CONSIGNMENT ACCOUNTS
Due to the increasing size of the market it has become more difficult for the manufacturer to come in direct contact with the customer living at far off distance. So it is important for him to enter into an agreement with a local trader who can sell goods on his behalf for an agreed amount of commission. This process of sale is called consignment.

Good so sent are termed as **goods sent on consignment**
Sender -**consignor**
Receiver- **consignee**

Features

1) Consignment of goods is not sale, it is simply the transfer of possession of goods
2) Consignors sell goods at the risk of the consignor. He is not responsible for any loss or destruction of goods
3) Sale proceeds belong to the consignor and the consignee only gets commission and expenses that he might have incurred
4) Relationship between consignor and consignee is that of principal and agent

Proforma invoice
It is a statement prepared by a consignor stating the quantity, quality and price of goods. It is sent with goods dispatched to the consignee.

Account sales

It is a periodical statement sent by the consignee to the consignor containing details of goods sold, expenses incurred, commission charged and balanced due by him to the consignor.

Commission
Remuneration payable to consignee for sale made by him is called commission.
Commission are of three types:

1) **Simple commission**- It is calculated as per terms laid by the consignor. This is usually a fixed percentage of total sales.
2) **Overriding commission**- It is an extra commission allowed to consignee in case sale exceeds a specific amount. It is also calculated on Total sales.
3) **Del- credere commission**- When consignee agrees to pay any loss which the consignor may suffer by way of bad debt, then such commission is known as del credere commission.

Advance
When the consignor asks the consignee to deposit some money with him as security in respect of goods sent by him on consignment. It is usually a certain percentage of the value of goods sent on consignment.

Difference between Sale and consignment

Sale	Consignment
In case of sale goods are transferred by buyer along with the title of goods.	In case of consignment, only goods are transferred but the title of goods remain with the

	consignor till goods are sold off.
Goods on soul cannot be returned to the seller except if they have to be returned as per specific agreement.	Unsold goods can be returned to the consignor as they are the property of the consignor.
Goods lost after sale and delivery is the loss of the buyer.	Goods lost in transit in consignment will be borne by the consignor.

BILLS OF EXCHANGE

When goods are sold or bought on credit the payment is made on a future date. In order to avoid any possibility of delay or default, an instrument of credit is used through which the buyer assures the seller that payment shall be made according to agreed conditions. These instruments of credit are called Bills of Exchange.

In India, these instruments are governed by the Negotiable Instrument Act, 1881.

Negotiable instrument is a signed document that promises a sum of payment to a specified person.

Features:

1) Bills of Exchange must be in writing.
2) It acts as an order to make payment.
3) The maker of the bill of exchange must sign it.
4) Payment to be made must be certain
5) The date on which payment must be made is also certain.

Parties of Bills of Exchange:

1) **Drawer**- Maker of Bill (Seller/ Creditor). The drawer after writing the bill of exchange has to sign it as the maker of the bill of exchange.
2) **Drawee**- Person on whom bill of Exchange is drawn (Purchaser/ Debtor)
3) **Payee**- Person to whom the payment is to be made.
   The drawer of the bill will himself be the payee if he keeps the bill with him till the date of payment. The payee may change in the following situations:

a) In case the drawer has got the bill discounted. The bank gets the amount from the drawee on the due date.
b) In case the bill is endorsed, the other person becomes the payee.

Bill Discounted- If the holder of the bill needs the funds, he can approach the bank for encashment of the bill before the due date. The bank shall make the payment of the bill after deducting some interest (discount). This process of encashing the bill with the bank is called discounting the bill. The bank gets the amount from the drawee on the due date.

Endorsement of Bill- Any holder may transfer the bill unless its transfer is restricted. The bill can be endorsed by the drawer by putting his signature at the back of the bill along with the name of the party to whom it is being transferred. This act of signing and transferring the bill is called endorsement.

Advantages of Bills of Exchange:

1) **Framework for relationship**- A bill of exchange represents a device, which provides a framework for enabling credit transactions between seller and buyer on an agreed basis.
2) **Certainty of terms and conditions**- The seller knows the time when he would receive the money and the buyer is fully aware of the date by which he has to pay the money. This is due to the fact that terms and conditions are clearly mentioned in the bill of exchange.
3) **Convenient means of credit**- A bill of exchange enables the buyer to buy the goods on credit and pay after a certain period of time. The seller of goods can also get payment immediately either by discounting the bill with the bank or by endorsing it in favor of third party

4) **Conclusive proof**- The bill of exchange is legal evidence implying that buy a has obtained credit from the seller. Therefore the buyer is liable to pay the seller. In case of refusal of making payment, it may act as a proof in the court.
5) **Easy transferability**- Seller can pay off his liability either by endorsing it to the third party or by getting it encashed from the bank.

Maturity of Bill

The term majority refers to the date on which a bill of exchange becomes due for payment. In arriving at the maturity date 3 days, known as days of grace, must be added to the date on which the period of credit expires.
Example Bill date is 5th March, and it must be paid after 1 month i.e., 5th April + 3 days which is 8th April
If the date of maturity is a public holiday the instrument will become due on the preceding business day i.e., 7th April
If emergent holiday is declared by the government of India on the date of majority of the bill of exchange then the date of maturity will be the next working day immediately after the holiday i.e., 9th April

Bills of exchange are of two types:

1) **Bills payable**- Bill on which payment is due to the creditor. It is a liability.
2) **Bills receivable**- Bill on which payment is to be received from the debtor. It is an asset.

Renewal of Bill

Sometimes acceptor of the bill feels that it may be difficult to meet the obligation of the bill on maturity. Therefore he approaches the drawer with the request for extension of time for payment. So the old bill is canceled and the new bill with new terms of payment is drawn duly accepted. This is called renewal of Bill.
The drawing I have to pay interest to the drawer for an extended period of credit.

Retiring of Bill
When payment is made against the bill of exchange before the due date by mutual understanding between the drawer and drawee. This is known as retiring of Bill
To encourage retirement of Bill the holder allows some discount called rebate on Bill.

Dishonor of Bill
A bill is said to have been dishonored when the drawee fails to make the payment on the date of maturity

Rectification of Errors

Trial Balance provides only proof of arithematical accuracy of the books of accounts. It simply assures that for every debit there is an equivalent credit entry. But inspite of an agreed trial balance, there may be errors in the books of accounts

Types of Errors.

(1) Error of omission - These are errors in which transaction is completely omitted (not recorded) from the books of accounts.
For Ex. If goods purchased from A on credit is ~~completely~~ not recorded in the books of original entry i.e., there has been neither a debit nor a credit entry, therefore two sides of trial balance will not be affected by this error.

(2) Error of commission - Errors on account of wrong balancing of the account, wrong posting, wrong carry forward, wrong totalling etc.
~~This~~ Example. If ₹50 is received from B and it is credited to his account as ₹500. This affects the agreenment of Trial Balance.

(3) Error of Principle - Errors of Principles are committed in those cases where proper distinction between revenue and capital items is not made i.e., capital expenditure is taken as revenue expenditure and vice versa.
Similarily a capital receipt may be taken as revenue receipt or vice versa.

Ex: Sale of old Furniture of ₹500 should be credited to Furniture Account but if it is credited to Sale Account, it will be termed as an error of Principal.

Such errors do not affect the agreement of Trial Balance.

(4) compensating errors - These are those errors which compensate each other.

Ex.

Correct Entry	Sale to Ram ₹500 Ram A/c Dr 500 To Sale A/c 500	Sale to Shyam ₹50 Shyam A/c Dr 50 To Sale A/c 50
Wrong Entry	Ram A/c Dr 50 To Sale A/c 50	Shyam A/c Dr 500 To Sale A/c 500

These errors do not affect the agreement of Trial Balance.

Location of Error.

↓ Error which affect the agreement Of Trial Balance
↓
Error of commission

↓ Error which do not affect the agreement of Trial Balance
↓
Error of ommission
Error of Principle
compensating error.

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In case of disagreement of Trial Balance, following steps must be followed to locate the errors:-

1. Recheck the total of Debit & credit of Trial Balance.

2. compare each account and the amount appearing in the Trial Balance, with that of Ledger to detect any difference in amount or omission of an account.

3. If the difference is of huge amount, the Trial Balance of C.Y. & P.Y. must be compared and check whether there is any abnormal difference between the balance of important accounts of the two Trial Balances.

4. Re-check the correctness of posting in accounts from the books of original entry.

5. If the difference between debit & credit column is divisible by 2, there is a possibility that an amount equal to one-half of the difference may have been ~~posted to wrong side~~ placed to the wrong side.

cash	700	
capital		500
Purchase		250
Sale		100
Furniture	300	
creditor		650
	1000	1500

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(6.) If the difference is a multiple of 9, the difference may be due to transposition of figures.

Cash	604	
Capital		1000
Sale		500
Debtor	698	
	1302	1500

896 is written as 698.

Suspense A/c.

~~In case the accountant, difference is not found out~~

In case of inability to detect the error at the right time, the difference is transferred to a temporary account known as Suspense Account.

On location of error, suitable accounting entries are passed and suspense account is closed.

However, it should be noted that suspense account should be opened only when one has failed in locating the errors ~~is the existence~~ and should not be opened by way of normal practice. The existance of a suspense account creates a doubt about the authencity of the books of accounts.

Trial Balance is only a prima facie (1st impression) evidence of the accuracy of the books of Accounts.

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BANK RECONCILIATION STATEMENT

Any firm maintains one or more bank accounts because of the following reasons:

1) **Avoid Risk**- Keeping large cash balance in office is risky. So, money is deposited from time to time in bank to avoid such risk.
2) **Prevention of fraud and misappropriation**- Deposit of money in the bank and payment of money through the bank reduces the chance of misappropriation and fraud played by the employees of the firm.

All the transactions of the bank are recorded by the firm. The bank also maintains a firms account in its books. Bank submits to the firm from time to time the accounts maintained by it of the firm. This is also known as bank passbook or bank statement. The bank submits the bank statement to customers top provide information and verification.

Balance shown by bank column maintained by firm and the bank statement provided by the bank normally do not tally on account of certain reasons, which are as follows:

1) **Cheque issued but not presented for payment**- The firm issues cheque from time to time for making different payments. As soon as the cheque is issued the firm records it in its books of accounts. However, the bank comes to know about the issue of such cheques only when it is presented for payment. It may therefore be possible that on a particular date when the bank is submitting the passbook it may not include certain cheques which have been issued by the firm because they may not yet have been

presented. Thus, the balance shown by the banks passbook will be higher than balance of firms bank account.

2) **Cheque received but not yet sent for collection**- A firm receives cheque from its customers every now and then. Firm records this event immediately in its books of accounts. However, the bank records it only when cheque are actually sent for collection. It may be possible that on a particular date the firm has the cheque but it is not yet sent for collection from the bank. Thus, the balance shown by the firms bank account and the passbook of the bank will show different balance.
3) **Bank charges**- Bank charges from its customers for the services it renders to its customers for the services it renders to its customers from time to time. Bank charges are deducted directly from the bank account every time a service is rendered. Firm will come to know of such charges only when he receives the passbook. Thus, on a particular date the balance of passbook and the bank account balance of the firm may be different.
4) **Direct Collection on behalf of customer**- The debtor may send the amount due directly in the bank account of the firm. Bank records this event on the date of transaction. But the firm comes to know of this only when he receives the updated passbook. Thus the balance of passbook and bank account maintained by the firm is different.
5) **Errors**- Errors may occur in the account maintained by the firm as well as y the bank. A wrong record will lead to different in the balance of passbook and bank account of the firm.

BANK RECONCILIATION STATEMENT

Statement prepared for reconciling the balance shown by bank passbook and the balance as per the bank account maintained by the firm.

The Object of preparing such statement is to know the cause of difference between the two balances and pass necessary correcting or adjusting entries in the books of the firm.

Balance as per firm (+) Cheque issued but not presented for payment (-) Cheque received but not sent for collection (+) Amount wrongly credited by bank (-) Amount wrongly debited by bank (-) Bank charges (+) Direct collection on behalf of customers (-) Amount wrongly debited in the books of firm (+) Amount wrongly credited in the books of firm	
Balance as per passbook issued by bank	

It should be noted that every reason of difference does not require an adjusting or correcting entry. Some reasons of difference are automatically adjusted.

For Example- If a cheque is received but not sent for collection.

FINAL ACCOUNTS

Final accounts give an idea about the profit or loss earned by the firm in the accounting period and the financial position at which it stands at the end of the accounting period.

It means those accounts which are prepared at the final stage to determine the financial position of the business.

The determination of profit or loss is done by preparing Trading Account & Profit and loss Account while the financial position is judged by means of preparing balance sheet. These three statements together are called Final accounts.

STATEMENT NAME	PREPARED TO DETERMINE
TRADING ACCOUNT	GROSS PROFIT OR LOSS
PROFIT AND LOSS ACCOUNT	NET PROFIT OR LOSS
BALANCE SHEET	VALUE OF ASSETS AND LIABILITIES

TRADING ACCOUNT

It gives the overall result of trading of goods. It explains whether purchasing of goods or selling them has proved to be profitable for the business or not.

Purchased 5pens (Goods) @ 50 each = 250

Sold 5pens (Goods) @ 70 each = 350

Gross Profit= Sale – Purchase

Gross Profit= 350-250 = 100

Sale > Purchase - Gross Profit or

Purchase > Sale – Gross loss

FORMAT OF TRADING ACCOUNT FOR THE YEAR ENDED 31ST MARCH 2022

PARTICULARS	AMOUNT	PARTICULARS	AMOUNT
To Opening Stock To Purchase 5,000 (-) Purchase (1,000) Return To Direct Expenses To Gross Profit	10,000 4,000 1,000 -	By Sale 3,000 (-) Sale (1,000) Return By Closing Stock By Gross Loss	2,000 10,000 3,000
	15,000		15,000

1. Opening Stock- Goods lying unsold with the businessmen in the beginning of the accounting year. (1st April,2021)
2. Closing Stock- Goods lying unsold with the businessman at the end of the accounting year. Closing Stock is also shown as an asset in the balance sheet at the end of the year. It will be shown as an Opening stock next year.
3. Purchase- It includes both cash and credit purchases of goods. If the owner has withdrawn some goods for his personal use, the value of such goods will be deducted from purchase.
4. Sale- It includes both cash and credit sales.
5. Direct Expenses- Expenses incurred for production or acquisition of goods. Example- raw material, wages, carriage, fright, customs, import duties etc.

PROFIT AND LOSS ACCOUNT

It is prepared to determine net profit or net loss of the business during the accounting period.

It is initiated by entering gross loss on the debit side or gross profit on the credit side. These values are obtained from Trading account.

All indirect expenses are shown on the debit side and indirect income on the credit side.

Indirect Expenses- Expenses incurred after production of goods for sale.

Example- Advertisement expenses, Salary, Office expenses, stationery, Rent, Electricity etc.

FORMAT OF PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST 2022

PARTICULARS	AMOUNT	PARTICULARS	AMOUNT
To Gross Loss	3000	By Gross Loss	-
To Salary 400 (+) o/s salary 100	500	By Discount	200
		By Interest	300
To Rent	300	By Net Loss	4000
To Commission	200		
To Advertisement	200		
To Bad debt	100		

To Discount **To Depreciation** **To Net Profit**	**100** **100** **-**		
	4500		**4500**

BALANCE SHEET

To know the financial position of business, a businessman prepares a statement of his assets and liabilities on the last date of the accounting period. This statement is known as Balance sheet.

FORMAT OF BALANCE SHEET AS AT 31ST MARCH 2022

LIABILITY	AMOUNT	ASSETS	AMOUNT
Capital **(-) Drawings** **(+) Net Profit** **(-) Net Loss** **Loan** **Bills Payable** **Creditor** **Bank Overdraft** **o/s expenses** **Advance income**		**Cash** **Bank** **Bills Receivable** **Bills Receivable** **Debtor** **(-) Bad debt** **Closing Stock** **Furniture** **Plant and Machinery** **Building** **Land** **Accrued Income** **Prepaid Expenses**	

Liability

It is a term in accounting that is used to describe any kind of financial obligation that the business is liable to pay. It is settled by transferring economic benefits such as money, goods or services.

1) Current Liability- Liability that are due and need to be paid within an accounting period (which is usually 1 year). It is also known as short term liabilities. Example- Bills Payable, Creditor, Bank Overdraft.
2) Non- Current Liabilities- Financial Obligation that are due in over a year's time. It is also known as long term Liabilities. Example- Loan from Bank.

Assets

It is an item owned by business. It has economic value that can be realized by converting it into cash or generating income for the company.

1) Current Assets- Assets which can be converted into cash easily from the market within an accounting period. Example- Closing stock, Bills Receivable, Debtor etc.
2) Fixed Assets- Assets which are not to be sold by the firm and to be used for a period of time. Example- Plant and Machinery, land and Building, Furniture etc.
3) Intangible Assets – Assets which cannot be seen or touched. Example- Goodwill, Patent, Trademark etc.

SINGLE ENTRY SYSTEM

Small scale businesses do not keep complete records of all business and financial transactions as per the double entry system. Few transactions are recorded completely as per the double entry system but a majority of them are recorded partially. Under this system records of cash and personal accounts of debtors and creditors are properly maintained, while information relating to assets, liabilities, revenue and expenses are partially recorded. Hence these are referred to as single-entry systems or incomplete records.

FEATURES

1. **Maintenance of Personal Accounts**- If there are credit sales or credit purchases the personal accounts of debtors and creditors are maintained but the real and nominal accounts are avoided.
2. **Maintenance of cash boo**k- A cash book is usually maintained but the business transaction and personal transactions are usually mixed up.
3. **Dependence on Original Vouchers**- To calculate profit or loss or collect purposeful information necessary figures can be collected only from the original vouchers
4. **Preparation of Financial Statement**- Financial Statement cannot be prepared easily. It is prepared only after available information is converted into a double entry system and the missing figures have been found out.

5. **Lack of Uniformity**- The adaptation of this system is not uniform. It depends on firm to firm as per their individual requirements and convenience. Hence their accounts are not comparable due to lack of uniformity.
6. **Less Expensive**- Under this system, fewer books are maintained hence it is less costly in comparison to the double entry system.
7. **Lack of legal recognition**- This system is not acceptable by tax authorities.

ADVANTAGES

1. **Simple method**- It is a simple and easy method of recording business transactions.
2. **Economical**- This system is less expensive, because it requires lesser books of accounts
3. **Suitable for small traders**- It is suitable for small traders and professionals because they cannot spend large amount on keeping records
4. **Easy to ascertain profit or loss**- It is easier to ascertain profit or loss under this system. For this purpose, only the closing capital has to be compared with the opening capital along with some adjustments
5. **Flexible in nature**- It does not have a common set of rules and regulations. It can be easily changed and adjusted according to the need of a particular business

6. **Tax evasion**- This system is used to evade tax as full details are not available under this system

DISADVANTAGES

1. **No record of impersonal accounts**- Only personal accounts are opened and impersonal accounts are not opened
2. **No trial balance**- For some transactions both aspects are recorded while for others only one aspect is recorded, hence trial balance cannot be prepared.
3. **Difficulty in ascertaining net profit**- As no posting of nominal account takes place, hence, Trading and Profit and loss account cannot be prepared. In the absence of these accounts it is very difficult to find out gross profit and net profit accurately.
4. **Difficulty to ascertain financial position**- Real accounts are not opened in ledger, hence, Balance sheet cannot be prepared easily and correctly. In the absence of a balance sheet it is very difficult to ascertain financial position accurately.
5. **Encourages Fraud**- As Full accounting record is not kept hence it encourages fraud and misappropriation.
6. **Comparison becomes difficult**- Under this system full accounting record of all transactions is not kept, hence financial position of business of various years cannot be compared.

DIFFERENCE BETWEEN DOUBLE ENTRY SYSTEM AND SINGLE-ENTRY SYSTEM

BASIS	**DOUBLE ENTRY SYSTEM**	**SINGLE ENTRY SYSTEM**
1 Recording of both aspects	Both aspects of every transaction are recorded.	In some cases both and in other cases only one aspect is recorded.
2 Types of accounts	All personal real and nominal accounts are maintained.	Only personal and cash accounts are maintained.
3 Trial balance	Trial balance is prepared.	Trial balance cannot be prepared.
4 Financial Position	Balance sheet is prepared hence financial position can be easily found out.	In the absence of a reliable balance sheet, financial position cannot be easily found out.
6 Utility	This system is suitable for all types pf business.	This system may be used only in small businesses.
7 Proof	In case of necessity this record is treated as a proof in Court of law.	In case of necessity this record is not treated as a Court of law.
8 Assumptions and Principles	It is based on certain principles and assumptions.	It is not based on certain principles and assumptions.
9 Reliability	Books maintained under this system are reliable because	Books maintained under this system are less reliable

	they are based on accounting principle.	because they are not based on accounting principle.
10 Expensive	This system is very expensive.	This system is less expensive.

In order to ascertain profit of business in single entry system the following methods are followed:

1) **Net worth method/ Statement of Affairs Method**- In this method Profits are computed by comparing the net worth or capital at the beginning of the accounting period with the net worth or capital at the end of accounting period. This method does not involve preparation of Trading and Profit and Loss Account. This is the most suitable method when information available is too limited.
   Opening capital can be calculated by adding all assets at the beginning of the year and deducting the total of all external liabilities on that date. Similarly closing capital can be calculated by adding the value of all assets on the last day of the year and deducting the total of external liabilities on that date. This is done by preparing two separate statements of assets and external liabilities one as at the beginning of the year and the other as at the end. These statements are called Statement of affairs.
   FORMAT OF STATEMENT OF AFFAIRS AS AT….

CAPITAL AND LIABILITIES	AMOUNT	ASSETS	AMOUNT
Sundry creditors Bills Payable Bank overdraft Bank Loan Outstanding Expenses Advance Income Capital (Balancing figure)		Cash Bank Sundry Debtors Bills Receivable Closing Stock Prepaid Expense Accrued Income Investment Land and Building Plant and Machinery Furniture	
TOTAL		TOTAL	

For ascertaining the profit or loss by net worth method a statement of profit is prepared which clearly shows the comparison of opening and closing capital with due adjustment of drawings and additional capital.

FORMAT OF STATEMENT OF PROFIT

PARTICULARS	AMOUNT
Closing capital (+) Total drawings (-) opening capital (-) Additional capital introduced	

Gross Profit (-) All indirect expenses (+) All indirect income	
Net Profit	

DIFFERENCE BETWEEN BALANCE SHEET AND STATEMENT OF AFFAIRS

BASIS	BALANCE SHEET	STATEMENT OF AFFAIRS
Double Entry or Single-Entry System	It is prepared on the basis of those books which are kept on a double entry system.	It is prepared on the basis of those books which are partly kept on the basis of double entry and partly on the basis of single entry.
Trial Balance	Trial balance is prepared before preparation of the balance sheet.	Trial balance is not prepared before preparation of statement of affairs.
Capital	Capital balance is taken from capital account in ledger	Excess of assets over liability is treated as capital.
Object	Its object is to find out the financial position	Its object is to find out capital

Omission of Facts	No fact is omitted because record of all transactions take place	Due to incomplete record there is a possibility of omission of some facts
Locating Omission of an asset or liability	Omission of an asset or liability will be easily detected because the balance sheet will not tally.	It is not possible to locate the omission of an asset or liability
Reliability	It is more reliable because it is based on the double entry principle.	It is less reliable as the information recorded is incomplete.

2) Conversion method-

a) **Full Conversion Method**- It involves conversion of records maintained on a single entry system into complete double entry records. Most of the firms which keep records on a single entry system usually maintain a cash book along with personal accounts of debtors and creditors. So in order to convert them into double entry records, it is necessary to open all personal accounts, real accounts and nominal accounts. Trial balance, trading account, profit and loss account and balance sheet are also prepared. This process is not preferred as it's very tiring and involves a lot of time, labor and expense.

b) **Abridged Conversion Method**- This method involves the preparation of a trading account, profit and loss account and balance sheet from the incomplete records after finding figures of missing items with the help of cash books and personal accounts of debtors and creditors.

LEDGER

It is a book which contains various accounts. In this all the transactions are classified as per their respective accounts.

POSTING

It means transferring the credit and debit item from the journal to their respective accounts in the ledger. Posting can be done at any time, however, it must be completed before financial statements are prepared.

RELATIONSHIP BETWEEN JOURNAL AND LEDGER

1) Transactions are recorded first of in journal and then they are posted to ledger. Thus the journal is the book of first or original entry, while ledger is the book of secondary entry.
2) Journal records transactions in chronological order, while ledger records transactions in analytical order.
3) Process of recording transaction in journal is called journalising while process of recording in ledger is called posting

RULES REGARDING POSTING

1) Separate account should be opened in ledger for posting transactions relating to different accounts in the journal
2) Concerned accounts which have been debited in journal should be debited in ledger. However, a reference should be made of the other account which has been credited in journal.

3) The concerned account which has been credited in the journal should also be credited in the ledger, but reference should be given of the account, which has been debited in journal.
4) The word ‘To’ is used with the account which appears on the debit side of the ledger account. Similarly, the word ‘By’ is used with account which appears on the credit side of a ledger.

For example, Good purchased from Sohan on credit of 1,00,000.

Journal Entry

Purchase A/C	Dr	1,00,000	
To Sohan A/C			1,00,000

LEDGER POSTING

PURCHASEA/C

DATE	PARTICULARS	J.F.	AMOUNT	DATE	PARTICULARS	J.F.	AMOUNT
	TO SOHAN		1,00,000				

SOHAN A/C

DATE	PARTICULARS	J.F.	AMOUNT	DATE	PARTICULARS	J.F.	AMOUNT
					BY PURCHASEA/C		1,00,000

TRIAL BALANCE

It is a statement containing various ledger balances on a particular date. If two sides of Trial balance tally, this means that the accounts are arithmetically accurate.

OBJECTIVE OF PREPARING TRIAL BALANCE

1) **Checking arithmetical accuracy of accounting entries**- Trial balance helps in knowing the arithmetical accuracy of accounting entries. This is because, according to dual aspect concept for every debit there must be an equivalent credit. Trial balance represents the summary of all the ledger balances and, therefore, if two sides of trial balance tally, it is an indication of the fact that the books of accounts are arithmetically accurate.
2) **Basis of financial statement**- Trial balance forms the basis for preparing financial statement. It represents all the transactions relating to different accounts in a summarized form for a particular period. Without trial balance it is almost impossible to prepare financial statements.
3) **Summarized Ledger**- Trial balance contains ledger balances on a particular date in a summarized form. The position of a particular account can be judged simply by looking at the trial balance.

Pass Journal entries of the following transactions, prepare necessary ledger accounts, balance all the ledger accounts and prepare a trial balance.

Ram started business with cash 20,000

He deposited 10,000 in bank

Ram purchased furniture worth 5,000 in cash

Purchased goods from Shyam of 3,000 on credit

Ram withdrew cash 1,000

Sold goods to Anjali on credit of 2,000

Salary paid 500

Rent paid 300

Interest received from bank 200

Paid to Shyam 1000

JOURNAL

DATE	PARTICULARS	L.F.	DEBIT AMOUNT	CREDIT AMOUNT
	Cash A/C Dr To capital A/C (Being business started with cash)		20,000	 20,000
	Bank A/C Dr To cash A/C (Being Cash deposited in bank)		10,000	 10,000
	Furniture A/C Dr To cash A/C (Being furniture purchased)		5,000	 5,000
	Purchase A/C Dr To Shyam A/C (Being goods purchased)		3,000	 3,000
	Drawings A/C Dr To Cash A/C (Being cash withdrawn by ram)		1,000	 1,000
	Anjali A/C Dr To Sale A/C (Being goods sold)		2,000	 2,000
	Salary A/C Dr To cash A/C		500	 500

	(Being salary paid)			
	Rent A/C Dr To cash A/C (Being rent paid)		300	 300
	Bank A/C Dr To interest A/C (Being interest received)		200	 200
	Shyam A/C Dr To cash A/C (Being paid to Shyam)		1,000	 1,000

LEDGER

CASH A/C

DATE	PARTICULARS	J.F.	AMOUNT	DATE	PARTICULARS	J.F.	AMOUNT
	To capital A/C		20,000		By bank A/C By furniture A/C By drawings A/C By salary A/C By rent A/C By Shyam A/C By balance c/d		10,000 5,000 1,000 500 300 1,000 2,200
			20,000				20,000

CAPITAL A/C

DATE	PARTICULARS	J.F.	AMOUNT	DATE	PARTICULARS	J.F.	AMOUNT
	To balance c/d		20,000		By cash A/C		20,000
			20,000				20,000

BANK A/C

DATE	PARTICULARS	J.F.	AMOUNT	DATE	PARTICULARS	J.F.	AMOUNT
	To cash A/C To interest A/C		10,000 200		By balance c/d		10,200
			10,200				10,200

FURNITURE A/C

DATE	PARTICULARS	J.F.	AMOUNT	DATE	PARTICULARS	J.F.	AMOUNT
	To cash A/C		5,000		By balance c/d		5,000
			5,000				5,000

PURCHASE A/C

DATE	PARTICULARS	J.F.	AMOUNT	DATE	PARTICULARS	J.F.	AMOUNT
	To Shyam A/C		3,000		By balance c/d		3,000
			3,000				3,000

SHYAM A/C

DATE	PARTICULARS	J.F.	AMOUNT	DATE	PARTICULARS	J.F.	AMOUNT
	To cash A/C To balance c/d		1,000 2,000		By purchase A/C		3,000
			3,000				3,000

DRAWINGS A/C

DATE	PARTICULARS	J.F.	AMOUNT	DATE	PARTICULARS	J.F.	AMOUNT
	To Cash A/C		1,000		By balance c/d		1,000
			1,000				1,000

ANJALI A/C

DATE	PARTICULARS	J.F.	AMOUNT	DATE	PARTICULARS	J.F.	AMOUNT
	To sale A/C		2,000		By balance c/d		2,000
			2,000				2,000

SALE A/C

DATE	PARTICULARS	J.F.	AMOUNT	DATE	PARTICULARS	J.F.	AMOUNT
	To balance c/d		2,000		By Anjali A/C		2,000
			2,000				2,000

SALARYA/C

DATE	PARTICULARS	J.F.	AMOUNT	DATE	PARTICULARS	J.F.	AMOUNT
	To cash A/C		500		By balance c/d		500
			500				500

RENT A/C

DATE	PARTICULARS	J.F.	AMOUNT	DATE	PARTICULARS	J.F.	AMOUNT
	To cash A/C		300		By balance c/d		300
			300				300

INTEREST A/C

DATE	PARTICULARS	J.F.	AMOUNT	DATE	PARTICULARS	J.F.	AMOUNT

	To balance c/d		200		By bank A/C		200
			200				200

TRIAL BALANCE

PARTICULARS	DEBIT AMOUNT	CREDIT AMOUNT
Cash	2,200	
Capital		20,000
Bank	10,200	
Furniture	5,000	
Purchase	3,000	
Shyam		2,000
Drawings	1,000	
Anjali	2,000	
Sale		2,000
Salary	500	
Rent	300	
Interest		200
TOTAL	24,200	24,200

ORIGINAL BOOK OF ENTRY: JOURNAL AND SUBSIDIARY BOOKS

JOURNAL

Journal records all daily transactions of a business in order in which they occur. It is a book containing chronological records of all transactions. It is also known as the book of original entry. The process of recording transactions in Journal is known as Journalising.

Format of Journal:

DATE	PARTICULARS	L.F.	DEBIT	CREDIT

TYPES OF ACCOUNTS

1) **PERSONAL ACCOUNT**- Account of person with whom the business deals

a) **NATURAL PERSONAL ACCOUNT**- Natural persons are those who are creation of God. Example- Simran Mohan Capital Drawings etc.

b) **ARTIFICIAL PERSONAL ACCOUNT**- Accounts of corporate bodies or institutions which are recognised as persons in business dealings. Example- IIBM, Reliance, TATA, LIC, Patna Club etc.

c) **REPRESENTATIVE PERSONAL ACCOUNT**- Accounts which represent a person or certain group of persons. Example- outstanding rent, outstanding salary
Outstanding- Not yet paid

2) **REAL ACCOUNT**- Account dealing with material assets of a business

a) **TANGIBLE REAL ACCOUNT**- Example- Building, Furniture, Land

b) **INTANGIBLE REAL ACCOUNT**- Example- Goodwill (Established reputation of business)

3) **NOMINAL ACCOUNT**-

a) PROFIT

b) LOSS

c) INCOME

d) EXPENSE

Rent paid- Expense- Nominal account

Rent received- Income- Nominal Account

Outstanding rent- Representing Landlord- Personal account

Advance rent paid- Representing Landlord- Personal Account

Interest paid- Expense- Nominal Account

Interest Received- Income- Nominal Account

Accrued Interest- Due but not yet received- Personal Account

Prepaid Interest Received- Personal account

	DEBIT	**CREDIT**
PERSONAL ACCOUNT	**RECEIVER**	**GIVER**
REAL ACCOUNT	**COMES IN**	**GOES OUT**
NOMINAL ACCOUNT	**EXPENSE, LOSS**	**INCOME, PROFIT**

CAPITAL- Cash or liquid asset brought in the business by the owner

DRAWINGS- Cash or asset withdrawn by the owner from the business

1) Ram started business with 20000 cash and 5000 furniture
2) Ram withdrew 5000
3) Purchased goods by paying cash 2000
4) Purchased goods from Suresh on credit 2000
5) Sold goods for 3000
6) Sold goods on credit to Mohan at 3000
7) Goods returned to Suresh 500
8) Goods returned from Mohan 800
9) Cash deposited in bank 10000

2022 DECEMBER

1st A started business with cash 40000

3rd 20000 deposited in bank

5th Purchased goods for cash 15000

8th Goods sold for cash 6000

10th Furniture purchased and paid by cheque 5000

12th Sold goods to Arvind 5000

14th Purchased goods from Amrit 10000

15th Returned goods to Amrit 5000

16th Received from Arvind 3960 in full settlement

18th Withdrew goods for personal use 1000

20th Withdrew cash from business for personal use 2000

24th Paid telephone charges 1000

26th Cash paid to Amrit in full settlement 8900

30th Paid for stationery 200

Outstanding rent 500

Salary to staff 2000

NARRATION- A brief description after every journal entry

DISCOUNT

1) **TRADE DISCOUNT**- Reduction in price that supplier applies to a product's cost. This is offered to increase sales of a product.

2) **CASH DISCOUNT**- Discount offered by seller at the time of payment of purchase. This reduction is provided at the value of invoice. This is offered to make the buyer pay for the product promptly. This helps in reducing the risk.

Purchased goods worth 50000 from Mr A for cash. He gave a trade discount of 5%.

PURCHASE A/C	Dr 50000	
TO CASH A/C		47500
TO TRADE DISCOUNT A/C		2500

Cash received from Mr B 1000 and allowed him 50 as discount.

CASH A/C	Dr	1000

CASH DISCOUNT A/C Dr 50

TO MR B A/C 1050

SUBDIVISION OF JOURNAL

In case of big business recording, it becomes inconvenient to record all transactions in one Journal. Therefore, journal is divided into many subsidiary books.

Sub division results in the following **advantages**:

1) **Convenience**- Maintenance of one journal entry will make it quite bulky and difficult to handle. Subsidiary books results in reducing the size of

journal and making it convenient to handle.

2) **Division of labor**- Subsidiary books help in division of labor as different books are maintained by different persons.
3) **Classified information**- Subsidiary books provide information relating to a particular aspect of business. It is convenient while collecting information required.

TYPES OF SUBSIDIARY BOOKS

1) **CASH BOOK**
2) **PURCHASE BOOK**
3) **PURCHASE RETURN BOOK**
4) **SALE BOOK**

5) **SALE RETURN BOOK**
6) **BILLS RECEIVABLE BOOK**
7) **BILLS PAYABLE BOOK**

1) **CASH BOOK**

It is meant for recording all cash transactions. It acts as an important subsidiary book because of the following reasons:

a) As the number of cash transactions is quite large in every business
b) Chance of fraud being committed regarding cash are higher as compared to other assets

TYPES OF CASH BOOK:

a) SINGLE COLUMN CASH BOOK

Single Column Books

Tutor'sTips.com

Dr. **Cash Book** Cr.

Receipts					Payment				
Date	Particulars	V No.	L. F.	Amount (Rs)	Date	Particulars	V. No.	L. F.	Amount (Rs)

b) TWO COLUMN CASH BOOK (CASH AND DISCOUNT COLUMN)

Double Column Books

Dr. **Cash Book with Discount** Tutor'sTips.com Cr.

Receipts						Payment					
Date	Particulars	V No.	L. F.	Discount Allowed	Amount (Rs)	Date	Particulars	V. No.	L. F.	Discount Receive	Amount (Rs)

c) THREE COLUMN CASH BOOK (CASH DISCOUNT AND BANK COLUMN)

Triple Column Books

Dr. **Cash Book** Tutor'sTips.com Cr.

Receipts							Payment						
Date	Particulars	V No.	L. F.	Disc. All.	Cash Rs.	Bank Rs.	Date	Particulars	V. No.	L. F.	Disc. Rec.	Cash Rs.	Bank Rs.

CONTRA ENTRY- Such an accounting entry which is recorded on both the debit and credit side of cash book is known as a contra entry. Whenever such an entry is passed on three column cashbook, the letter ‘C’ is put in the L.F. column on both the sides of the cashbook.

d) **PETTY CASH BOOK**- It is maintained by business to record petty cash expenses of business. In every business there are many payments which are of small amounts. All such transactions are not recorded in the main cash book as it would become inconvenient for the cashier. So, a petty cashier works under the supervision of the main cashier and prepares a petty cashbook.

JOHN & JAMES COMPANY
PETTY CASH BOOK

Dr. Cr.

Receipt	Date	Details	VN	Total	Office expense	Van expense	Cleaning expense	Sundry expense
	2018			$	$	$	$	$
50	Mar.01	Balance b/d						
200	Mar.01	Cash						
	Mar.05	Cleaning material	42	25			25	
	Mar.10	Van wash	43	20		20		
	Mar.13	Stationary	44	15	15			
	Mar.17	Fuel	45	35		35		
	Mar.20	Casual labor	46	55				55
	Mar.22	Donation	47	10				10
	Mar.30	Broom	48	5			5	
				165	15	55	30	65
		Balance c/d		85				
250				250				
85	Apr.01	Balance b/d						
165	Apr.01	Cash						

INFLOW OF CASH ON DEBIT SIDE

OUTFLOW OF CASH ON CREDIT SIDE

2) **PURCHASE BOOK**- It is meant for recording credit purchases of goods.

This books records only purchase of goods on credit.

DATE	PARTICULARS	INVOICE NO.	L.F.	AMOUNT

3) **SALES BOOK**- It is meant for recording all sales of goods on credit.

DATE	PARTICULARS	INVOICE NO.	L.F.	AMOUNT

4) **PURCHASE RETURN BOOK**- It is meant for recording return of goods purchased on credit.

DATE	PARTICULARS	INVOICE NO.	L.F.	AMOUNT

5) **SALES RETURN BOOK**- It is meant for recording return of goods sold on credit.

DATE	PARTICULARS	INVOICE NO.	L.F.	AMOUNT

BASIC CONCEPTS OF ACCOUNTING

ACCOUNTING - Accounting means collecting, summarizing and reporting of transactions in monetary terms with the aim of showing the financial health of an entity. It gives complete picture of the financial condition of the business unit.

NEED OF ACCOUNTING

1) **Language of business**- Accounting reflects the position of a business and communicates the financial results and conclusions to the concerned persons.
2) **Base of financial judgment**- Accounting provides information for judging management ability to utilize financial resources effectively in achieving the goals of the business.
3) **Base of information system**- Accounting covers all the economic events with results. Due to this accounting also communicates the results to interested persons in the form of quantitative and financial in nature.

4) **Historic records indicate future**- Accounting supplies information based on past economic events. These records help in evaluation, prediction or estimation of business for future economic decisions.

OBJECTIVE OF ACCOUNTING

1) To know the profit or loss of business
2) To know the worth of assets and liabilities of a business on a particular date
3) To know the progress or downfall of business
4) To know as to what amount is to be paid to a particular person or what amount is to be received from a particular person

ASSETS- Items possessed by a business that will provide benefit for a long time. It is responsible for generation of cash flow for a business.

Example- Cash, investment, building, furniture, goodwill

LIABILITIES- Obligation for a business. It is responsible for outflow of cash in a business.

Example- Long term loan, short term loan, creditor

CREDITOR- Someone to whom we own money.

DEBTOR- Someone who owes us money.

TYPES OF ACCOUNTING

1) **Financial accounting**- An accounting which relates with analysis and recording of transactions of financial nature, their classification, preparation of financial statements and their analysis and interpretation is called financial accounting.
2) **Management Accounting**- Accounting prepared exclusively for use of management is called management accounting. It includes preparing plans and budgets.
3) **Cost Accounting**- Accounting which helps in ascertainment of total cost and cost per unit of goods and services is called Cost Accounting. It helps in cost control and cost reduction.

4)**Tax Accounting**- Accounting which is used for tax purpose is called tax accounting. Income tax, sales tax and other direct and indirect taxes are calculated on the basis of this accounting.

5)**Government Accounting**- The accounts which are maintained by Central Government, State Government and Local Government are called government accounts and the system of recording is called government accounting.

6)**Human Resource Accounting**- Accounting which is exclusively related with human resource is called human resource accounting. Cost and value of human resource are recorded in this accounting system. It is of an immense use for a business enterprise.

7) **Social Responsibility Accounting**- Social Responsibility Accounting deals with identifying, measuring and communicating social activities carried out by the entity for the benefit of the various segments of the society.

8)**Environment Accounting**- Accounting for environment and ecology preservation is a part of environment accounting. It deals with the accounting of natural resources, pollution and prevention etc.

ACCRUAL – method that recognizes revenue in the period in which its earned and realizable, but not necessarily when the cash is actually received.

METHODS OF ACCOUNTING

1) **ACCRUAL SYSTEM OF ACCOUNTING**- Commonly adopted by business concern. Accrual revenue and accrual expenditure are the basis for accounting under this system. It is also known as accrual system of accounting.
2) **CASH METHOD OF ACCOUNTING**- Adopted only in those concerns where only cash transactions take place.

DIFFERENCE BETWEEN CASH BASIS AND ACCRUAL BASIS OF ACCOUNTING

BASIS	**CASH BASIS OF ACCOUNTING**	**ACCRUAL BASIS OF ACCOUNTING**
1)Nature of recording	Records only cash transactions	Records both cash and credit transactions

2)Recording of income	Only those incomes are recorded which have been received in cash	All incomes are recorded whether cash is receivable from them or not
3)Recording of expenses	Only cash expenses are recorded	Both cash and non-cash expenses are recorded
4)Distinction between capital and revenue item	This method does not make a distinction between capital and revenue item	This makes a difference between capital and revenue item
5)Legal position	Cash basis of accounting is not recognized by Indian Companies Act 1956	Accrual basis of accounting is recognized by Indian Companies Act 1956
6)Suitability	Suitable for non-profit organizations, doctors, professionals	It is suitable for profit-making organizations

BOOK-KEEPING – It is an activity concerned with recording of financial data related to the business operation in a significant and orderly manner. It does not give complete picture of financial condition of a business unit.

Accounting begins where book keeping ends.

DIFFERENCE BETWEEN BOOK KEEPING AND ACCOUNTING

BASIS	**BOOK KEEPING**	**ACCOUNTING**
MEANING	It is concerned with identification of business transaction, measuring them in terms of money, recording and then classifying them in different accounts.	It is concerned with collecting, summarizing and reporting the transactions and communicating the result with the concerned person.
Stage	It is the primary stage and basis of accounting	It is the secondary stage. It starts when book- keeping ends.
RESULT OF BUSINESS	It never discloses the result of the business	It shows the net result of the business as well

		as actual position of assets and liabilities
OBJECTIVE	The main Objective of book- keeping is to maintain systematic records of financial transactions.	The main objective of accounting is to find the net profit or net loss and find out the financial position of the business
NATURE OF JOB	The job of book keeper is routine and clerical in nature	Job of accountant is analytical in nature
SPECIAL KNOWLEDGE AND ABILITY	Book keeper does not require special knowledge and ability	Accountant requires special knowledge and ability

ADVANTAGES OF ACCOUNTING

1) It maintains a complete and systematic record of all the transactions
2) It works as a guide for the management to take important decisions
3) It depicts the correct picture of business through balance sheet

4)Financial institutions lend money after checking the profitability and soundness of the business
5)It can be used as evidence in case of dispute
6)Inter firm or intra firm comparisons becomes easy
7)Depicts the efficiency of management

LIMITATIONS OF ACCOUNTING

1) It does not record non- monetary events
2)It does not take into account the changing price level

USERS OF ACCOUNTING INFORMATION

1)**INTERNAL USER** – PROPRIETOR MANAGEMENT EMPLOYEE
2)**EXTERNAL USER** – CREDITOR INVESTOR CONSUMER GOVERNMENT

GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP)

They are rules, guidelines and principles which are derived from experience and practice and it became useful for all.

ACCOUNTING PRINCIPLE may be defined as those rules of action or conduct which are adopted by the accountants universally while recording accounting transactions.

Accounting principles can be classified into two categories:

1) **ACCOUNTING CONVENTIONS**

It includes those customs and traditions which guide the accountant while preparing the accounting statement

CONVESNSION OF CONSERVATISM

CONVENSION OF FULL DISCLOSURE

CONVENSION OF CONSISTENSY

CONVENSION OF MATERIALITY

CONVENTION OF CONSERVATISM

Future is uncertain. Though an estimate may be made about future events and circumstances, but no one can guess future with perfect certainty in business, hence some arrangement or provision is made to meet future uncertainties . Every sincere businessman makes an estimate of future losses and then some provision for it is made. Saving of money by people and depositing it to meet future contingencies is conservatism. One should be careful in making provision for future losses, as more or less provision than necessary will create adverse effect on the business and accounting record will also not indicate true and fair position.

"Anticipate no profit, and provide for all future losses."

CONVENTION OF FULL DISCLOSURE

While making accounting record care should be taken to disclose all material information and not to conceal information and facts. This is done to benefit the proprietor (owner) and all those outsiders who are directly or indirectly interested in the final accounts of business unit. Thus, full, fair and adequate disclosure can help in accurate assessment of financial position and performance.

CONVENTION OF CONSISTENCY

Whatever accounting practice has been adopted in one accounting year, same should be continued in other future years also. Continuation of one practice in number of years indicates consistency. But this does not mean that once a method has been adopted, it can never be changed. If better method is found out it must be followed. When following a better method, a note with proper reasoning of making a change must be mentioned, so that the person dealing with accounting record may know about the change.

The most important advantage of this is that it helps in intra firm, inter firm and pattern comparisons of one years account with other year easily. It gives reliable results and is of great help to the management in the matter of planning.

CONVENTION OF MATERIALITY

According to this, the accountant should attach important details and ignore insignificant details. This is because accounting will be unnecessarily overburdened with minute details.

ACCOUNTING CONCEPTS

SEPARATE ENTITY CONCEPT

Business is treated separate from its owners. All transactions are recorded in the books of business and not in the books of the owner. Hence the transactions of inflow or outflow of cash or kind from owner to business is also recorded in the books.

GOING CONCERN CONCEPT

It indicates the indefinite long economic life of business. This means that the business will continue to exist for unlimited period unless and until it is dissolved due to some reason.

MONEY MEASUREMENT CONCEPT

Only those transactions are recorded in the books of accounts which can be expressed in terms of money.

DUAL ASPECT CONCEPT

This means that every transaction has two sides one being debit and the other being credit. All business transactions are recorded on the basis of this concept. If one aspect of the transaction is recorded and the other is ignored, the accountancy record will not indicate true picture. This helps in detecting errors of employees and helps take control over them.

ACCOUNTING PERIOD METHOD

Every businessman wants to know the result of his investment and efforts after a certain period. The life of a business is divided into appropriate segments for studying the result shown by business after each segment.

This segment of time is called accounting period which is usually of one year.

Joint Venture Accounts

When two or more than two persons, firms, companies or any other Institutions makes an agreement to carry a temporary business having a specific objective to earn profit on a combined risk and share the profit & losses in pre determined ratio. This type of business is called Joint venture.

Characteristics

(1) Temporary Partnership → The object of joint venture is predetermined and it is temporary in nature, as it is closed with the achievement of objective.

(2) Distribution of Profit - The object of running Joint venture business is to earn profit, which is shared in the pre-determined ratio by all the co-venturer.

(3) No name of firm - There is no name of joint venture business, hence its registration is not possible.

(4) Joint Risk - The risk of joint venture business is borne by the co-venturer jointly.

(5) Agreement - Joint venture is established through an agreement between two or more than two persons.

(6) ~~Agreement~~ - Time of calculation of Profit & loss - The profit is calculated on completion of Joint Venture. However, if joint venture is likely to continue for more than one year then P&L is calculated during the life of the business on annual basis.

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Advantages

1. Division of Risk → The business risk of Joint Venture is shared among all the co-venturers. This helps in developement of the business.

2. Division of work → In a joint Venture, through an agreement it can be decided, which co-venturer will arrange funds, who will purchase the goods, who will look after sales, who will put in the technical skills etc.

3. Availability of Skill & Experience → The joint venture is such type of business where efficiency and experience benefit is received.

4. Disputeless business - Joint Venture is done with a specific motive. It comes to an end in shorter period of time. Hence, there is least chance of dispute arising among co-venturers.

5. Advantage to co-venturers - The co-venturers of joint venture business are free to conduct a competitive business similar to the joint venture business. Hence, their business independently is not restricted.

6.

Difference between Joint Venture & Consignment

Basis	Joint Venture	Consignment
Meaning 1	when two or more than two persons carry on a temporary business on a combined risk, then such a business is called Joint Venture.	when the consignor on his own risk and ownership transfer goods for the purpose of sale is termed as consignment.

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Ownership (2)	All co-venturers are owners of the goods of joint venture business.	consignor is the owner of the goods.
Parties	Parties involved in ~~joint venturer are~~ joint venture are are co-venturers.	Parties involved in consignment are called consignor & consignee.
Scope	Joint Venture can be conducted for any Legal business.	In consignment, only movable goods are considered.
Stability (5)	It is a temporary business which self comes to an end on accomplishment of Specific objectives.	It can be continued even after a particular consignment is sold.
Risk (4)	The risk of joint venture are borne by all the co-venturers.	The risk and liability of consignment is borne by the consignor only.
Mutual Relationship	Relationship between co-venturers are like partners.	In consignment, consignor is the Principal and consignee is considered as an agent.
Arrangement of Funds	The responsibility of arrangement of funds is all on the co-venturer-s.	The responsibility of arrangement of funds is all on the consignor.
Distribution of P&L. (6.)	Profit of Joint Venture business is distributed among the co-venturers on the pre-determined ratio.	Profit of consignment is received only by the consignor.

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No. of persons (3)	The minimum no. of co-venturer is 2 and there is no restriction as regards to max. no.	There are only two persons a consignor and a consignee.

Distinction between Joint Venture and Partnership

Meaning	When two or more than 2 persons combine together and carry on a temporary business on combined risk then such a business is called a Joint Venture.	Partnership is a relation between persons who have agreed to share the profits of a business managed by all or any one of them on behalf of all.
~~No of Persons~~ Stability	It is a temporary partnership which comes to an end on the completion of specific purpose.	It is a permanent partnership and continues to exist till the business continues.
Restriction	The co-venturer of a joint venture can also conduct the business similar to joint-venturer's business.	The partners of partnership firm cannot run an individual business similar to partnership business.
Distribution of Profit.	The profit of joint venture is distributed among the partners after the completion of the business.	The profit is distributed among the partners at the end of the financial year.
Drawing of BOE	One co-venturer can draw a bill of exchange on other co-venturer.	One partner cannot write a BOE on another partner.

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There are three methods of recording Joint Venture transactions:-

1. **When only one co-venturer maintains books of accounts** - When work for recording Joint Venture transactions is entrusted to one of the co-venturers. Such co-venturer is entitled to receive commission or additional profit for his services.
In case of accounts being maintained by a single co-venturer, the following two accounts are opened:-
   - (a) Joint Venture A/c (Nominal A/c)
   - (b) Personal A/c of All co-venturer (Personal A/c).

2. **When all co-venturers maintain Books of accounts** - When any co-venturer makes any transaction in relation to joint venture, he records such transactions in the books maintained by him and gives its information to other co-venturers. On the basis of such information other co-venturers also record the transaction in their respective book. Thus in this way record becomes same in the books of all the co-venturers.

3. **When seperate set of Books are maintained and Joint Bank Account is kept** - In this method party first pays their contribution in Joint Bank Account and their payments are made out of this account.

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Joint Bank A/c

Receipts	₹	Payments	₹
To A	15000	By Joint Venture A/c (Purchase)	20000
To B	10000	By Joint Venture A/c	3000
To Joint Venture A/c (Sale)	28000	By A	17500
		By B	12500
	53000		53000

Joint Venture A/c

Particulars	₹	Particulars	₹
To Joint Bank A/c	20000	By Joint Bank A/c	28000
To Joint Bank A/c	3000		
To A	2500		
To B	2500		
	28000		28000

A

To JB A/c	17500	By JB A/c	15000
		By JV A/c	2500
	17500		17500

B

To J B A/c	12500	By J B A/c	10000
		By JV A/c	2500
	12500		12500

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(i) When each co-venturer maintains records of his own transactions and maintains a Memorandum Joint Venture A/c .-

Memorandum Joint Venture Account is prepared to determine the profit & loss. In the debit side of Memorandum Joint Venture Account the cost of goods and expenses are recorded by classifying them according to individual co-venturers and in the credit side sale of goods and stock of goods unsold is recorded. If the total of credit side of this account is more than the total of debit side then the difference is profit and vice versa is loss. The profit or loss is distributed among the co-venturers.

Joint Venture Account with other co-venturer -

In the Debit side of this account expenses incurred by co-venturer is recorded and in the credit side income and unsold goods taken over are recorded.

(ii) In this case each co-venturer keeps records of his transactions carried for the purpose of JV and does not maintain any record of other co-venturer. In the end the following A/cs are opened to find the P&L from JV and JV records of other co-venturers :-

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Memorandum Joint Venture A/c

To A Purchase Purchase Exp. Selling Exp. Dist. Exp. commission Int Salary		By A Sale unsold stock	
To B Purchase Purchase Exp. Selling Exp. Dist. Exp. commission Interest Salary		By B Sale unsold stock	

Joint Venture A/c with B.

To Purchase To Purchase Exp To Selling Exp. To Dis. Exp. To commission To Int. To Salary To cash To Profit		By unsold stock By Sale By cash By Loss.	

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ACCOUNTING FOR NOT-FOR-PROFIT(NON-TRADING) INSTITUTIONS

These institutions are set up for providing useful social services to its members of society and not for earning profits such as schools, colleges, clubs, hospitals, religious institutions, charitable institutions, etc.

Whenever a body of interested persons come together as ‘members’ elects a ‘committee’ subscribes ‘funds’ and proceeds to conduct ‘non-trading concerns. These institutions do not undertake any business activities.

The trustee and secretary of these institutions are fully accountable for proper utilization of funds raised. Hence, they prepare financial statements (Receipts and Payments account, Income and Expenditure Account and Balance Sheet) at the end of financial year.

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OBJECTIVE OF ACCOUNTING OF NPO

1) Evaluation of financial performance of institution
2) Comparison of expenses and income
3) Comparison of financial results with budget
4) Evaluation of utilization of specific funds
5) To find out surplus or deficit of income and expenditure account

FINANCIAL STATEMENT OF NPO

1)RECEIPTS AND PAYMENT ACCOUNT (REAL ACCOUNT)

Summary of actual cash receipts and cash payments extracted from the cash book covering a particular period. All the cash received and paid during the period whether on account of capital and revenue are included in this account.

Starts with opening balance of cash and bank (or bank overdraft) and ends with closing balance of cash and bank. All **receipts** of cash and cheque are recorded on the **debit side** and all the **payments**

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through cash and cheque are recorded on the **credit side**.

The debit side is called as receipts and the credit side is known as payments. Difference between the two sides represents cash in hand and bank.

- Contains all capital and revenue receipts and all capital and revenue expenditures irrespective of the period to which they pertain
- If an amount has been received this year though it belongs to the previous year or next year, even then this will be recorded in it. In the same way if an expenditure has been paid this year, though it belongs to previous year or next year, even then it will be recorded in it.
- Closing balance in this account which is usually a debit balance reflects cash in hand or cash at bank unless there is a bank overdraft.

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RECEIPTS AND PAYMENT ACCOUNT FOR THE YEAR ENDED ....

Dr Cr

RECEIPTS	AMOUNT	PAYMENTS	AMOUNT
To balance b/d Cash in hand Cash at bank To subscription from members To entrance fees To donations To grants To sale of scraps To interest on investment or FD To income from concerts To rent To receipts from Charity shows To Life membership fees To legacies		By balance b/d (bank overdraft) By salaries and wages By rent rates and taxes By postage and courier expenses By advertisement expenses By newspapers and magazines By printing and stationary By repairs and renewals By audit fees By insurance By municipal taxes	

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To balance c/d (Bank overdraft)		By secretary's honorarium By conveyance and travelling By purchase of Fixed assets By Building construction By government loan By balance c/d Cash in hand Cash at bank	

2)INCOME AND EXPENDITURE ACCOUNT (NOMINAL ACCOUNT)

Statement which is prepared to ascertain the surplus or deficiency. All the revenue items relating to the current period are shown in this account. It is prepared by following accrual principle. Only revenue expenses and receipts related to current year find place in this account. Non cash items like depreciation,

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provision for doubtful debts are included in this account.

All **incomes and gains** are shown on the **credit side** and all **expenses and losses** on the **debit side**.

INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED….

Dr Cr

EXPENDITURE	AMOUNT	INCOME	AMOUNT
All revenue expenses paid during the year (+) o/s at the end of the year (+) advance in previous year (-) o/s in the begging of the year (-) advance paid in current year To loss on sale of asset		All revenue income received during the year (+) o/s at the end of the year (+) advance in previous year (-) o/s in the beginning of the year (-) advance in current year	

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Book value of asset sold (-) Selling price of asset sold		By profit on sale of assets Selling price (-) book value of asset	

3) BALANCE SHEET

This shows the assets and liabilities at the end of the year. Assets (after adding all additions and deducting all depreciation and sale of assets) are shown on the right hand side and the liabilities on the left hand side.

Capital fund includes the surplus and excludes the deficit from income and expenditure account.

BALANCE SHEET OF…AS AT ….

LIABILITIES	AMOUNT	ASSETS	AMOUNT
o/s expenses of C.Y. Subscription received in advance in C.Y.		Prepaid expenses in C.Y.	

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Income received in advance in C.Y. Bank overdraft Creditors Life membership fees Donation Grants Legacy Entrance fee Subscription Specific fund for Specific Purpose (+) received during the year (+) income earned on specific fund (-) expenses out of this fund Capital Fund (opening balance) (+) surplus (-) deficit		o/s subscription of current year accrual or outstanding income cash in hand cash at bank FD at bank Closing stock of consumable good Investment (+) accrued interest Fixed asset Opening balance (+)purchase (-) book value if assets sold (-) depreciation	

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ANALYSIS OF IMPORTANT ITEMS

1)SUBSCRIPTION- Subscription means a membership fee paid by a member on annual basis.

It appears on the **debit side** of **Receipts and Payments Account** with following types:

Subscription of C.Y. received in C.Y.

Subscription of P.Y. received in C.Y.

Subscription of next year received in C.Y.

It appears on the **credit side** of **Income and Expenditure Account** with the following types:

Subscription of C.Y. received in C.Y.

Subscription of C.Y. received in P.Y.

Subscription of C.Y. outstanding

2)DONATION- All donations are recorded on the receipts side of Receipts and Payment Account.

NATURE OR TYPE OF DONATION	MEANING	ACCOUNTING TREATMENT

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SPECIFIC DONATION	Donation received for specific purpose like construction of building or giving prizes to sportsmen. It is a donation of non-recurring nature and is treated as capital receipt.	It is taken to the **balance sheet** and shown on the **liability side** as an addition to the Building fund or prize fund as the case may be.
GENERAL DONATION	Donation received for promoting the general activities of organisation. It is a donation of revenue nature and is treated as revenue receipt.	If amount of donation is small, then it is treated as revenue receipt and **credited** to **income and expenditure account**. If the amount is big, then it is treated as capital receipt and shown as a liability side in the balance sheet.

*Note: There is no specific rule as to which amount of donation is big or small. The size and nature of organisation will help you decide these things. In the absence of any direction, students can treat the

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general donation as **revenue receipt** irrespective of the volume of amount and give a **footnote about their assumption**.

3)LEGACY- Amount or property received as per the ‘will’ of the decreased donor. It is treated as a capital receipt because it is non- recurring in nature and it is shown on the **liability side** of the **balance sheet.**

4)LIFE MEMBERSHIP FEES- Certain not-for-profit organisation also provide life membership and charge lumpsum amount instead of paying periodic subscription. It is treated as capital receipt as it is paid only once in life by the member. It is recorded in the **liability side** of **balance sheet.**

5)ENTRANCE FEES- Admission fees is an initial amount payable at the time of seeking admission by a person who intends to become a member of a club, association or society.

a) Entrance fee of small amount is treated as revenue receipt and transferred to credit side of Income and Expenditure Account.

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b) Entrance fee of high amount is treated as a capital receipt and is shown on the liability side of balance sheet.

c) Sometimes a portion(say 25%) of entrance fees may be treated as revenue receipt and is transferred to credit side of income and expenditure account and the remaining portion (say 75%) may be treated as capital receipt and shown on the liability side of balance sheet.

* Note: In the absence of any specific direction, it is generally treated as an item of regular nature irrespective of the volume of amount.

6)ENDOWMENT FUND- Funds arising from a gift, income of which is devoted for a specific purpose. It is treated as a receipt of capital nature and is shown on the **liability side** of **balance sheet**.

7)SPECIFIC FUND- Funds received for specific purpose. Such funds are invested in securities and the income earned on such security is added to the respective fund. Specific Funds are shown on the **liability side** of **balance sheet** and Specific Fund

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Investment are shown on the assets side of the balance sheet.

Expenses incurred on such specific purpose are also deducted from specific fund.

If after all the adjustment the balance of specific fund is negative, then it is transferred to debit side of income and expenditure account or adjusted as per prescribed direction.

8)HONORARIUM- Payment made to outsiders, who are not employees, for service provided by them. It is a recurring expense and is shown on the **debit side** of **Income and Expenditure Account**. Remuneration paid to secretary or treasurer may also be treated as honorarium because they are not the employees of the organisation.

9)CONSUMABLE GOODS- In non-profit organisations such as hospitals, clubs, educational institutes etc., purchase of some consumable goods is a common feature. Total payment made to supplier is credited to receipts and payments account and total consumption of an accounting

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year is debited to income and expenditure account. The balance of such consumable goods is recorded to the assets side of balance sheet and the closing creditor for the consumable goods is shown on the liability side of the balance sheet.

CALCULATION OF AMOUNT OF CONSUMED GOODS

PARTICULARS	AMOUNT	AMOUNT
Opening stock at the beginning of C.Y.		....
(+) Cash Purchase of consumable goods during the year	....	
(+) Creditors at the end of C.Y.	....	
(+) Advance Payment of Consumable goods in the beginning of C.Y.	....	....
		....
(-) Creditors at the beginning of C.Y.	....	
(-) Advance Payment at the end of C.Y.	....	
(-) Closing Stock at the end of C.Y.	....	....
Amount of consumed Goods to be debited to Income and Expenditure Account		

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10) Depreciation on Fixed Assets- If the opening balance of fixed asset, purchase of fixed assets during the year and closing balance of fixed asset is given, then depreciation on fixed asset will be calculated as under:

PARTICULARS	AMOUNT	AMOUNT
Opening balance of fixed asset		....
(+) Purchase of fixed asset during the year		....
		....
(-) Book value of fixed assets sold	....	
(-) Closing balance of fixed asset	....	....
Depreciation on Fixed asset		....

11) GOVERNMENT GRANTS-

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GENERAL GRANTS	Treated as revenue receipt and **credited** to **income and expenditure account**
SPECIAL GRANTS	Treated as capital receipt and shown on **liability side** of **balance sheet**
CASH SUBSIDY	**Credited** to **income and expenditure** account

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DEPRECIATION

It means decrease in the book value of an asset through wear and tear or through passage of time. It is treated as a non- cash expenditure hence shown on the debit side of the profit and loss account.

CHARACTERISTICS

1) Depreciation reduces the book value of fixed assets but not its market value.
2) It is a continuous decrease in the book value of fixed assets.
3) Depreciation continues up to the end of life of an asset for the business
4) Depreciation is a charge against profit

CAUSES OF DEPRECIATION

1. **Constant use of asset**-Constant use of asset leads to their wear and tear and thus causes a definite reduction in the value of asset and is regarded as a major source of depreciation.
2. **Expiration of legal rights**- Certain assets fall in value with expiration of legal rights irrespective of the fact that they are used or not.
3. **Obsolescence**- A new invention of an asset due to improved technology or change in permanent market demand makes the existing asset an obsolete one and makes it useless. This causes a drastic reduction in the value of existing assets and the amount of depreciation is bound to be heavy.
4. **Accident**- The value of assets decreases permanently due to accidents.
5. **Natural cause**- Value of fixed assets decreases due to natural hazards like flood, earthquake and fire.

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OBJECTS OR NEED OF PROVIDING DEPRECIATION

1) **To ascertain net profit or loss properly**- A fixed asset loses its value due to wear and tear on account of its use. This loss in the value of fixed assets is debited to a profit and loss account like any other expense. Hence it is deducted before arriving at net profit according to GAAP
2) **To show the asset at correct value in the balance sheet**- In the absence of depreciation, the asset will be shown at its acquisition cost in the balance sheet. As a result the balance sheet would fail to show the true value of an asset. Therefore, depreciation must be accounted for in order to present the asset at their proper value in the balance sheet.
3) **True and fair presentation of financial position**- The value of fixed assets reduces from year to year on account of their usage and passage of time. They must be shown in the balance sheet at their reduced value otherwise it will not reflect the true financial position of the business. Hence, depreciation must be taken into account.
4) **Avoid over payment of tax**- Depreciation charge also helps in ascertaining the correct profit for tax purpose. Depreciation is a charge on profit and acts as a tax shield. Therefore, it is in the interest of business to use this shield in an effective manner so that tax liability is reduced to minimum.
5) **To comply with legal requirements**- In the case of a Joint stock company, it is compulsory to charge depreciation on fixed assets as per companies act.

EFFECTS OF NOT PROVIDING DEPRECIATION

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1) Amount of profit will be overstated
2) Value of fixed asset will be overstated
3) True profit or loss of business cannot be determined
4) Balance sheet will not represent the true and fair picture of financial position of business
5) Net profit of business will be more than actual profit which leads to increase in tax liability

ELEMENTS FOR DETERMINING DEPRECIATION

1. **COST OF ASSET**- It includes the purchase price and all other costs incurred to bring the asset to usable condition.
2. **ESTIMATED USEFUL LIFE OF ASSET**- It means the number of accounting periods during which it will be useful to the business.
3. **ESTIMATED RESIDUAL VALUE /SCRAP VALUE OF ASSET**- It is the estimated amount to be realized when asset is sold at the end of its useful life

METHOD OF DEPRECIATION

1) **FIXED INSTALLMENT METHOD/ STRAIGHT LINE METHOD**- Every year the amount of depreciation remains the same.
   i. When asset has no residual value

      Each year depreciation=

      $$\frac{\text{Original cost of asset}}{\text{Number of years of estimated life of asset}}$$

   ii. When asset has residual value

Each year depreciation=

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$$\frac{\text{Original cost of asset- Estimated residual value}}{\text{Number of years estimated life of asset}}$$

2) **DIMINISHING BALANCE METHOD/ REDUCING BALANCE METHOD**- In this method rate of depreciation is fixed, but depreciation at this rate is calculated on the balance of the asset standing in the books on the first day of each year.

DIFFERENCE BETWEEN CHARGE AGAINST PROFIT AND APPROPRIATION OF PROFIT

CHARGE AGAINST PROFIT	APPROPRIATION OF PROFIT
1) It refers to the expense which has to be paid irrespective of profit or loss of the firm.	1. It refers to the distribution of net profit against different heads.
2) It is recorded on the debit side of the profit and loss account.	2. It is generally recorded on the liability side of the balance sheet
3) It is charged before calculating net profit	3. It is appropriated after calculating net profit
4) It is charged irrespective of net profit or net loss	4. It is appropriated only in case of net profit and not in case of net loss.

Questions

1. What do you mean by depreciation in accounting?

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2. Why is depreciation essential to be charged?
3. What is the role of scrap value of an asset in determining depreciation?
4. State the cause of depreciation.
5. Difference between Straight line method and reducing balance method of depreciation.
6. Explain diminishing balance method of providing depreciation with the help of an example.
7. Explain the three elements for determining depreciation
8. Why is it necessary to provide depreciation before arriving at the net profit of the business?
9. Explain the effect of depreciation on Profit and Loss account and Balance Sheet.
10. Why is depreciation an expense?

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