000 from his account. Interest is charged only on the overdraft amount of Rs.40,000 for the period it remains unpaid.

c) Loans : A Loan is a financial facility provided by a bank in which a specific amount of money is advanced to an individual, business, institution or organization for a particular purpose and for a specified period. The borrower agrees to repay the loan amount along with interest in regular instalments or as per the terms agreed with the bank. Banks provide different types of loans such as housing loans, education loans, vehicle loans, personal loans,

agricultural loans and business loans. Before granting a loan, the bank carefully evaluates the borrower's income, repayment capacity, credit history and the purpose of the loan. Loans help individuals fulfill their personal needs and assist businesses in expanding their operations. Since interest earned on loans is a major source of income for banks, lending is one of the most important functions of banking business. Thus, loans contribute significantly to economic growth and development by providing financial support to various sectors of the economy.

E.g. Mr. Suresh wishes to purchase a house worth Rs.40,00,000 but does not have sufficient funds. He approaches a bank and obtains a housing loan of Rs.30,00,000. The bank sanctions the loan after verifying his income and repayment capacity. Mr. Suresh repays the loan in monthly instalments over a period of 20 years along with interest. This loan enables him to own a house while allowing the bank to earn interest income.

d) Discounting of Bills : Discounting of Bills is a short-term credit facility provided by banks to business firms and traders. Under this facility, a bank purchases a bill of exchange before its maturity date and provides immediate funds to the holder after deducting a certain amount known as a discount. The bank collects the full amount of the bill from the drawee on the due date and earns income in the form of discount charges. This facility helps businesses obtain quick cash without waiting for the bill's maturity period. It improves the liquidity position of traders and enables them to continue their business operations smoothly. Banks carefully examine the credibility of the parties involved before discounting a bill. Therefore, bill discounting is an important source of short-term finance for the business community and a profitable activity for banks.

E.g. M/s ABC Enterprises sells goods worth Rs.1,00,000 to M/s XYZ Traders on credit and receives a bill of exchange payable after three months. However, ABC Enterprises requires immediate funds for business purposes. It approaches the bank and gets the bill discounted. The bank deducts Rs.2,000 as discount charges and immediately pays Rs.98,000 to ABC Enterprises. On the maturity date, the bank collects the full amount of Rs. 1,00,000 from XYZ Traders. Thus, the business

receives immediate cash, while the bank earns income through the discounting process.

B) Secondary Functions of Banks

Secondary functions are additional services provided by banks for the convenience of customers. These functions are more in the nature of services. These services are undertaken by the banks with a view to increase its utility to its customers and to the community in general. These are divided into Agency Functions and Utility Functions.

1. Agency Functions/Services : Bank acts as a special agent of its customers and performs a number of functions for and on behalf of its customers. The bank renders the following services in the capacity of an agent of its customers.

a) Transfer of Funds – Transfer of Funds is an important agency function of a bank through which money can be transferred from one person, account or place to another quickly, safely and conveniently. Banks provide various methods for transferring funds, such as NEFT (National Electronic Funds Transfer), RTGS (Real Time Gross Settlement), IMPS (Immediate Payment Service), UPI (Unified Payments Interface), demand drafts and banker's cheques. This facility eliminates the need to carry cash and reduces the risk of loss or theft. Fund transfer services help individuals, businesses and organizations make payments efficiently and on time. Modern banking technology has made fund transfers faster, allowing money to be transferred within minutes or even seconds. Therefore, the transfer of funds function plays a vital role in facilitating financial transactions and supporting economic activities.

E.g. Mrs. Anita lives in Kolhapur, while her son studies in Pune. Every month, she transfers Rs.10,000 to her son's bank account through UPI using her mobile banking application. The amount is credited instantly to her son's account without the need to send cash physically. This enables quick, secure and convenient transfer of money from one place to another through banking channels.

b) Collection of Cheques : Collection of Cheques is an important agency function performed by banks on behalf of their customers. When a customer receives a cheque from another person or organization, the bank collects the cheque amount from the bank on which it is drawn and credits the proceeds to the customer's account. This service saves customers from the inconvenience of personally visiting the payer's bank for collection. Banks collect both local cheques and outstation cheques through established banking channels and clearing systems. The collection process ensures safe, efficient and timely realization of payments. With the advancement of technology, cheque collection has become faster through systems such as Cheque Truncation System (CTS). Thus, the collection of cheques facilitates smooth financial transactions and provides convenience to customers.

E.g. Mr. Raj receives a cheque of Rs.25,000 from a customer for services rendered. Instead of visiting the payer's bank, he deposits the cheque in his own bank account. The bank sends the cheque for clearing, collects the amount from the payer's bank and credits Rs.25,000 to Mr. Raj's account. This service enables him to receive payment safely and conveniently through the banking system.

c) Periodic Payments and Collections : Periodic Payments and Collections is an important agency function performed by banks on behalf of their customers. Under this service, banks make regular payments and collect recurring amounts according to the instructions given by customers. Customers can authorize the bank to pay expenses such as electricity bills, telephone bills, water charges, insurance premiums, loan instalments and subscription fees automatically on specified dates. Similarly, banks also collect income such as dividends on shares, interest on securities, rent and pension payments on behalf of customers and credit the amounts to their accounts. This service saves time and effort, ensures timely payments and helps customers avoid penalties due to delayed payments. It also provides convenience by reducing the need for customers to personally handle routine financial transactions. Therefore, periodic payments and collections enhance the efficiency and reliability of banking services.

E.g. Mr. Amit has instructed his bank to automatically pay his monthly electricity bill and insurance premium from his savings account. At the same time, the bank collects the dividend earned on his shares and credits it directly to his account. As a result, all his regular payments and collections are managed efficiently without the need for manual intervention, saving both time and effort.

d) Portfolio Management : Portfolio Management is an important agency function performed by banks on behalf of their customers. Under this service, banks assist customers in managing their investments in a systematic and efficient manner. A portfolio refers to a collection of financial assets such as shares, debentures, bonds, mutual funds, government securities and other investment instruments. Banks provide professional advice regarding investment decisions based on the customer's financial goals, income level and risk-bearing capacity. They help customers select suitable investment options, monitor investment performance and make necessary changes to maximize returns. Portfolio management enables investors to diversify their investments, reduce risks and achieve better financial planning. Thus, this service helps customers manage their wealth effectively and make informed investment decisions.

E.g. Mrs. Meera, a retired government employee, has Rs.10,00,000 available for investment. She approaches her bank for financial guidance. After assessing her financial needs and risk tolerance, the bank suggests investing a portion of the amount in fixed deposits for safety, government bonds for stable income and mutual funds for long-term growth. The bank regularly reviews the performance of these investments and advises her on necessary changes. As a result, Mrs. Meera earns regular income while maintaining the safety and growth of her savings.

e) Other Agency Services : Apart from the major agency functions, banks also provide several other agency services to their customers. In these services, banks act as representatives or agents and perform financial and legal duties on behalf of customers. Banks may act as trustees, executors, administrators, attorneys and financial advisors according to the instructions or legal authority given by customers.

As trustees, banks manage trust properties and funds for the benefit of beneficiaries. As executors, they carry out the wishes mentioned in a deceased person's will. Banks may also collect income, manage investments and handle various financial matters on behalf of customers. These services provide professional management, convenience and security, especially for individuals who may not have the time or expertise to manage such responsibilities themselves. Therefore, other agency services enhance the usefulness and reliability of banking institutions.

E.g. Mr. Sharma creates an educational trust to provide scholarships to deserving students and appoints a bank as the trustee. The bank manages the trust funds, invests the money safely, collects income from investments and distributes scholarships according to the terms of the trust deed. Similarly, if a customer appoints a bank as an executor of a will, the bank ensures that the assets of the deceased person are distributed among the beneficiaries as specified. Thus, banks perform important agency services that help customers manage their financial and legal affairs efficiently.

2. Utility Functions

Utility functions are services provided by banks to increase customer convenience and support economic activities.

a) Issue of Drafts and Letters of Credit : The Issue of Drafts and Letters of Credit is an important utility function performed by banks to facilitate secure financial transactions and business activities. A Demand Draft is a financial instrument issued by a bank that guarantees payment of a specified amount to a particular person or organization. It is considered a safe mode of payment because the amount is paid in advance by the purchaser to the bank. On the other hand, a Letter of Credit (LC) is a document issued by a bank on behalf of a buyer, assuring the seller that payment will be made if the terms and conditions mentioned in the letter are fulfilled. Letters of Credit are widely used in domestic and international trade because they create trust between buyers and sellers. These facilities reduce the risk of non-payment and

promote smooth commercial transactions. Therefore, the issue of drafts and letters of credit plays a significant role in supporting trade and business activities.

E.g. A student seeking admission to a university in another city may obtain a Demand Draft of Rs.50,000 from a bank to pay the admission fees securely. Similarly, an Indian company imports machinery from Germany. The German exporter wants assurance of payment before shipping the goods. The Indian company requests its bank to issue a Letter of Credit in favour of the exporter. The bank guarantees payment once the exporter submits the required shipping documents. This arrangement builds confidence between both parties and ensures the successful completion of the international trade transaction.

b) Locker Facility : Banks provide lockers for the safe custody of jewellery, documents and other valuables. Under this facility, banks provide secure lockers of different sizes on rent, where customers can store valuable items such as gold ornaments/jewellery, important documents, property papers, share certificates, wills and other precious articles. The lockers are kept in a highly secure area of the bank and can be accessed only by the customer using a special key or authorized access system. This facility protects valuables from theft, loss, fire and other unforeseen risks. Customers can access their lockers during banking hours as per the bank's rules and regulations. **E.g.** A family keeps gold ornaments and property documents in a bank locker.

c) Underwriting of Shares : Underwriting of Shares is an important utility function performed by banks, particularly merchant banks and investment banking divisions. Under this service, a bank gives an assurance to a company that it will subscribe to the shares, debentures or securities that remain unsold during a public issue. In other words, the bank guarantees that the company will receive the required amount of capital even if the public does not subscribe to all the securities offered. This service increases the confidence of investors and helps companies raise funds smoothly from the capital market. Banks charge a commission or underwriting fee for providing this guarantee. Underwriting reduces the financial risk faced by companies and

contributes to the successful issue of securities. Therefore, it plays an important role in capital formation and industrial development.

E.g. ABC Ltd. plans to raise Rs.50 crore by issuing shares to the public. To ensure the success of the issue, the company enters into an underwriting agreement with a bank. Suppose the public subscribes to shares worth only ₹40 crore, leaving Rs.10 crore worth of shares unsubscribed. As per the underwriting agreement, the bank purchases the remaining Rs.10 crore worth of shares. Thus, ABC Ltd. receives the full Rs.50 crore required for its project, while the bank earns an underwriting commission for providing this service. This arrangement helps the company raise capital confidently and ensures the success of the share issue.

d) Dealing in Foreign Exchange : Dealing in Foreign Exchange is an important utility function performed by banks to facilitate international trade, travel and financial transactions. Foreign exchange refers to the conversion of one country's currency into another country's currency. Banks buy and sell foreign currencies such as US Dollars, Euros, British Pounds, Japanese Yen and other international currencies on behalf of customers. This service is essential for importers, exporters, students studying abroad, tourists and individuals receiving money from foreign countries. Banks also assist in international remittances, foreign currency accounts and foreign trade payments. By providing foreign exchange services, banks help promote international business and strengthen economic relations between countries. Therefore, dealing in foreign exchange is a vital function of modern banking institutions.

E.g.Mr. Rahul receives admission to a university in the United States for higher education. To pay his tuition fees and meet living expenses, he needs US Dollars instead of Indian Rupees. He approaches his bank and exchanges Indian Rupees for US Dollars at the prevailing exchange rate. Similarly, an Indian exporter who sells goods to a customer in the United Kingdom receives payment in British Pounds through his bank. The bank converts the foreign currency into Indian Rupees and credits the amount to the exporter's account. Thus, banks facilitate smooth international transactions through foreign exchange services.

e) Preparation of Project Reports : Preparation of Project Reports is an important utility service provided by banks, especially to entrepreneurs, small business owners and individuals who wish to start new business ventures. A project report is a detailed document that explains the objectives, financial requirements, expected costs, profitability and feasibility of a proposed project. Banks guide customers in preparing well-structured project reports that can be used for obtaining loans and financial assistance. Through this service, banks help entrepreneurs assess the viability of their business ideas and estimate future income and expenses. A properly prepared project report assists both the borrower and the bank in making informed financial decisions. It also helps in evaluating the technical, financial and economic aspects of a project before investing funds. Therefore, the preparation of project reports contributes significantly to the successful establishment and growth of business enterprises.

E.g.Mr. Rohan plans to start a dairy farming business but is unsure about the investment required and the expected returns. He approaches a bank for financial assistance. The bank helps him prepare a detailed project report that includes the cost of purchasing cattle, construction of sheds, feed expenses, expected milk production, projected income and repayment schedule of the loan. Based on this report, the bank evaluates the feasibility of the project and sanctions the required loan. As a result, Mr. Rohan is able to start his business successfully with proper financial planning and guidance.

f) Social Welfare Programmes : Social Welfare Programmes are an important utility function performed by banks in collaboration with the government and other public institutions. Banks actively participate in various schemes and programmes aimed at improving the economic and social well-being of people, especially those belonging to weaker and underprivileged sections of society. Through these programmes, banks provide access to savings accounts, loans, insurance facilities, pension schemes and direct benefit transfers. Banks also help in implementing government initiatives related to financial inclusion, rural development, self-employment and poverty reduction. These programmes ensure that financial services

reach every section of society, including people living in remote and rural areas. **E.g.** Government welfare benefits are directly transferred to beneficiaries' bank accounts.

g) Other Utility Services : Apart from the major utility functions, banks provide several other services for the convenience and benefit of their customers. These services include Automated Teller Machine (ATM) facilities, debit cards, credit cards, internet banking, mobile banking, SMS banking, safe deposit lockers, electronic fund transfer services and digital payment facilities. Banks also provide services such as issuing travellers' cheques, banker's cheques and financial advisory services. These facilities help customers perform banking transactions quickly, safely and conveniently without frequently visiting the bank branch.

Banks perform a variety of functions that support individuals, businesses and the economy. Their primary functions include accepting deposits and granting loans, while secondary functions consist of agency and utility services. Through these activities, banks promote savings, facilitate investment, encourage trade and contribute significantly to economic development.

Check Your Progress –3

A. Choose the Correct Answer

1. Which of the following is the primary function of a bank?
 - a) Underwriting of shares
 - b) Accepting deposits
 - c) Portfolio management
 - d) Locker facility
2. Which type of deposit is mainly designed for businessmen and firms?
 - a) Savings Deposit
 - b) Fixed Deposit
 - c) Current Deposit
 - d) Recurring Deposit
3. In which type of deposit does a customer deposit a fixed amount regularly for a specified period?
 - a) Savings Deposit
 - b) Fixed Deposit
 - c) Current Deposit
 - d) Recurring Deposit

4. Which of the following is a short-term credit facility granted mainly to businessmen against security?
- a) Housing Loan
 - b) Cash Credit
 - c) Education Loan
 - d) Term Loan
5. Under an overdraft facility, a customer can:
- a) Withdraw only the available balance
 - b) Withdraw beyond the available balance up to a sanctioned limit
 - c) Obtain only long-term loans
 - d) Withdraw fixed deposits without maturity
6. Which agency function involves collecting cheques on behalf of customers?
- a) Portfolio Management
 - b) Collection of Cheques
 - c) Underwriting of Shares
 - d) Locker Facility
7. Which utility service provides safe custody of jewellery and important documents?
- a) Transfer of Funds
 - b) Locker Facility
 - c) Collection of Bills
 - d) Foreign Exchange
8. Which banking service facilitates the conversion of one country's currency into another?
- a) Portfolio Management
 - b) Underwriting of Shares
 - c) Foreign Exchange Service
 - d) Periodic Collections
9. Letters of Credit are mainly used in:
- a) Agricultural activities
 - b) International and domestic trade transactions
 - c) Insurance business
 - d) Tax collection
10. Which of the following is a utility function of banks?
- a) Accepting Deposits
 - b) Granting Loans
 - c) Dealing in Foreign Exchange
 - d) Discounting Bills

B. State Whether the Following Statements are True or False.

1. Accepting deposits is one of the primary functions of banks.
2. Current Accounts generally earn interest on deposits.
3. Cash Credit is mainly granted to meet working capital requirements.
4. Banks act as agents while collecting cheques for customers.
5. Underwriting helps companies raise capital from the public.
6. Portfolio Management helps customers manage their investments effectively.
7. Social Welfare Programmes contribute to financial inclusion.

C. Fill in the Blanks

1. The two broad categories of bank functions are _____ and _____ functions.
2. A _____ Deposit encourages the habit of regular saving among individuals.
3. A _____ Deposit is suitable for businessmen who conduct frequent transactions.
4. _____ is a short-term credit facility provided against pledged securities.
5. The facility that allows withdrawal beyond the available balance is called _____.
6. A _____ provides assurance of payment in trade transactions.
7. The service of managing customers' investments is called _____ Management.
8. The facility provided for the safe custody of valuables is known as _____ Facility.
9. Government benefits transferred directly to beneficiaries' accounts promote financial _____.

D. Match the Following

Group A	Group B
1. Savings Deposit	a. Business transactions
2. Current Deposit	b. Regular savings
3. Fixed Deposit	c. Lump-sum investment for a fixed period
4. Recurring Deposit	d. Monthly savings
5. Overdraft	e. Withdrawal beyond account balance

Group A	Group B
1. Transfer of Funds	a. Safe custody of valuables
2. Collection of Cheques	b. Investment advisory service
3. Portfolio Management	c. Collection service for customers
4. Locker Facility	d. Movement of money from one account/place to another
5. Underwriting of Shares	e. Assurance of subscription to securities

1.3. Summary

Banks are among the most important financial institutions in a modern economy. They play a vital role in mobilizing savings, creating credit, facilitating payments, and promoting economic growth. This Unit explained the concept and meaning of banking through various definitions given by eminent scholars and the legal definition provided under the Banking Regulation Act, 1949. It also discussed the nature and characteristics of banking, highlighting that banking is a service-oriented, technology-driven, and highly regulated business based on public confidence.

The Unit further examined the different types of banks operating in India, including the Reserve Bank of India, Scheduled and Unscheduled Banks, Commercial Banks, Co-operative Banks, and Development Financial Institutions. The functions performed by these institutions and their contribution to the financial system were also discussed. In addition, the Unit described the various ledger accounts generally maintained by banks, such as Cash Account, Deposits Account, Loans and Advances Account, Investment Account, Profit and Loss Account, Balance Sheet, and other important accounts used for recording and reporting banking transactions.

Finally, the Unit explained the functions of banks, which are broadly classified into primary and secondary functions. Primary functions include accepting deposits and granting loans and advances, while secondary functions consist of agency services and utility services. Through these activities, banks encourage

savings, provide financial assistance, facilitate trade and commerce, support investment, promote financial inclusion, and contribute significantly to the economic and social development of the country. Thus, banks serve as the backbone of the financial system and play a crucial role in ensuring the efficient functioning of the economy.

1.4 Glossary

Bank: A financial institution that accepts deposits from the public and utilizes them for lending and investment purposes.

Banking: The business of accepting deposits from the public for the purpose of lending or investment, repayable on demand or otherwise.

Deposit: Money placed by customers with a bank for safekeeping and earning returns.

Savings Deposit: A deposit account designed to encourage regular savings among individuals while providing interest on the balance maintained.

Current Deposit (Current Account): A deposit account mainly meant for businessmen and firms that permits frequent transactions and generally does not provide interest.

Fixed Deposit (FD): A deposit in which a lump sum amount is invested with a bank for a fixed period at a predetermined rate of interest.

Recurring Deposit (RD): A deposit scheme under which a customer deposits a fixed amount regularly for a specified period to accumulate savings.

Credit: Financial assistance provided by banks to borrowers in the form of loans and advances.

Credit Creation: The process by which banks increase the money supply by granting loans and advances.

Cash Credit: A short-term credit facility granted mainly to business enterprises to meet their working capital requirements.

Overdraft: A facility allowing customers to withdraw money beyond the balance available in their current accounts up to an approved limit.

Bill Discounting: A credit facility under which banks purchase bills of exchange before maturity after deducting discount charges.

Financial Intermediary: An institution that channels funds from savers to borrowers.

Liquidity: The ability of a bank to meet its financial obligations and withdrawal demands promptly.

Ledger Account: An account maintained to systematically record and classify financial transactions.

Balance Sheet: A financial statement showing the assets, liabilities and capital position of a bank on a particular date.

Profit and Loss Account: An account that summarizes the income and expenses of a bank during an accounting period to determine profit or loss.

Reserve Fund: Funds set aside out of profits to strengthen the financial position of the bank and meet future contingencies.

Suspense Account: A temporary account used to record transactions whose exact nature is not immediately known.

Loans and Advances: Funds provided by banks to individuals, businesses and institutions with an obligation of repayment along with interest.

Investment Account: An account recording investments made by banks in government securities, bonds and other approved instruments.

Reserve Bank of India (RBI): The Central Bank of India responsible for regulating and supervising the banking system and implementing monetary policy.

Scheduled Banks: Banks included in the Second Schedule of the Reserve Bank of India Act, 1934.

Commercial Banks: Banks engaged in accepting deposits and providing loans and other banking services to the public.

Co-operative Banks: Banks organized and managed on the principle of mutual cooperation for the benefit of their members.

Development Financial Institutions (DFIs): Specialized institutions established to provide financial assistance for the development of specific sectors of the economy.

Agency Functions: Services performed by banks on behalf of customers, such as collection of cheques and transfer of funds.

Utility Functions: Additional services provided by banks for customer convenience, such as locker facilities and foreign exchange services.

Transfer of Funds: The movement of money from one account, person or place to another through banking channels.

Portfolio Management: Professional management of customers' investments to achieve financial objectives while managing risk.

Letter of Credit (LC): A document issued by a bank guaranteeing payment to a seller on behalf of a buyer, subject to specified conditions.

Demand Draft (DD): A negotiable instrument issued by a bank guaranteeing payment of a specified amount to a designated person or institution.

Foreign Exchange: The conversion and exchange of one country's currency into another country's currency.

Underwriting: An arrangement whereby a bank guarantees subscription to securities issued by a company.

Financial Inclusion: The process of ensuring access to affordable financial services for all sections of society.

Digital Banking: The delivery of banking services through electronic platforms such as internet banking and mobile banking.

UPI (Unified Payments Interface): A real-time digital payment system that enables instant transfer of funds between bank accounts through mobile devices.

1.5. Answers to Check Your progress

Answers to Check Your Progress – 1

A. Choose the Correct Answer

1. (d) Definition under Section 5(b) of the Banking Regulation Act, 1949
2. (b) Dealing in money and credit
3. 3. (b) Service-oriented activity
4. (c) Savers and borrowers
5. (c) RBI

B. True or False

- | | |
|---------|----------|
| 1. True | 2. False |
| 3. True | 4. True |
| 5. True | 6. False |
| 7. True | 8. True |

C. Fill in the Blanks

- | | |
|---------------|--------------------|
| 1. 5(b) | 2. Intermediaries |
| 3. Central | 4. Credit creation |
| 5. Confidence | 6. Inclusion |
| 7. Liquidity | 8. Mobile |

D. Match the Following

1. Dr. H.L. Hart – (c) Acceptance of deposits and honouring cheques
2. Crowther – (d) Idle money for productive purposes
3. Sir John Paget – (e) Operational characteristics of banking
4. Banking Regulation Act, 1949 – (a) Legal definition of banking
5. Banking System – (b) Based on trust

Answers to Check Your Progress – 2

A. Choose the Correct Answer

1. (b) 1935
2. (c) Second Schedule of the RBI Act, 1934
3. (d) State Bank of India

4. (c) NABARD
5. (c) Loans and Advances Account
6. (b) Suspense Account
7. (c) Interest Received Account
8. (b) HSBC

B. True or False

- | | |
|----------|----------|
| 1. True | 2. True |
| 3. False | 4. False |
| 5. True | 6. True |
| 7. True | |

C. Fill in the Blanks

- | | |
|------------------|--------------------------------|
| 1. Second | 2. Reserve Bank of India (RBI) |
| 3. Co-operative | 4. SIDBI |
| 5. Cash | 6. Interest Paid |
| 7. Investment | 8. Profit and Loss |
| 9. Balance Sheet | 10. Borrowings |

D. Match the Following - I

1. NABARD – (b) Agriculture and Rural Development
2. SIDBI – (c) Promotion of MSMEs
3. EXIM Bank – (d) International Trade
4. NHB – (e) Housing Finance
5. RBI – (a) Central Bank of India

D. Match the Following – II

1. Cash Account – (b) Records cash transactions
2. Deposits Account – (c) Records customer deposits
3. Suspense Account – (a) Records temporary unidentified transactions
4. Investment Account – (d) Records investments made by banks
5. Profit and Loss Account – (e) Determines profit or loss

Answers to Check Your Progress – 3

A. Choose the Correct Answer

1. (b) Accepting deposits
2. (c) Current Deposit
3. (d) Recurring Deposit
4. (b) Cash Credit
5. (b) Withdraw beyond the available balance up to a sanctioned limit
6. (b) Collection of Cheques
7. (b) Locker Facility
8. (c) Foreign Exchange Service
9. (b) International and domestic trade transactions
10. (c) Dealing in Foreign Exchange

B. True or False

1. True
2. False
3. True
4. True
5. True
6. True
7. True

C. Fill in the Blanks

1. Primary; Secondary
2. Savings
3. Current
4. Cash Credit
5. Overdraft
6. Letter of Credit
7. Portfolio
8. Locker
9. Inclusion

D. Match the Following

Match the Following – I

1. Savings Deposit – **(b) Regular savings**
2. Current Deposit – **(a) Business transactions**
3. Fixed Deposit – **(c) Lump-sum investment for a fixed period**
4. Recurring Deposit – **(d) Monthly savings**
5. Overdraft – **(e) Withdrawal beyond account balance**

D. Match the Following – II

1. Transfer of Funds – **(d) Movement of money from one account/place to another**
2. Collection of Cheques – **(c) Collection service for customers**
3. Portfolio Management – **(b) Investment advisory service**
4. Locker Facility – **(a) Safe custody of valuables**
5. Underwriting of Shares – **(e) Assurance of subscription to securities**

1.6. Exercise

A) Short Answer Questions

1. Explain the meaning of banking.
2. Describe any four characteristics of banking.
3. Explain the legal definition of banking.
4. Distinguish between Savings Deposit and Current Deposit.
5. Differentiate between Fixed Deposit and Recurring Deposit.
6. Explain the concept of Cash Credit.
7. Discuss the concept of a Bank Overdraft.
8. Explain the importance of Discounting of Bills.
9. Describe the role of the Reserve Bank of India.
10. Explain the functions of Co-operative Banks.
11. What are Development Financial Institutions? Give examples.
12. Discuss the significance of the Balance Sheet in banking.
13. Explain the purpose of the Profit and Loss Account.
14. Explain the Balance Sheet of a bank and describe its components.

B) Long Answer Questions

1. Explain the meaning, definitions and nature of banking business.
2. Describe the different types of banks operating in India.
3. Discuss the various ledger accounts generally prepared by banks.
4. Discuss the primary functions of banks with suitable examples.
5. Explain the different types of deposits accepted by banks.

6. Describe the various forms of loans and advances granted by banks.
7. Discuss the agency functions performed by banks on behalf of customers.
8. Explain the utility functions of banks with suitable examples.

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Unit II

Final Accounts of Banking Company

Final Accounts of Banking Company – Preparation of various schedules, Statement of Profit and Loss and Balance Sheet.

- 2.0 Objectives
- 2.1 Introduction
- 2.2 Presentation of Subject Matter
 - 2.2.1. Specimen of ---- & PQL A/c.
- 2.3 Summary
- 2.4 Glossary
- 2.5 Answers to Check Your Progress
- 2.6 Exercise
- 2.7 Reference for Further Study

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2.0. Objective –

After Studying this Unit you will be able to:

1. Explain the specific accounting treatments for bank-distinct items like rebate on bills discounted and statutory reserves.
 2. Find relations between different accounting transactions and their corresponding statutory schedules from Schedule 1 to 16.
 3. Prepare the Statement of Profit and Loss (Form B) by determining the exact relationship between bank earnings, operating expenses, and required provisions.
 4. Construct the banking Balance Sheet (Form A) to clearly reflect the financial position and contingent obligations of the institution.
-

2.1. Introduction:

In Unit 1, we had been introduced to the basic concepts of banking such as definition and nature of banking business, different types of banks, functions of banks and the ledger accounts commonly maintained by banking institutions. Banks play a special role in the financial system as they are the intermediaries between

borrowers and lenders. Banks create numerous financial transactions in their daily activities of accepting deposits, making loans and advances, investing funds and providing other financial services, which are essential to be recorded and reported in a systematic manner.

Financial Reporting information is primarily provided in the ledger accounts held by banks (deposit accounts, loan accounts, investment accounts, cash accounts and interest accounts). But just the writing of transactions is not enough. A bank's stakeholders (shareholders, depositors, investors, regulators, and management) need a clear perspective of the bank's financial position and operating performance. This need is met by final accounts.

In contrast to other business corporations, banks' financial statements are prepared in a specific format as required by the Banking Regulation Act and appropriate accounting standards. The financial statements of a bank include schedules that provide detail with respect to various items because of the special nature of banking activity. These schedules give details on capital, reserves, deposits, borrowings, investments, advances, fixed assets, and other liabilities and assets.

The study of this unit is concerned with preparing and presenting the Final Accounts of Banking Company. It includes preparation of various schedules, Statement of Profit and Loss Account and the Balance Sheet. We will understand various transactions and processes of banking transactions, classification, summarization and reporting in the financial statements. We also gain knowledge of the link between the function of banking and financial reporting, which helps us understand the financial condition, profitability and solvency of banking organizations.

2.2 Presentation of Subject Matter

2.2.1 Specimen of Balance Sheet and Profit and Loss A/C

Form A Balance Sheet as on ----

CAPITAL & LIABILITIES	Schedule No	₹ As on 31.3. Current Year	₹ As on 31. 3. Previous Year
Capital	1	XXX	XXX
Reserve and Surplus	2	XXX	XXX
Deposits	3	XXX	XXX
Borrowings	4	XXX	XXX
Other Liabilities	5	XXX	XXX
Total		XXXX	XXXX
Property and Assets			
Cash & Balance with RBI	6	XXX	XXX
Cash with other banks & Money at call and short notice	7	XXX	XXX
Investments	8	XXX	XXX
Loans and Advances	9	XXX	XXX
Fixed Assets	10	XXX	XXX
Other Assets	11	XXX	XXX
Total		XXXX	XXXX
Contingent Liabilities	12	XXX	XXX
Bills for Collection	-	XX	XX

Form B - Profit and Loss for the year ended -----

	Schedule No	Year ended on 31.3. CY	Year ended on 31.3.PY
I. Incomes			
Interest Earned	13	XXX	XXX
Other Income	14	XXX	XXX
Total		XXXX	XXX
II. Expenditure			
Interest Expended	15	XXX	XXX
Operating expenses	16	XXX	XXX
Provisions & Contingencies	-	XXX	XXX
Total		XXX	XXX

III. Profit			
Net profit for the year		XX	XX
Profit brought forward		XXX	XXX
(Less: Last Year Profit)			
Total		XXX	XXX
IV. Appropriation			
Transfer to statutory Reserve (25% of CY Profit)		XX	XX
Transfer to other reserves (If any)		XX	XX
Proposed / Interim Dividend		XX	XX
Balance carried over to Balance Sheet		XX	XX
Total		XXX	XXX

Schedules for Balance Sheet and Profit and Loss A/C

Schedule 1 Capital	₹ As on 31.3. Current Year	₹ As on 31. 3. Previous Year
Authorized Capital (----- shares of ₹--- each)	XXXX	
Issued Capital (---- Shares of ₹ --- each)	<u>XXXX</u>	
Paid up Capital (----- shares of ₹--- each ₹ --- paid)	***	
Less: Calls in arrears	***	
Add: Forfeited Shares	***	
Total	****	

Schedule 2 Reserve & Surplus

Statutory Reserve	****	
Add: Current Year	****	
Capital reserve	****	
Share Premium	****	
Revenue and other Reserve	****	
Investment Fluctuation Fund	****	
Balance of Profit and Loss Account	****	
Total	*****	

Schedule No. 3 Deposits

Fixed Deposits	***	
Saving Deposits	***	
Current Deposits	***	
Total	****	

Schedule No. 4 Borrowings

From Reserve Bank of India	****	
From other Banks	****	
From other institutions and agencies	****	
Total	*****	

Schedule No. 5 Other Liabilities and Provisions

Bills Payables	***	
Branch Adjustment Account (Cr)	***	
Interest Accrued	***	
Outstanding Interim Dividend	***	
Rebate on Bills discounted	***	
Total	****	

Schedule 6 Cash and Balance with RBI

Cash in Hand	****	
Cash with RBI	****	
Total	*****	

Schedule No. 7 Balance with other Bank and Money at Call & Short Notice

Cash with other Banks	****	
Money at Call & Short Notice	****	
Total	****	

Schedule no. 8 Investments

In Government Securities	***	
In other approved Securities	***	
Shares	***	
Debentures and Bonds	***	
Subsidiaries and Joint Ventures	***	
Gold and Other	***	
Total	*****	

Schedule No. 9 Advances

Bills Purchased and Discounted	*****	
Loans Cash Credit & OD	****	
Term Loans	***	
Total	*****	

Schedule No. 10 Fixed assets

Building as per last Balance Sheet	****	
Add: Addition During the year	**	
Less: Depreciation	***	
Furniture and Fittings	****	
Other Fixed Assets	****	
Total	*****	

Schedule No. 11 Other Assets

Inter office Adjustments (Dr)	***	
Interest Accrued	***	
Tax paid in advance / TDS	***	
Stationary and stamps in hand	***	
Unexpired Insurance	***	
Total	****	

Schedule No. Contingent Liabilities

Claims against bank not acknowledged as debts	***	
Liability for partly paid investments	***	
Liabilities on account of outstanding forward exchange contracts	***	
Guarantee given on behalf of customers	***	
Acceptance, endorsements & other obligations	***	
Total	****	

Schedule 13 Interest earned

Interest and Discount Earned	***	
Less: Rebate on Bills Discount	***	
Income on investments	***	
Interest on Balance with RBI	***	
Interest on Balance with other Banks	***	
Total	****	

Schedule 14 Other Income

Commissions, Exchange and Brokerage	***	
Profit on sale of Investments	***	
Profit on Revaluation of Investments	***	
Profit on sale of Fixed assets	***	
Dividend, Bonus received from others	***	
Transfer fees, Locker rent etc	***	
Total	****	

Schedule 15 Interest Expended

Interest on Deposit	***	
Interest on Borrowings from RBI	***	
Interest on Borrowings from other Banks	***	
Total	****	

Schedule 16: Operating Expenses

Payment to Provision for employees	***	
Rent, Rates and Lighting	***	
Printing and Stationary	***	
Advertising and Publicity	***	
Depreciation on Bank Property	***	
Directors Fees, Allowances and Expenses	***	
Law charges	***	
Postage, telegram, Telephone	***	
Repairs and Maintenance	***	
Insurance	***	
Other expenses	***	
Total	****	

Provisions		
Pro. For bad debts	****	
Total	****	

2.2.2 - 1 Preparation of Profit and Loss Account of Banks

Illustration 1. From the following information prepare Profit and Loss Account of Laxmi Bank Ltd., for the year ended 31st March 2025.

Particulars	Amount ₹
Advertisement and publicity	7,20,000
Auditor's fees and allowance	9,00,000
Commission, Exchange and Brokerage	1,44,00,000
Depreciation on bank property	21,60,000
Director's fees and allowance	14,40,000
Income from Investment	36,00,000
Insurance	1,80,000
Interest and discount	4,14,00,000
Interest on balance with R.B.I.	18,00,000
Interest on borrowings with R.B.I.	27,00,000
Interest on deposits	1,17,00,000
Law charges	3,60,000
Payment to and provision for employees	1,26,00,000
Postage telegram telephone	12,60,000
Printing and stationery	10,80,000
Profit and Loss Account on 01-04-2024	27,00,000
Profit on sale of investment	18,00,000
Rent taxes and lighting	36,00,000
Repairs and maintains	1,80,000

Adjustments

1. Make provision for income tax ₹18,00,000
2. Provide for bad and doubtful debts ₹ 10,80,000
3. Provide for rebate on bills discounted ₹ 7,20,000
4. The directors have proposed dividend of ₹ 36,00,000
5. 25% of the profit to be transferred to statutory reserve.

Solution:**In the books of Laxmi Bank Ltd****Profit & Loss A/C for the year ended on 31st March 2025**

	Schedule No	Amount
I. Incomes		
Interest Earned	13	4,14,00,000
Other Income	14	1,62,00,000
Total A		6,22,80,000
II. Expenditure		
Interest Expended	15	1,44,00,000
Operating expenses	16	2,44,80,000
Provisions		28,80,000
Total B		4,17,60,000
III. Profit		
Net profit for the year		2,05,20,000
Profit brought forward		27,00,000
Total C		2,32,20,000
IV. Appropriation		
Transfer to statutory Reserve		51,30,000
Proposed Dividend		36,00,000
Balance carried over to Balance Sheet		1,44,90,000
Total D		2,32,20,000

Schedules/ Notes for Profit and Loss Account**Schedule 13 Interest Earned**

Interest and Discount	4,06,80,000
Income from Investments	36,00,000
Interest on Balance with RBI	18,00,000
Total	4,60,80,000

Schedule 14 Other Income

Commission exchange & brokerage	1,44,00,000
Profit on sale of Investments	18,00,000
Total	1,62,00,000

Schedule 15 Other Income

Interest on deposits	1,17,00,000
Interest on Borrowings with RBI	27,00,000
Total	1,44,00,000

Schedule 16: Operating Expenses

Payment to Provision for employees	1,26,00,000
Rent, Taxes and Lightings	36,00,000
Printing and stationary	10,80,000
Advertisement & Publicity	7,20,000
Depreciation of Bank Property	21,60,000
Director's Fees and Allowances	14,40,000
Auditor's Fees and Allowances	9,00,000
Law Charges	3,60,000
Postage Telegram & Telephone	12,60,000
Repairs and Maintenance	1,80,000
Insurance	1,80,000
Total	2,44,80,000

Working Note: Provisions & Contingencies

Pro. For Income Tax	18,00,000
Provision for RDD	10,80,000
Total	28,80,000

Working Note: Interest & Discount Earned

Interest and Discount	4,14,00,000	
Less: Rebate on Bills Discount	7,20,000	4,06,80,000

Illustration2.

The following information of Jailaxmi Bank Ltd., for the year ending 31-03-2025.

Particulars	Amount ₹
Interest and discount	2,99,00,000
Interest on deposits	83,20,000
Interest on borrowings from RBI	26,00,000
Income from investment	19,50,000
Profit on sale of investment	26,00,000
Interest on balance with RBI	13,00,000
Commission exchange and brokerage	1,04,00,000
Rent tax and lighting	26,00,000
Payment to and provisions for employees	91,00,000
Advertisement and publicity	7,80,000
Printing and stationery	19,50,000
Directors fees and allowance	15,60,000
Depreciation on bank property	5,20,000
Auditors fees and expenses	10,40,000
Repairs and maintains	9,10,000
Postage and telephone	6,50,000
Law charges	2,60,000
Insurance	1,30,000

Prepare Profit and Loss Account for the year ending 31-03-2025 after considering the following adjustments

1. Provide for income tax ₹ 13,00,000
2. Provide for bad and doubtful debts ₹ 7,80,000

3. Provide for rebate on bills discounted ₹ 5,20,000
4. 25% of the profit to be transferred to statutory reserve
5. 10% of the profit to be transferred to general reserve

Solution:

In the Books of JailaxmiBanl Ltd.

Profit and Loss Account for the year ended on 31st March 2025

	Schedule No	Amount
I. Incomes		
Interest Earned	13	3,26,30,000
Other Income	14	1,30,00,000
Total A		4,56,30,000
II. Expenditure		
Interest Expended	15	1,09,20,000
Operating expenses	16	1,95,00,000
Provisions	-	20,80,000
Total B		3,25,00,000
III. Profit		
Net profit for the year (A - B)		1,31,30,000
Profit brought forward		-
Total C		1,31,30,000
IV. Appropriation		
Transfer to statutory Reserve		32,82,500
Transfer to General Reserve		13,13,000
Balance carried over to Balance Sheet		85,34,500
Total D		1,31,30,000

Schedules for Profit and Loss Account**Schedule 13 Interest earned**

Interest and Discount	2,93,80,000
Income from Investments	19,50,000
Interest on Balance with RBI	13,00,000
Total	3,26,30,000

Schedule 14 Other Income

Commission exchange & brokerage	1,04,00,000
Profit on sale of Investments	26,00,000
Total	1,30,00,000

Schedule 15 Other Income

Interest on deposits	83,20,000
Interest on Borrowings with RBI	26,00,000
Total	1,09,20,000

Schedule 16: Operating Expenses

Payment to Provision for employees	91,00,000
Rent, Taxes and Lightings	26,00,000
Printing and stationary	19,50,000
Advertisement & Publicity	7,80,000
Depreciation of Bank Property	5,20,000
Director's Fees and Allowances	15,60,000
Auditor's Fees and Allowances	10,40,000
Law Charges	2,60,000
Postage & Telephone	6,50,000
Repairs and Maintenance	9,10,000
Insurance	1,30,000
Total	1,95,00,000

Working Note: Provisions

Pro. For Income Tax	13,00,000
Provision for RDD	7,80,000
Total	20,80,000

Working Note: Interest and Discount

Interest and Discount	2,99,00,000	
Less: Rebate on Bills Discount	5,20,000	2,93,80,000

Illustration3: From the following information you are required to prepare Profit and Loss Account of Ashok Bank Ltd., for the year ending 31-03-2025.

Particulars	Amount ₹
Interest on loan	16,57,600
Interest on cash credit	14,27,200
Interest on current A/c	2,68,800
Discount on bills discounted	12,48,000
Interest on overdrafts	3,45,600
Interest on saving bank	4,35,200
Interest on fixed deposit	17,60,000
Commission	51,200
Exchange	1,280
Rent and taxes	1,15,200
Postage and telegrams	8,960
Sundry charges	6,400
Provident Fund Contribution	4,480
Directors fees	10,880
Auditors fees	16,000
Printing	12,800
Law charges	5,760
Establishment	3,45,600
Locker rent	2,240
Transfer fees	4,480
Deprecation on bank property	32,000

Adjustment

1. Rebate on bills discounted ₹ 3,13,600
2. Bad debts ₹ 1,85,600

Solution:

In the books of Ashok Bank Ltd.,
Profit and loss Account for the year ending 31-03-2025

	Schedule No	Amount
I. Incomes		
Interest Earned	13	43,64,800
Other Income	14	59,200
Total A		44,24,000
II. Expenditure		
Interest Expended	15	24,64,000
Operating expenses	16	7,43,680
Provisions	-	-
Total B		32,07,680
III. Profit		
Net profit for the year (A - B)		12,16,320
Profit brought forward		
Total C		12,16,320
IV. Appropriation		
Transfer to statutory Reserve		3,04,080
Transfer to General Reserve		-
Balance carried over to Balance Sheet		9,12,240
Total D		12,16,320

Schedules for Profit and Loss Account**Schedule 13 Interest Earned**

Interest on loan		16,57,600
Interest on Cash Credit		14,27,200
Discount on Bills Discounted	12 48 000	
Less: Rebate	3 13 600	9,34,400
Interest on Overdrafts		3,45,600
Total		43,64,800

Schedule 14 Other Income	
Commission	51,200
Exchange	1,280
Locker rent	2,240
Transfer Fees	4,480
Total	59,200

Schedule 15 Other Income	
Interest on Current A/C	2,68,800
Interest on Saving Bank	4,35,200
Interest on Fixed Deposits	17,60,000
	24,64,000

Schedule 16: Operating Expenses	
Rent & Taxes	1,15,200
Postage and Telegram	8,960
Sundry Charges	6,400
Provident Fund Contribution	4,480
Directors Fees	10,880
Auditors Fees	16,000
Printing	12,800
Law Charges	5,760
Establishment	3,45,600
Depreciation on Bank Property	32,000
Bad debts	1,85,600
Total	7,43,680

Provisions -

Check your progress – 1.

- Which of the following is the major source of income for a bank?**
 - Rent Received
 - Interest Earned
 - Dividend Paid
 - Salary Recovery
- Interest paid on deposits is shown in the Profit and Loss Account under:**
 - Other Income
 - Operating Expenses
 - Interest Expended
 - Provisions and Contingencies

3. **Commission, exchange, and brokerage earned by a bank are recorded under:**
 - A) Interest Earned
 - B) Other Income
 - C) Borrowings
 - D) Deposits
4. **Which of the following is NOT included in Interest Earned?**
 - A) Interest on Advances
 - B) Interest on Investments
 - C) Discount on Bills
 - D) Salaries and Allowances
5. **Salaries and allowances paid to bank employees are shown under:**
 - A) Operating Expenses
 - B) Interest Expended
 - C) Other Income
 - D) Investments
6. **Provision for bad and doubtful debts is shown in the Profit and Loss Account under:**
 - A) Interest Earned
 - B) Deposits
 - C) Provisions and Contingencies
 - D) Capital
7. **The Profit and Loss Account of a bank shows:**
 - A) Financial Position of the Bank
 - B) Profitability of the Bank
 - C) Cash Balance Only
 - D) Deposits Only
8. **Which of the following is classified as "Other Income" in a bank?**
 - A) Interest on Deposits
 - B) Commission Earned
 - C) Interest on Borrowings
 - D) Provision for Taxation
9. **Net Profit of a bank is calculated by:**
 - A) Total Assets – Total Liabilities
 - B) Total Income – Total Expenditure
 - C) Deposits – Advances
 - D) Capital – Reserves
10. **Rebate on Bills Discounted represents:**
 - A) Income already earned
 - B) Unexpired discount income to be carried forward
 - C) Fixed Asset
 - D) Reserve Fund

Section 2 - Preparation of Balance Sheet only

Illustration– 4: From the following balances of Federal Bank Ltd. Karad, prepare Balance Sheet as on 31st March 2025 and the relevant schedules.

Name of account	Debit	Credit
Share capital (74,000 shares of ₹10)		7,40,000
Statutory reserve		5,55,000
Net profit for the year (before appropriation)		9,25,000
Profit and loss a/c (01-04-2024)		7,40,000
Current accounts		25,16,000
Saving bank account		8,14,000
Time deposit		11,10,000
Borrowings from other bank		5,92,000
Bills payable		1,48,000
Inter office adjustment		37,000
Cash in hand	7,40,000	
Cash with RBI	1,85,000	
Cash with other banks'	8,88,000	
Money at call and short notice	4,07,000	
Silver	18,500	
Investment in govt. securities	5,18,000	
Gold	1,48,000	
Bills purchased and discount	11,10,000	
Stock of stationery	18,500	
Cash credit overdraft	17,57,500	
Term loan	19,42,500	
Premises	3,33,000	
Furniture	1,11,000	
Total	81,77,000	81,77,000

Other information

1. Claims against the bank not acknowledged as debts ₹ 7,40,000
2. Acceptances and endorsements amounts to ₹ 5,92,000
3. Bills for collection amounted to ₹ 5,55,000
4. Liability on bills of exchange rediscounted ₹ 18,500

Solution:

Federal Bank Ltd. Karad
Balance Sheet as on 31st March 2025

	Schedule No	Amount
Capital & Liabilities		
Capital	1	7,40,000
Reserve and Surplus	2	22,20,000
Deposits	3	44,40,000
Borrowings	4	5,92,000
Other Liabilities	5	1,85,000
Total		81,77,000
Assets		
Cash & Balance with RBI	6	9,25,000
Cash with other banks & Money at call and short notice	7	12,95,000
Investments	8	6,66,000
Loans and Advances	9	48,10,000
Fixed Assets	10	4,44,000
Other Assets	11	37,000
Total		81,77,000
Contingent Liabilities	12	13,50,500
Bills for Collection	-	5,55,000

Schedules for Balance Sheet

Schedule 1 Capital

Authorized Capital (---- shares of ₹----each)	
Paid up Capital (20,000 shares of ₹10 each paid)	7,40,000
Total	7,40,000

Schedule 2 Reserve & Surplus

Statutory Reserve	5,55,000	
Add: Current Year	2,31,250	7,86,250
Balance of Profit and Loss		14,33,750
Total		22,20,000

Schedule No. 3 Deposits

Current Account	25,16,000
Saving Bank Deposits	8,14,000
Time deposits	11,10,000
Total	44,40,000

Schedule No. 4 Borrowings

From other Banks	5,92,000
Total	5,92,000

Schedule No. 5 Other Liabilities and Provisions

Bills Payables	1,48,000
Inter office adjustment	37,000
Total	1,85,000

Schedule 6 Cash and Bal with RBI

Cash in Hand	7,40,000
Balance with RBI	1,85,000
Total	9,25,000

Schedule No. 7 Balance with other Bank and MCSN

Balance with other banks	8,88,000
Money at Call & Short notice	4,07,000
Total	12,95,000

Schedule no. 8 Investments

Investments in Government Securities	5,18,000
Gold	1,48,000
Total	6,66,000

Schedule No. 9 Advances

Bills Purchased & discounted	11,10,000
Cash Credit and Overdraft	17,57,500
Term Loans	19,42,500
Total	48,10,000

Schedule No. 10 Fixed assets

Premises	3,33,000
Furniture	1,11,000
Total	4,44,000

Schedule No. 11 Other Assets

Silver	18,500
Stock of Stationary	18,500
Total	37,000

Schedule No. 12Contingent Liabilities Nil

Claims against the bank not acknowledged as debts	7,40,000
Acceptance and Endorsement	5,92,000
Liability on bills of exchange rediscounted	18,500
Total	13,50,000

Working Note

Profit and Loss for the year	9,25,000
Profit Brought Forward	7,40,000
Total	16,65,000

Appropriation

i) Transfer to Statutory reserve	2,31,250
ii) Profit transfer to Balance Sheet	14,33,750
Total	16,65,000

Illustration 5: Samarth Bank Ltd., Kolhapur gives you the following particulars from their books for the year ended 31st March 2025. You are required to prepare Balance sheet as on 31st March 2025 in the prescribed form.

Particulars	Amount ₹	Particulars	Amount ₹
Investment in shares	34,50,000	Share capital (shares of ₹100 each fully paid)	1,72,50,000
Investment in Govt. securities	39,67,500	General Reserve	20,70,000
Cash in hand	10,35,000	Statutory Reserve	41,40,000
Interest accrued on investment	1,03,500	Borrowings from other banks	27,60,000
Balance with RBI	13,80,000	Bills Payable	13,80,000
Balance with other banks	10,35,000	Fixed Deposits	1,72,50,000
Term loans	3,96,75,000	Current Accounts	2,76,00,000
Cash credit'	5,52,00,000	Contingency Accounts	27,60,000
Overdraft	53,13,000	Saving Accounts	4,47,46,500
Bills discounted and purchased	1,03,50,000	Unclaimed Dividend	1,72,500
Premises	41,40,000	Branch Adjustment	4,83,000
Furniture	13,80,000	Profit and loss a/c 01-04-2024	6,90,000
		Provision for taxation	28,29,000
		Profit for the year	28,98,000
Total	12,70,29,000	Total	12,70,29,000

Adjustments

1. Authorized capital is ₹2,00,00,000 (2,00,000 shares of ₹100 each)
2. Unexpired discount amounted to ₹69,000
3. Provide for doubtful loans ₹6,90,000
4. Contingent liability for partly paid shares ₹6,90,000

Solution:

Samarth Bank Ltd., Kolhapur
Balance sheet as on 31st March 2025

	Schedule No	Amount
Capital & Liabilities		
Capital	1	1,72,50,000
Reserve and Surplus	2	90,39,000
Deposits	3	9,23,56,500
Borrowings	4	27,60,000
Other Liabilities	5	49,33,500
Total		12,63,39,000
Assets		
Cash & Balance with RBI	6	24,15,000
Cash with other banks & Money at call and short notice	7	10,35,000
Investments	8	74,17,500
Loans and Advances	9	10,98,48,000
Fixed Assets	10	55,20,000
Other Assets	11	1,03,500
Total		12,63,39,000
Contingent Liabilities	12	6,90,000
Bills for Collection	-	-

Schedules for Balance Sheet
Schedule 1 Capital

Authorized Capital (2,00,000 shares of ₹100 each)	2,00,00,000
Paid up Capital (Shares of ₹100 each fully paid)	1,72,50,000
Total	1,72,50,000

Schedule 2 Reserve & Surplus

Statutory Reserve	41,40,000	
Add: Current Year	5,34,750	46,74,750
General Reserve		20,70,000
Balance of Profit and Loss		22,94,250
Total		90,39,000

Schedule No. 3 Deposits

Current Account	2,76,00,000
Contingency Account	27,60,000
Saving Deposits	4,47,46,500
Fixed deposits	1,72,50,000
Total	9,23,56,500

Schedule No. 4 Borrowings

From other Banks	27,60,000
Total	27,60,000

Schedule No. 5 Other Liabilities and Provisions

Bills Payables	13,80,000
Unclaimed Dividend	1,72,500
Branch adjustment	4,83,000
Provision for tax	28,29,000
Unexpired Discount	69,000
Total	49,33,500

Schedule 6 Cash and Bal with RBI

Cash in Hand	10,35,000
Balance with RBI	13,80,000
Total	24,15,000

Schedule No. 7 Balance with other Bank and MCSN

Balance with other banks	10,35,000
Total	10,35,000

Schedule no. 8 Investments

Investments in Shares	34,50,000
Investment in Govt. Securities	39,67,500
Total	74,17,500

Schedule No. 9 Advances

Term Loans	3,96,75,000	
Less: Provision for Doubtful debts	6,90,000	3,89,85,000
Cash Credit		5,52,00,000
Overdraft		53,13,000
Bills Discounted & Purchased		1,03,50,000
Total		10,98,48,000

Schedule No. 10 Fixed assets

Premises		41,40,000
Furniture		13,80,000
Total		55,20,000

Schedule No. 11 Other Assets

Interest accrued on Investments		1,03,500
		1,03,500

Schedule No. 12 Contingent Liabilities

Liabilities for partly paid shares		6,90,000
Total		6,90,000

Working Note

Profit and Loss for the year	28,98,000	
Less: Unexpired Discount	69,000	
	28,29,000	
Less: Provide for Doubtful Debts	6,90,000	21,39,000
Profit Brought Forward		6,90,000
Total		28,29,000

Appropriation

i) Transfer to Statutory reserve		5,34,750
ii) Profit transfer to Balance Sheet		22,94,250
Total		28,29,000

Illustration 6: The following are the ledger balances of the Ratan Bank Ltd., Solapur as on 31st March 2025. Prepare Balance Sheet as on 31st March 2025.

Name of account	Debit	Credit
Share capital (₹10,00,000 shares of ₹10 each		1,00,00,000
Statutory reserve		75,00,000
Borrowings from other banks		80,00,000
Net profit for the year (before appropriation)		1,25,00,000

Bills payable		20,00,000
Cash in hand	1,00,00,000	
Profit and loss a/c		1,00,00,000
Cash with RBI	25,00,000	
Cash with other bank	1,20,00,000	
Current a/c		3,40,00,000
Saving bank a/c		1,10,00,000
Fixed deposit		1,50,00,000
Bills purchased and discounted	1,50,00,000	
Cash credit and overdraft	2,37,50,000	
Money at call and short notice	55,00,000	
Investment in govt. securities	70,00,000	
Term loans	2,62,50,000	
Premises (Cost ₹60,00,000)	45,00,000	
Investment in shares	20,00,000	
Furniture (Cost ₹25,00,000)	15,00,000	
Total	11,00,00,000	11,00,00,000

Adjustments

1. Claims against bank not acknowledged as debts ₹ 10,00,000
2. Bills for collection amounted to ₹75,00,000
3. Acceptances and endorsements ₹50,00,000

Solution:

Ratan Bank Ltd., Solapur
Balance Sheet as on 31st March 2025.

	Schedule No	Amount
Capital & Liabilities		
Capital	1	1,00,00,000
Reserve and Surplus	2	3,00,00,000
Deposits	3	6,00,00,000
Borrowings	4	80,00,000
Other Liabilities	5	20,00,000
Total		11,00,00,000

Assets		
Cash & Balance with RBI	6	1,25,00,000
Cash with other banks & Money at call and short notice	7	1,75,00,000
Investments	8	90,00,000
Loans and Advances	9	6,50,00,000
Fixed Assets	10	60,00,000
Other Assets	11	0
Total		11,00,00,000
Contingent Liabilities	12	60,00,000
Bills for Collection	-	75,00,000

Schedules for Balance Sheet

Schedule 1 Capital

Authorized Capital (----- shares of --- each)	
Paid up Capital (10,00,000 Shares of ₹10 each fully paid)	1,00,00,000
Total	1,00,00,000

Schedule 2 Reserve & Surplus

Statutory Reserve	75,00,000	
Add: Current Year	31,25,000	1,06,25,000
Balance of Profit and Loss		1,93,75,000
Total		3,00,00,000

Schedule No. 3 Deposits

Current Account		3,40,00,000
Saving Deposits		1,10,00,000
Fixed deposits		1,50,00,000
Total		6,00,00,000

Schedule No. 4 Borrowings

From other Banks	80,00,000
Total	80,00,000

Schedule No. 5 Other Liabilities and Provisions

Bills Payables	20,00,000
Total	20,00,000

Schedule 6 Cash and Bal with RBI

Cash in Hand	1,00,00,000
Balance with RBI	25,00,000
Total	1,25,00,000

Schedule No. 7 Balance with other Bank and MCSN

Balance with other banks	1,20,00,000
Money at call & Short Notice	55,00,000
Total	1,75,00,000

Schedule no. 8 Investments

Investments in Shares	20,00,000
Investment in Govt. Securities	70,00,000
Total	90,00,000

Schedule No. 9 Advances

Term Loans	1,50,00,000
Cash Credit & Overdraft	2,37,50,000
Bills Discounted & Purchased	2,62,50,000
Total	6,50,00,000

Schedule No. 10 Fixed assets

Premises (Cost ₹60,00,000)	45,00,000
Furniture (Cost ₹25,00,000)	15,00,000
Total	60,00,000

Schedule No. 11 Other Assets Nil**Schedule No. 12 Contingent Liabilities**

Claims against bank not acknowledged as debts	10,00,000
Acceptance & Endorsements	50,00,000
Total	60,00,000

Working Note

Profit and Loss for the year	1,25,00,000
Profit Bought Forward	1,00,00,000
Total	2,25,00,000

Appropriation

i) Transfer to Statutory reserve	31,25,000
ii) Profit transfer to Balance Sheet	1,93,75,000
Total	2,25,00,000

Illustration 7: The following is the Trial Balance of Mamata Bank Ltd., Mumbai as on 31st March 2025.

Particulars	Amt. ₹	Particulars	Amt. ₹
Cash in hand	5,90,000	Share capital	18,88,000
Balance with RBI	60,00,000	Statutory reserve	9,20,000
Balance with other bank	34,76,000	Capital reserve	64,000
Govt. securities	4,76,00,000	Revenue reserve	8,00,000
Shares	4,80,000	Demand deposits	85,84,000
Bills purchased and discounted	24,00,000	Borrowings	3,20,000
Debenture and bonds	44,20,000	Bills payable	19,20,000
Loans cash credit and overdrafts	6,16,00,000	Term deposits	7,56,00,000
Premises	10,20,000	Inter branch adjustment	78,000
Other fixed assets	3,28,000	Interest accrued	6,92,000

Tax paid in advance	1,02,000	Current year profit	20,00,000
Stationery and stamps	50,000	Saving account	3,52,00,000
Total	12,80,66,000		12,80,66,000

The current profit is arrived at before making adjustment for unimpaired discount of ₹20,000.

Also make necessary appropriation for statutory reserve.

Authorized capital of the bank is ₹20,00,000 dividing into 20,000 shares of ₹100 each.

Prepare Balance Sheet as at 31st March 2025 in the prescribed form with necessary schedules.

Solution:

Mamata Bank Ltd., Mumbai
Balance Sheet as at 31st March 2025

	Schedule No	Amount
Capital & Liabilities		
Capital	1	18,88,000
Reserve and Surplus	2	37,64,000
Deposits	3	11,93,84,000
Borrowings	4	3,20,000
Other Liabilities	5	26,90,000
Total		12,80,46,000
Assets		
Cash & Balance with RBI	6	65,90,000
Cash with other banks & Money at call and short notice	7	34,76,000
Investments	8	5,25,00,000
Loans and Advances	9	6,44,00,000
Fixed Assets	10	13,48,000
Other Assets	11	1,52,000
Total		12,80,46,000

Contingent Liabilities	12	-
Bills for Collection	-	-

Schedules for Balance Sheet

Schedule 1 Capital

Authorized Capital (20,000 shares of 100 each)	<u>20,00,000</u>
Paid up Capital (Shares of ₹100 each fully paid)	18,88,000
Total	18,88,000

Schedule 2 Reserve & Surplus

Statutory Reserve	9,20,000	
Add: Current Year	4,95,000	14,15,000
Capital Reserve		64,000
Revenue Reserve		8,00,000
Balance of Profit and Loss		14,85,000
Total		32,64,000

Schedule No. 3 Deposits

Demand Deposit	85,84,000
Term Deposit	7,56,00,000
Saving Deposit	3,52,00,000
Total	11,93,84,000

Schedule No. 4 Borrowings

Borrowings	3,20,000
Total	3,20,000

Schedule No. 5 Other Liabilities and Provisions

Bills Payables	19,20,000
Inter Branch Adjustment	78,000
Interest Accrued	6,92,000
Total	26,90,000

Schedule 6 Cash and Balance with RBI

Cash in Hand	5,90,000
Balance with RBI	60,00,000
Total	65,90,000

Schedule No. 7 Balance with other Bank and**MCSN**

Balance with other banks	34,76,000
Total	34,76,000

Schedule no. 8 Investments

Investments in Shares	4,80,000
Investment in Govt. Securities	4,76,00,000
Debentures & Bonds	44,20,000
Total	5,25,00,000

Schedule No. 9 Advances

Bills Discounted & Purchased	24,00,000
Loans, Cash Credit & Overdraft	6,16,00,000
Total	6,40,00,000

Schedule No. 10 Fixed assets

Premises	10,20,000
Other Fixed Assets	3,28,000
Total	13,48,000

Schedule No. 11 Other Assets

Tax paid In Advance	1,02,000
Stationary & Stamps	50,000
Total	1,52,000

Schedule No. 12 Contingent Liabilities Nil**Working Note**

Profit and Loss for the year	20,00,000	
Less: unexpired Discount	20,000	19,80,000
Profit Brought Forward		-
Total		19,80,000

Appropriation

i) Transfer to Statutory reserve	4,95,000
ii) Profit transfer to Balance Sheet	14,85,000
Total	19,80,000

Check your progress – 2.**1. The Balance Sheet of a bank shows:**

- | | |
|-------------------------------|-----------------------------------|
| A) Profit or Loss of the Bank | B) Financial Position of the Bank |
| C) Cash Transactions Only | D) Income and Expenditure Only |

Answer1: B) Financial Position of the Bank**2. Deposits accepted from customers are shown on the:**

- | | |
|----------------|---------------------|
| A) Assets Side | B) Liabilities Side |
| C) Income Side | D) Expenditure Side |

Answer2: B) Liabilities Side

3. Loans and Advances granted by a bank are shown on the:

- | | |
|----------------|---------------------|
| A) Assets Side | B) Liabilities Side |
| C) Income Side | D) Capital Side |

Answer3: A) Assets Side

4. Which Schedule contains details of Deposits?

- | | |
|---------------|---------------|
| A) Schedule 3 | B) Schedule 4 |
| C) Schedule 5 | D) Schedule 6 |

Answer4: C) Schedule 5

5. Which Schedule contains details of Advances?

- | | |
|---------------|----------------|
| A) Schedule 7 | B) Schedule 8 |
| C) Schedule 9 | D) Schedule 10 |

Answer5: C) Schedule 9

6. Investments of a bank are shown under:

- | | |
|----------------|-------------|
| A) Liabilities | B) Assets |
| C) Income | D) Expenses |

Answer6: B) Assets

7. Borrowings are shown on the:

- | | |
|---------------------|---------------------|
| A) Assets Side | B) Income Side |
| C) Liabilities Side | D) Expenditure Side |

Answer7: C) Liabilities Side

8. Cash in Hand and Balances with RBI are classified as:

- | | |
|----------------|-------------|
| A) Liabilities | B) Assets |
| C) Capital | D) Reserves |

Answer8: B) Assets

9. The total of Assets side must always be equal to the total of:

- | | |
|---------------------|---------------------|
| A) Income Side | B) Expenditure Side |
| C) Liabilities Side | D) Profit Side |

Answer9: C) Liabilities Side

10. The main purpose of schedules attached to the Balance Sheet is to:

- A) Record Journal Entries B) Provide detailed classification of items
C) Calculate Profit D) Calculate Depreciation Only

Answer: B) Provide detailed classification of items

Section 3: Preparation of Balance Sheet and Profit And Loss Account

Illustration 8: From the following information of Sadhana Bank Ltd., Kolhapur as on 31st March 2025 prepare Profit and loss account for the year ended 31st March 2025 and Balance sheet as on that date.

Name of account	Debit	Credit
Audit fees	18,600	
Bills discounted and purchased	26,04,000	
Building (Cost ₹55,80,000)	51,15,000	
Cash in hand	2,97,600	
Cash with other banks	60,45,000	
Cash with RBI	65,10,000	
Director's fees	83,700	
Furniture (Cost ₹18,60,000)	16,18,200	
Interest paid	27,90,000	
Investment	22,32,000	
Law charges	27,900	
Loans cash credit and overdraft	55,80,000	
Printing and stationery	74,400	
Rent and rates	1,58,100	
Salary	13,02,000	
Saving deposits		47,70,900
Reserve fund		6,51,000
Profit and loss a/c (01-04-2024)		7,44,000
Interest and discount		39,06,000

Fixed deposits		72,54,000
Equity share capital in shares of ₹100 each ₹50 paid up		27,90,000
Current deposits		63,42,600
Commission exchange and brokerage		18,60,000
Branch adjustment a/c		24,18,000
Borrowings from other bank		37,20,000
Total	3,44,56,500	3,44,56,500

Adjustments

1. Rebate on bills discounted amounted to ₹ 1,02,300
2. Provide ₹27,900 for bad and doubtful debts
3. Provide depreciation on building 10% and on furniture 5% on original cost.

Solution:

Sadhana Bank Ltd., Kolhapur Balance Sheet as on 31st March 2025

	Schedule No	Amount
Capital & Liabilities		
Capital	1	27,90,000
Reserve and Surplus	2	19,25,100
Deposits	3	1,83,67,500
Borrowings	4	37,20,000
Other Liabilities	5	25,20,300
Total		2,93,22,900
Assets		
Cash & Balance with RBI	6	68,07,600
Cash with other banks & Money at call and short notice	7	60,45,000
Investments	8	22,32,000

Loans and Advances	9	81,56,100
Fixed Assets	10	60,82,200
Other Assets	11	Nil
Total		2,93,22,900
Contingent Liabilities	12	
Bills for Collection	-	
Profit and Loss for the year ended 31/3/2020		

Profit and Loss Account

	Schedule No	Amount
I. Incomes		
Interest Earned	13	38,03,700
Other Income	14	18,60,000
Total		56,63,700
II. Expenditure		
Interest Expended	15	27,90,000
Operating expenses	16	23,15,700
Provisions	-	27,900
Total		51,33,600
III. Profit		
Net profit for the year		5,30,100
Profit brought forward		7,44,000
Total		12,74,100
IV. Appropriation		
Transfer to statutory Reserve		1,32,525
Balance carried over to Balance Sheet		11,41,575
Total		12,74,100

Schedule 1 Capital

Authorized Capital (60,000 shares of ₹100 each)	55,80,000
Paid up Capital (60,000 shares of ₹50 each paid)	27,90,000
Total	27,90,000

Schedule 2 Reserve & Surplus

Statutory Reserve	6,51,000	
Add: Current Year	1,32,525	7,83,525
Balance of Profit and Loss		11,41,575
Total		19,25,100

Schedule No. 3 Deposits

Demand Deposits -Current	63,42,600
Saving Bank Deposits	47,70,900
Time deposits	72,54,000
Total	1,83,67,500

Schedule No. 4 Borrowings

From other Banks	37,20,000
Total	37,20,000

Schedule No. 5 Other Liabilities and Provisions

Inter office adjustment (Cr)	24,18,000
Rebate on bills discounted	1,02,300
	25,20,300

Schedule 6 Cash and Bal with RBI

Cash in Hand	2,97,600
Balance with RBI	65,10,000
Total	68,07,600

Schedule No. 7 Balance with other Bank and MCSN

Balance with other banks	6045,000
Total	60,45,000

Schedule no. 8 Investments

Government Securities	22,32,000
Total	22,32,000

Schedule No. 9 Advances

Bills Purchased & discounted		26,04,000
Loans, CC and OD	5580000	
Less: provision	27900	55,52,100
Total		81,56,100

Schedule No. 10 Fixed assets

Premises (Cost 18,60,000)	16,18,200	
Less: Depreciation @ 10%	93,000	15,25,200
Furniture (Cost 55,80,000)	51,15,000	
Less: Depreciation @ 5%	5,58,000	45,57,000
Total		60,82,200

Schedule No. 11 Other Assets Nil

Schedule No. 12Contingent Liabilities Nil

Schedule 13 Interest earned

Interest and Discount	39,06,000	
Less: Rebate on Bills Discount	1,02,300	38,03,700
Total		38,03,700

Schedule 14 Other Income

Commission exchange & brokerage	18,60,000
Total	18,60,000

Schedule 14 Other Income

Interest on deposits	27,90,000
Total	27,90,000

Schedule 16: Operating Expenses

Salaries	13,02,000
Rent, Taxes and Lightings	1,58,100
Printing and stationary	74,400
Depreciation on Banks Property	6,51,000
Directors Fees	83,700
Auditor's fees	18,600
Law charges	27,900
Total	23,15,700

Provisions

Pro. For bad debts	27,900
Total	27,900

Illustration 9 : From the following balances extracted from the books of Kohinoor Bank Ltd., Sangli prepare final accounts for the year ended 31st March 2025.

Particulars	Amount ₹
Salaries and allowances (Including remuneration to General Manager ₹5,62,500 and Director's fees ₹62,500)	15,62,500
Sundry expenses (Including Audit fees ₹12,500, Stationery ₹25,000, Postage ₹31,500 and Legal expenses ₹6,250)	93,750
Interest on deposit	13,28,125

Commission exchange (Cr.)	10,62,500
Interest and discount received	30,00,000
Statutory reserve	12,50,000
Fixed deposits	54,68,750
Savings deposits	37,50,000
Current deposits	56,25,000
Loans cash credit and overdraft	1,43,75,000
Bills discounted and purchased	9,37,500
Investment fluctuation fund	3,12,500
Cash in hand	10,93,750
Cash with RBI	15,62,500
Cash with other Vijaya Bank Ltd.,	1,56,250
4% Govt. securities	37,50,000
Silver	3,12,500
Gold	13,12,500
Bills for collection	6,25,000
Interest accrued on investment	1,87,500
Acceptances, endorsement and other obligations	12,50,000
Profit and loss a/c (Cr. Balance on 01-04-2024)	18,75,000
Shares in Telco Company	6,25,000
Interim dividend	1,87,500
Drafts payable	5,00,000
Share capital (Authorized and issued 1,25,000 shares of ₹100 each ₹50 paid)	62,50,000
Rent and taxes paid	1,25,000
Premises	15,62,500
Furniture	4,68,750
Provident fund	5,00,000
Rebate on bills discounted	46,875

Adjustments

1. Provide ₹ 2,50,000 for taxation and ₹1,56,250 for bad and doubtful debts.
2. Rebate on bills discounted is over calculated by ₹15,625.
3. An interim dividend declared was at 4% actual.
4. The market value of 4% Govt. securities on 31st March 2025 was ₹36,40,625 and was to be shown at this figure in the balance sheet
5. Current account include ₹2,50,000 debit balance being overdraft

Solution:

Kohinoor Bank Ltd., Sangli
Form A – Balance Sheet as on 31st March 2025

	Schedule No	Amount
Capital & Liabilities		
Capital	1	62,50,000
Reserve and Surplus	2	36,40,625
Deposits	3	1,50,93,750
Borrowings	4	-
Other Liabilities	5	13,43,750
Total		2,63,28,125
Assets		
Cash & Balance with RBI	6	26,56,250
Cash with other banks & Money at call and short notice	7	1,56,250
Investments	8	55,78,125
Loans and Advances	9	1,54,06,250
Fixed Assets	10	20,31,250
Other Assets	11	5,00,000
Total		2,63,28,125
Contingent Liabilities	12	12,50,000
Bills for Collection	-	6,25,000

Profit and Loss for the year ended 31/3/2025

	Schedule No	Amount
I. Incomes		
Interest Earned	13	30,15,625
Other Income	14	10,62,500
Total		40,78,125
II. Expenditure		
Interest Expended	15	13,28,125
Operating expenses	16	17,81,250
Provisions	-	4,06,250
Total		35,15,625
III. Profit		
Net profit for the year		5,62,500
Profit brought forward		18,75,000
Total		24,37,500
IV. Appropriation		
Transfer to statutory Reserve		1,40,625
Interim Dividend	1,87,500	
Add: Outstanding	1,87,500	2,50,000
Balance carried over to Balance Sheet		20,46,875
Total		24,37,500

Schedules for Balance sheet
Schedule 1 Capital

Authorized Capital (1,25,000 shares of ₹100 each)	1,25,00,000
Paid up Capital (1,25,000 shares of ₹50 each paid)	62,50,000
Total	62,50,000

Schedule 2 Reserve & Surplus

Statutory Reserve	12,50,000	
Add: Current Year investment Fluctuation Fund	1,40,625	13,90,625
Less: Loss on Revaluation	3,12,500	
Balance of Profit and Loss	1,09,375	2,03,125
Total		20,46,875
		36,40,625

Schedule No. 3 Deposits

Fixed Deposits		54,68,750
Saving Deposits		37,50,000
Current Deposits	56,25,000	
Less: Being Overdraft	2,50,000	58,75,000
Total		15093750

Schedule No. 4 Borrowings Nil**Schedule No. 5 Other Liabilities and Provisions**

Drafts Payable		5,00,000
Provident Fund		5,00,000
Rebate on Bills Discounted	46,875	
Less: Over calculate	15,625	31,250
Provision for tax		2,50,000
Outstanding Interim Dividend		62,500
Total		13,43,750

Schedule 6 Cash and Balance with RBI

Cash in Hand		10,93,750
Balance with RBI		15,62,500
Total		26,56,250

Schedule No. 7 Balance with other Bank and MCSN

Balance with Vijaya banks		1,56,250
Total		1,56,250

Schedule no. 8 Investments

4% Government Securities	37,50,000	
Less: Loss on Revaluation	1,09,375	36,40,625
Gold		13,12,500
Shares in Telco Ltd		6,25,000
Total		55,78,125

Schedule No. 9 Advances

Loans, Cash Credit and Overdraft	1,43,75,000	
Less: RDD	1,56,250	
	1,42,18,750	
Add: Current AC being Overdraft	2,50,000	1,44,68,750
Bills Purchased and Discounted		9,37,500
Total		1,54,06,250

Schedule No. 10 Fixed assets

Premises	15,62,500
Furniture	4,68,750
Total	20,31,250

Schedule No. 11 Other Assets

Silver	3,12,500
Interest Accrued on Investments	1,87,500
Total	5,00,000

Schedule No. 12 Contingent Liabilities

Liability for acceptances and endorsement	12,50,000
	12,50,000

Schedules for Profit & Loss Account**Schedule 13 Interest earned**

Interest and Discount Received	30,00,000	
Add: Rebate over calculated	15,625	30,15,625
Total		30,15,625

Schedule 14 Other Income

Commission exchange	10,62,500
Total	10,62,500

Schedule 14 Other Income

Interest on deposits	13,28,125
Total	13,28,125

Schedule 16: Operating Expenses

General Manager	5,62,500
Directors Fees	62,500
Salaries & Allowances	9,37,500
Audit Fees	12,500

Stationary	25,000
Postage	31,250
Legal Expense	6,250
Sundry Expenses	18,750
Rent Taxes Paid	1,25,000
Total	17,81,250

Provisions

Provision for Taxation	2,50,000
Provision for RDD	1,56,250
Total	4,06,250

Illustration 10: From the following figures taken from Devdutta Bank Ltd., Sangli you are required to prepare Final Accounts for the year ending 31st March 2025.

Particulars	Amount ₹
Share capital 31,250 shares of ₹ 100 each ₹50 paid	15,62,500
Rent	62,500
General reserve	9,375
Stationery	15,625
Audit fees	6,250
Salary	2,50,000
Reserve fund	10,93,750
Current account	2,50,00,000
Fixed deposits	29,68,750
Savings bank deposit	93,75,000
Money at call and short notice	9,37,500
Investment at cost	93,75,000
Interest accrued and paid	6,25,000
Profit and loss account credit balance	6,56,250
Dividend for the year 2023-24	1,56,250
Premises (Original cost ₹40,62,500)	37,50,000
Cash	2,06,250
Cash with RBI	40,62,500
Borrowed from other bank	21,87,500

Interest and discount	23,43,750
Bills discounted and purchased	18,75,000
Bills payable	25,00,000
Unclaimed dividend	93,750
Loan cash credit and overdraft	2,18,75,000
Sundry creditors	93,750
Acceptances endorsements on behalf of customers	6,25,000
Bills for collection	4,37,500
Cash with other bank	46,87,500

Adjustments

1. Authorized capital 31,250 shares of ₹100 each
2. Salary includes Managing Director salary ₹7,500 and Director's fees ₹15,625
3. Rebate on bills discounted and purchased for unexpired terms ₹15,625
4. Allow 5% depreciation on original cost of premises.
5. Provision for R.D.D. ₹ 93,750 required
6. Create provision for taxation ₹ 3,12,500

Solution:

Devdatta Bank Ltd. Sangli Form A – Balance Sheet 31st March 2025

	Schedule No	Amount
Capital & Liabilities		
Capital	1	15,62,500
Reserve and Surplus	2	23,62,500
Deposits	3	3,73,43,750
Borrowings	4	21,87,500
Other Liabilities	5	30,15,625
Total		4,64,71,875
Assets		
Cash & Balance with RBI	6	42,68,750
Cash with other banks & Money at call and short notice	7	56,25,000
Investments	8	93,75,000
Loans and Advances	9	2,36,56,250
Fixed Assets	10	35,46,875
Other Assets	11	0
Total		4,64,71,875

Contingent Liabilities	12	6,25,000
Bills for Collection	-	4,37,500

Profit and Loss for the year ended 31/3/2020

	Schedule No	Amount
I. Incomes		
Interest Earned	13	23,28,125
Other Income	14	0
Total		23,28,125
II. Expenditure		
Interest Expended	15	6,25,000
Operating expenses	16	5,37,500
Provisions	-	4,06,250
Total		15,68,750
III. Profit		
Net profit for the year		7,59,375
Profit brought forward	6,56,250	
Less: Dividend for last year	1,56,250	5,00,000
Total		12,59,375
IV. Appropriation		
Transfer to general Reserve		1,89,844
Interim Dividend		
Balance carried over to Balance Sheet		10,69,531
Total		12,59,375

Schedules for Balance sheet

Schedule 1 Capital

Authorized Capital (1,00,000 shares of ₹100 each)	31,25,000
Paid up Capital (1,00,000 shares of ₹50 each paid)	15,62,500
Total	15,62,500

Schedule 2 Reserve & Surplus

General Reserve	9,375	
Add: Current Year	1,89,844	1,99,219
Reserve Fund		10,93,750
Balance of Profit and Loss		10,69,531
Total		23,62,500

Schedule No. 3 Deposits

Current Account		2,50,00,000
Fixed Deposits		29,68,750
Saving Bank Deposits		93,75,000
Total		3,73,43,750

Schedule No. 4 Borrowings Nil

Borrowed from other bank		21,87,500
Total		21,87,500

Schedule No. 5 Other Liabilities and Provisions

Bills Payables		25,00,000
Unclaimed Dividend		93,750
Sundry Creditors		93,750
Provisions for Taxation		3,12,500
Rebate on bills discounted		15,625
Total		30,15,625

Schedule 6 Cash and Bal with RBI

Cash in Hand		2,06,250
Balance with RBI		40,62,500
Total		42,68,750

Schedule No. 7 Balance with other Bank and MCSN

Cash with other bank		46,87,500
Money at call & Short Notice		9,37,500
Total		56,25,000

Schedule no. 8 Investments

Investment at cost		93,75,000
Total		93,75,000

Schedule No. 9 Advances

Bills discounted and Purchased		18,75,000
Loans Cash Credit and Overdraft	2,18,75,000	
Less: Provision for RDD	93,750	2,17,81,250
Total		2,36,56,250

Schedule No. 10 Fixed assets

Premises	37,50,000	
Less: Depreciation	2,03,125	35,46,875
Total		35,46,875

Schedule No. 11 Other Assets**Schedule No. 12 Contingent Liabilities**

Liability for acceptances and endorsement behalf of customers	6,25,000
Total	6,25,000

Schedules for Profit & Loss Account**Schedule 13 Interest earned**

Interest and Discount Received	23,43,750	
Less: Rebate on bills discounted	15,625	23,28,125

Schedule 14 Other Income Nil**Schedule 15 Interest Expended**

Interest accrued & Paid	6,25,000
Total	6,25,000

Schedule 16: Operating Expenses

Rent	62,500
Stationary	15,625
Audit Fees	6,250
Salary	2,26,875
Managing Directors Fees	7,500
Directors Fees	15,625
Depreciation	2,03,125
Total	5,37,500

Provisions

Provision for Taxation	93,750
Provision for RDD	3,12,500
Total	4,06,250

Illustration 11: From the following balances of Sarswati Bank Ltd., Satara for the year ended 31st March 2025. Prepare Profit and loss account and Balance Sheet.

Particulars	Amount ₹
Paid up capital	17,00,000
Building	3,48,500
Profit and loss account balance on 01-04-2024	2,38,000
Advertising	2,805
Current accounts	58,00,400
Cash with other banks	27,28,500
Interest and discount	5,30,400
Investment	4,72,600
Investment reserve fund	59,500
Loans cash credit and overdraft	1,42,80,000
Postage and telegram	1,870
Director's fees	8,330
Auditor's fees	3,400
Furniture and fixture	62,900
Cash in hand	1,97,200
Cash with RBI	5,10,000
Salaries and allowances	37,400
Statutory reserve	4,50,500
Unexpired insurance	850
Printing and stationery	5,100
Stamps in hand	340
Rent	13,600
Branch adjustment account (Cr.)	85,595
Interim dividend paid	59,500
Payment of last year's dividend	1,70,000
Fixed deposits	85,00,000
Savings deposits	15,13,000
Interest on deposit	51,000
Liability for expenses	76,500

Adjustments

1. The authorized capital is ₹34,00,000 divided into 34,000 shares or ₹100 each, however ₹50 per share called and paid up.
2. Provide depreciation on building ₹17,000 and on Furniture ₹5,100.
3. Also provide ₹42,500 for bad and doubtful debts.
4. An interim dividend was declared at 7% actual.
5. Provide ₹8,500 for Rebate on bills discounted.

Solution

Sarswati Bank Ltd., Satara
Form A – Balance Sheet as on 31st March 2025

	Schedule No	Amount
Capital & Liabilities		
Capital	1	17,00,000
Reserve and Surplus	2	7,92,795
Deposits	3	1,58,13,400
Borrowings	4	-
Other Liabilities	5	2,30,095
Total		1,85,36,290
Assets		
Cash & Balance with RBI	6	7,07,200
Cash with other banks & Money at call and short notice	7	27,28,500
Investments	8	4,72,600
Loans and Advances	9	1,42,37,500
Fixed Assets	10	3,89,300
Other Assets	11	1,190
Total		1,85,36,290
Contingent Liabilities	12	-
Bills for Collection	-	-

Profit and Loss for the year ended 31/3/2025

	Schedule No	Amount
i. Incomes		
Interest Earned	13	5,21,900
Other Income	14	-
Total		5,21,900

ii. Expenditure		
Interest Expended	15	51,000
Operating expenses	16	94,605
Provisions	-	42,500
Total		1,88,105
iii. Profit		
Net profit for the year		3,33,795
Profit brought forward	2,38,000	
(Less: Last Year Profit)	1,70,000	68,000
Total		4,01,795
iv. Appropriation		
Transfer to statutory Reserve		83,450
Interim Dividend	59,500	
Add: Outstanding	59,500	1,19,000
Balance carried over to Balance Sheet		1,99,345
Total		4,01,795

Schedule 1 Capital

Authorized Capital (20,000 shares of ₹100 each)	34,00,000
Paid up Capital (20,000 shares of ₹100 each ₹ 50 paid)	17,00,000
Total	17,00,000

Schedule 2 Reserve & Surplus

Statutory Reserve	4,50,500	
Add: Current Year	83,450	5,33,950
Investment Fluctuation Fund		59,500
Balance of Profit and Loss		1,99,345
Total		7,92,645

Schedule No. 3 Deposits

Fixed Deposits	85,00,000
Saving Deposits	15,13,000
Current Deposits	58,00,400
Total	1,58,13,400

Schedule No. 4 Borrowings - Nil**Schedule No. 5 Other Liabilities and Provisions**

Branch Adjustment Account	85,595
Liability for expenses	76,500
Outstanding Interim Dividend	59,500
Rebate on Bills discounted	8,500
Total	2,30,095

Schedule 6 Cash and Bal with RBI

Cash in Hand	1,97,200
Cash with RBI	5,10,000
Total	7,07,200

Schedule No. 7 Balance with other Bank and MCSN

Cash with other Banks	27,28,500
	27,28,500

Schedule no. 8 Investments

Investments	4,72,600
Total	4,72,795

Schedule No. 9 Advances

Loans Cash Credit & OD	1,42,80,000	
Less: Bad & doubtful Debts	42,500	1,42,37,500
		1,42,37,500

Schedule No. 10 Fixed assets

Building	3,48,500	
Less: Depreciation	17,000	3,31,500
Furniture and Fittings	62,900	
Less: Depreciation	5,100	57,800
Total		3,89,300

Schedule No. 11 Other Assets

Unexpired Insurance	850
Stamps in Hand	340
Total	1,190

Schedule No. Contingent Liabilities**Schedule 13 Interest earned**

Interest and Discount	5,30,400	
Less: Rebate on Bills Discount	8,500	5,21,900
Total		5,21,900

Schedule 14 Other Income**Schedule 15 Interest Expended**

Interest on Deposit		51,000
Total		51,000

Schedule 16: Operating Expenses

Advertisement	2,805
Postage & Telegram	1,870
Directors Fees	8,330
Auditor's Fees	3,400
Salaries and Allowances	37,400
Printing & Stationary	5,100
Rent	13,600
Dep. On Building	17,000
Dep. On Furniture	5,100
Total	94,605

Provisions

Pro. For bad debts	42,500
	42,500

Check your progress - 3.

1. The Profit and Loss Account of a bank is prepared to ascertain:

- | | |
|--------------------------------|--------------------------|
| A) Financial Position | B) Cash Balance |
| C) Profit or Loss for the year | D) Deposits of Customers |

Answer1: C) Profit or Loss for the year

2. The Balance Sheet of a bank shows:

- | | |
|-------------------------------|--|
| A) Income and Expenses | B) Financial Position on a specific date |
| C) Cash Receipts and Payments | D) Profit Distribution |

Answer2: B) Financial Position on a specific date

3. Which of the following is the major source of income for a bank?

- | | |
|-------------------------|--------------------------------|
| A) Rent Received | B) Interest Earned on Advances |
| C) Sale of Fixed Assets | D) Share Capital |

Answer3: B) Interest Earned on Advances

4. Interest paid on deposits is shown under:

- | | |
|-----------------------|----------------------|
| A) Other Income | B) Interest Expended |
| C) Operating Expenses | D) Advances |

Answer4: B) Interest Expended

5. Deposits accepted from customers are shown on the:

- | | |
|----------------|---------------------|
| A) Assets Side | B) Liabilities Side |
| C) Income Side | D) Expenditure Side |

Answer5: B) Liabilities Side

6. Loans and Advances granted by a bank are shown on the:

- | | |
|---------------------|-----------------|
| A) Liabilities Side | B) Assets Side |
| C) Income Side | D) Capital Side |

Answer6: B) Assets Side

7. Rebate on Bills Discounted at the end of the accounting year is:

- | | |
|----------------------------------|---------------------------|
| A) Added to Discount Income | B) Ignored |
| C) Deducted from Discount Earned | D) Treated as Fixed Asset |

Answer7: C) Deducted from Discount Earned

8. Which Schedule contains details of Deposits in the Balance Sheet of a bank?

- | | |
|---------------|---------------|
| A) Schedule 3 | B) Schedule 4 |
| C) Schedule 5 | D) Schedule 9 |

Answer8: C) Schedule 5

9. Which Schedule contains details of Advances?

- | | |
|---------------|----------------|
| A) Schedule 7 | B) Schedule 8 |
| C) Schedule 9 | D) Schedule 10 |

Answer: C) Schedule 9

10. The total of Assets side of a bank's Balance Sheet must be equal to the total of:

- | | |
|---------------------|---------------------|
| A) Income Side | B) Expenditure Side |
| C) Liabilities Side | D) Profit Side |

Answer10: C) Liabilities Side

2.3. Summary

This unit focuses on the preparation and presentation of the Final Accounts of Banking Companies. Since banks deal primarily in financial transactions such as accepting deposits, granting loans and advances, investing funds, and providing various banking services, their financial statements differ from those of ordinary business organizations. Banks are required to prepare their final accounts in accordance with the provisions of the Banking Regulation Act and prescribed accounting standards.

The unit begins with the preparation of the Statement of Profit and Loss Account, which shows the bank's income and expenses during an accounting period. Major income items include interest earned on loans and investments, while expenses include interest paid on deposits, operating expenses, and provisions.

The unit also covers the preparation of various schedules that provide detailed information about different items appearing in the financial statements. Important schedules include Capital, Reserves and Surplus, Deposits, Borrowings, Other Liabilities and Provisions, Cash and Bank Balances, Investments, Advances,

Fixed Assets, and Other Assets. These schedules help in presenting financial information in a systematic and transparent manner.

Finally, the unit explains the preparation of the Balance Sheet, which presents the financial position of the bank on a specific date. The Balance Sheet classifies assets and liabilities and reflects the bank's solvency and financial strength. Thus, Unit 2 enables students to understand how banking transactions are summarized, reported, and analyzed through financial statements.

2.4. Glossary

1. Bad Debts and Provisions for Bad Debts:

With a view to maintain public confidence the banking companies were not exhibiting in their financial statements the bad debts and particularly the provision for bad debts. These items were allowed to be deducted from the income in P & L A/c as well as from the advances in the Balance Sheet.

However, with a change in the policies, now the banks are required to show (exhibit) these items in P & LA/c under the heading "Provisions & Contingencies" in Schedule-16, as an expenditure. In the balance sheet, they are shown in Schedule-9 for Advances after duly deducting them from such advances.

2. Provision for Taxation:

Earlier, this item too was allowed to be deducted from the income on the credit side of P&L A/c and from the "Current Accounts" in the Balance Sheet. But w.e.f. 1.4.1991, this item is required to be charged to P & L A/c under the heading "Provisions and Contingencies" in Schedule- 16 as an expenditure and to be shown in the Balance Sheet under "Other Liabilities and Provisions" in Schedule-5.

The Calculation of this provision is to be made at the prescribed rate of tax on the profits before taxation. Such profits are to be computed separately.

3. Rebate on Bills Discounted (Unearned Discount)

This being unexpired discount or discount received in advance; was allowed to be deducted from the income on the credit side of P & L A/c and to be shown as other

liabilities in the balance sheet prior to 1.4.1991. With effect from 1.4.1991, utmost the same procedure is continued to be followed in respect of this item with only one exception. Instead of showing the gross receipts of "Discount on Bill discounted" in the P & LA/c, the "Rebate on Bills Discounted" is deducted from such gross receipts and only the net discount is shown in P & L A/c through Schedule-13.

2.5. Answers of Check your Progress

Check your Progress 1.

- | | |
|---|---|
| 1: B) Interest Earned | 2: C) Interest Expended |
| 3: B) Other Income | 4: D) Salaries and Allowances |
| 5: A) Operating Expenses | 6: C) Provisions and Contingencies |
| 7: B) Profitability of the Bank | 8: B) Commission Earned |
| 9: B) Total Income – Total Expenditure | |
| 10: B) Unexpired discount income to be carried forward | |

Check your Progress 2.

- | | |
|---|--|
| 1: B) Financial Position of the Bank | 2: B) Liabilities Side |
| 3: A) Assets Side | 4: C) Schedule 5 |
| 5: C) Schedule 9 | 6: B) Assets |
| 7: C) Liabilities Side | 8: B) Assets |
| 9: C) Liabilities Side | 10: B) Provide detailed classification of items |

Check your Progress 3.

- | | |
|--|--|
| 1: C) Profit or Loss for the year | 2: B) Financial Position on a specific date |
| 3: B) Interest Earned on Advances | 4: B) Interest Expended |
| 5: B) Liabilities Side | 6: B) Assets Side |
| 7: C) Deducted from Discount Earned | 8: C) Schedule 5 |
| 9: C) Schedule 9 | 10: C) Liabilities Side |

2.6. Exercise

A) Theory Questions

1. Explain the following Schedules

- a. Advances
- b. Operating Expenses
- c. Deposits
- d. Capital of Banks

2. Write Short Notes

- a. Rebate on bills discounted
- b. Bills for collection
- c. Inter office adjustments
- d. Contingent Liabilities
- e. Statutory reserve
- f. Money at Call and Short notice

B) Practical problems

Que. 1 From the following information prepare Profit and Loss A/c for the year ended 31st March 2025.

Particulars	Amount in ₹
Interest on loans	64,75,000
Interest on fixed deposits	68,75,000
Rebate on bills discounted	12,25,000
Commission	2,05,000
Salary and allowance	13,50,000
Discount on bills discounted (net)	36,50,000
Interest on cash credit	55,75,000
Interest on current accounts	10,50,000
Rent and rates	4,50,000
Interest on overdrafts	38,50,000

Director's fees	75,000
Auditor's fees	30,000
Interest on saving bank deposits	17,00,000
Postage and telegram	35,000
Printing and stationery	72,500
Sundry expenses	42,500

Adjustments

1. Provision for bad and doubtful debts to be made ₹ 10,00,000
2. Provision for taxation to be made at 55%

Que. 2 From the following information prepare Profit and Loss Account of Shardha Bank Ltd., for the year ending 31st March 2025.

Particulars	Amount in ₹
Interest on loans	13,50,000
Interest on overdrafts	1,35,000
Discount on bills	6,84,000
Interest on cash credit	10,80,000
Commission	45,000
Exchange and brokerage	90,000
Interest on fixed deposits	12,37,500
Interest on savings bank deposits	3,91,500
Salary and allowance	6,75,000
Postage and telegram and stamps	45,000
Sundry expenses	45,000
Rent and taxes	1,12,500
Director's fees	1,35,000
Audit fees	45,000

Adjustment

1. Rebate on bills discounted ₹1,35,000
2. Bad debts ₹ 1,80,000
3. Provision for tax ₹1,53,000
4. Interest of ₹ 18,000 on doubtful debts was wrongly credited to interest on loan account.

Que.3 The following are the ledger balances of the Janata Bank Ltd., as on 31st March 2025.
Prepare Balance Sheet as on 31st March 2025.

Name of account	Debit	Credit
Share capital (₹80,000 shares of ₹10 each		8,00,000
Statutory reserve		6,00,000
Borrowings from other banks		6,40,000
Net profit for the year (before appropriation)		10,00,000
Bills payable		1,60,000
Cash in hand	8,00,000	
Profit and loss a/c		8,00,000
Cash with RBI	2,00,000	
Cash with other bank	9,60,000	
Current a/c		27,20,000
Saving bank a/c		8,80,000
Fixed deposit		12,00,000
Bills purchased and discounted	12,00,000	
Cash credit and overdraft	19,00,000	
Money at call and short notice	4,40,000	
Investment in govt. securities	5,60,000	
Term loans	21,00,000	
Premises (Cost ₹4,80,000)	3,60,000	
Investment in shares	1,60,000	
Furniture (Cost ₹2,00,000)	1,20,000	
Total	88,00,000	88,00,000

Adjustments

1. Claims against bank not acknowledged as debts ₹80,000
2. Bills for collection amounted to ₹6,00,000
3. Acceptances and endorsements ₹4,00,000

Que. 4: The following balances are taken from the books of Mahalaxmi Bank Ltd., Kolhapur as on 31st March 2025. You are required to prepare Profit and loss account and Balance sheet as on 31st March 2025.

Particulars	Amount ₹	Particulars	Amount ₹
Share capital Equity shares of ₹100 each ₹50 paid	3,32,500	Interest on advances	1,44,970
Reserve fund	3,32,500	Postage and telegrams	6,650
Loans cash credit	3,79,050	Rebate on bills discounted	7,980
Building(after depreciation up to 31st March 2020 ₹13,300)	66,500	Money at call and short notice	39,900
Govt. securities	5,32,000	Interest accrued and paid	55,860
Current accounts	3,32,500	Bills discounted and purchased	61,180
Savings deposits	1,33,000	Silver	13,300
Fixed deposits	1,06,400	Interim dividend paid	22,610
Salary	31,920	Short loans	66,500
Law charges	5,320	Unexpired insurance	532
Cash certificates	26,600	Discount earned	17,290
Bills for collection	79,800	Furniture	10,640
Recurring deposits	33,250	Stamps in hand	133
Rent and taxes	3,059	Shares in X Ltd.,	66,500
Director's fees	2,394	Cash in hand	34,580
Auditor's fees	3,192	Cash with RBI	23,940
Profit and loss a/c (01-04-2024)	21,280	Cash with SBI	79,800
Branch adjustment (Cr.)	6,650	Cash with other banks	1,33,000
Gold	26,600	Commission paid	9,310
Borrowings from other banks	1,86,200	Sundry receipts	6,650
		Commission & brokerage (Cr.)	39,900

Adjustments

1. Allow 5% depreciation on building on original cost.
2. Furniture costing ₹2,660 was added during the year write off depreciation 10% on opening balance of furniture.
3. A provision for doubtful debts ₹6,650
4. Create tax provision ₹26,600
5. Rebate on bills discounted at 31st March 2025 ₹6,650.

Que. 5: The following is the Trial Balance of Sangli Bank Ltd., as at 31st March 2025. Prepare Profit and loss account and Balance sheet as on 31st March 2025.

Debit balances	Amount	Credit balances	Amount
Printing and stationery	48,000	Share capital shares of ₹10 each	7,20,000
Investment in Govt. securities	4,32,000	Statutory reserve	4,32,000
Establishment expenses	4,68,000	Current deposits	48,00,000
Interest paid	30,60,000	Saving deposits	61,20,000
Salary and allowance	15,60,000	Fixed deposits	31,80,000
Divided for last year	72,000	Discount	18,00,000
Premises	14,40,000	Profit and loss a/c last year	9,60,000
Cash in hand	1,20,000	Interest received	43,20,000
Investment in shares	3,00,000	Commission and exchange	9,60,000
Cash with other banks	9,00,000	Dividend received	30,000
Term loan	36,00,000	Bills payable	14,22,000
Cash credit	72,00,000		
Bills purchased and discounted	54,00,000		
Loans to employee	1,44,000		
Total	2,47,44,000	Total	2,47,44,000

Adjustments

1. Unimpaired discount as at 31st March 2025 ₹72,000
2. Provide for doubtful loans at ₹24,000
3. Make necessary appropriation for statutory reserve

Que. 6: The following is the Trial Balance of Swagat Bank Ltd., as on 31st March 2026

Particulars	Debit ₹	Credit ₹
Share capital authorized and issued 10,000 equity shares of ₹ 100 each ₹ 50 paid		5,00,000
Statutory reserve fund		3,00,000
Fixed deposits		8,00,000
Savings deposits		25,00,000
Demand deposits		85,00,000
Profit and loss account 01-04-2024		2,00,000
Borrowing from Maharashtra Bank		7,00,000
Interest and discount		7,50,000
Bills payable		10,00,000
Unclaimed dividend		30,000
Sundry creditors		30,000
Money at call and short notice	3,00,000	
Investments	35,00,000	
Interest	2,00,000	
Salaries	1,00,000	
Rent and taxes	20,000	
Other expenditure (including Audit fees ₹2,000)	10,000	
Dividend (2004-2005)	50,000	
Premises	12,00,000	
Cash in hand	50,000	
Cash with RBI	14,00,000	
Cash with other banks	11,00,000	
Bills discounted and purchased	6,00,000	
Loans and advances	67,80,000	
Total	1,53,10,000	1,53,10,000

Adjustments:

1. Provide for doubtful debts ₹30,000
2. Provide for taxation ₹30,000
3. Allow 5% depreciation on premises
4. Rebate on bills discounted amounted to ₹10,000
5. Bills for collection were ₹1,50,000
6. Liability for acceptances and endorsement for customers were ₹ 2,50,000

Prepare profit and loss account for the year ended 31st March 2025 and Balance sheet as on that date with necessary workings.

2.7. References for further study-

1. Dr. S. M. Shukla (2024), Financial Accounting, Sahitya Bhavan Publications, Agra.
2. M.C. Shukla, T.S. Garewal, (2020) Advanced Accounts Vol. II, 19 edition, S. Chand Publications.
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