

## **BOOK- KEEPING**

Book- keeping may be defined as the science and art of recording transactions in money or money's worth so accurately and systematically, in a certain set of books, regularly that the true state of businessman's affairs can be correctly ascertained.

## **ACCOUNTING SYSTEMS**

**There are various systems of accounting for maintaining business records: -**

- Cash system of accounting
- Single Entry System
- Double Entry System

### **Steps involved in Double entry system: -**

- (a) Preparation of Journal
- (b) Preparation of Ledger.
- (c) Trial Balance preparation.
- (d) Preparation of Final Account.

### **Meaning of Debit and Credit**

The term 'debit' is supposed to have derived from 'debit' and the term 'credit' from 'creditable'. For convenience 'Dr' is used for debit and 'Cr' is used for credit. Recording of transactions require a thorough understanding of the rules of debit and credit relating to accounts. Both debit and credit may represent either increase or decrease, depending upon the nature of account.

## **Types of Accounts**

### **(1) Personal Accounts**

(a) Natural persons eg. Kamal's account, Mala's account, Sharma's accounts. Both males and females are included in it

(b) Artificial or legal persons e.g., Firms' accounts, limited companies' accounts, educational.

institutions' accounts, Co-operative society account.

(c) Groups/Representative personal Accounts e.g., prepaid insurance, outstanding salaries, rent, wages etc.

**The rule for personal accounts is: Debit the receive  
Credit the giver**

### **(2) Real Accounts**

**Real accounts can be further classified into tangible and intangible: -**

(a) Tangible Real Accounts e.g., Machinery account Cash account, Furniture account, stock account etc.

(b) Intangible Real Accounts e.g., Goodwill accounts, patents account, Trademarks account, Copyrights account etc.

**The rule for Real accounts is: Debit what comes in  
Credit what goes out**

**(3) Nominal Accounts** e.g., Wages account, rent account Commission account, Interest received account.

**The rule for Nominal accounts is: Debit all  
expenses and losses**

**Credit all expenses and losses**

### **ACCOUNTING TERMINOLOGY**

It is necessary to understand some basic accounting terms which are daily in business world. These terms are called ***accounting terminology***.

#### **(1) Transaction**

"An event the recognition of which gives rise to an entry in accounting records".

#### **(2) Debtor**

A person who owes money to the firm mostly on account of credit sales of goods is called a debtor.

#### **(3) Creditor**

A person to whom money is owing by the firm is called creditor.

#### **(4) Capital**

It means the amount (in terms of money or assets having money value) which the proprietor has invested in the firm or can claim from the firm

**Capital = Assets - Liabilities.**

#### **(5) Liability**

It means the amount which the firm owes to outsiders that is, excepting the proprietors

#### **(6) Asset**

Any physical thing or right owned that has a money value is an asset

### **(7) Goods**

It is a general term used for the articles in which the business deals; that is, only those articles which are bought for resale for profit are known as Goods.

### **(8) Revenue**

It means the amount which, as a result of operations, is added to the capital. It is defined as the inflow of assets which result in an increase in the owner's equity

### **(9) Expense**

The terms 'expense' refers to the amount incurred in the process of earning revenue. If the benefit of an expenditure is limited to one year, it is treated as an expense such as payment of salaries and rent.

### **(10) Expenditure**

Expenditure takes place when an asset or service is acquired. The purchase of goods is expenditure, whereas cost of goods sold is an expense

### **(11) Purchases**

Buying of goods by the trader for selling them to his customers is known as purchases

### **(12) Sales**

When the goods purchased are sold out, it is known as sales. It can be of two types, viz. cash sales and credit sales.

**(13) Stock**

The goods purchased are for selling, if the goods are not sold out fully, a part of the total goods purchased is kept with the trader until it is sold out, it is said to be a stock.

**(14) Drawings**

It is the amount of money or the value of goods which the proprietor takes for his domestic or personal use. It is usually subtracted from capital.

**(15) Account**

It is a statement of the various dealings which occur between a customer and the firm.

**(16) Proprietor**

The person who makes the investment and bears all the risks connected with the business is known as proprietor.

**(17) Discount**

When customers are allowed any type of deduction in the prices of goods by the businessman that is called discount.

**(18) Solvent**

A person who has assets with realizable values which exceeds his liabilities is solvent.

**(19) Insolvent**

A person whose liabilities are more than the realizable values of his assets is called an insolvent.

## **ACCOUNTING EQUATION**

American Accountants have derived the rules of debit and credit through a 'novel' medium, i.e., accounting equation. The equation is as follows:

**Assets = Equities**

Assets = Liabilities + Capital

**Rules for accounting equation:**

**Following rules help in making the accounting equation:**

**=**

**(i) Assets:** If there is increase in assets, this increase is debited in assets account.

**(ii) Liabilities:** When liabilities are increase, outsider's equities are credited and when liabilities are decreased, outsider's equities are debited.

**(iii) Capital:** When capital is increased, it is credited and when capital is withdrawn, it is debited.

**(iv) Expenses:** Owner's equity is decreased by the amount of revenue expenses.

**(v) Income or profits:** Owner's equity is increased by the amount of revenue income.

## **JOURNAL**

When the business transactions take place, the first step is to record the same in the books of original entry or subsidiary books or books of prime or journal. Thus, journal is a simple book of accounts in which all the business transactions are originally recorded in chronological order.

## **LEDGER**

Ledger is a main book of account in which various accounts of personal, real and nominal nature, are opened and maintained. In journal, as all the business transactions are recorded chronologically, it is very difficult to obtain all the transactions pertaining to one head of account together at one place.

## **TRIAL BALANCE**

Trial balance is a statement prepared with the balances or total of debits and credits of all the accounts in the ledger to test the arithmetical accuracy of the ledger accounts. If the total of the debit and credit amount columns of the trial balance are equal, it is assumed that the posting to the ledger in terms of debit and credit amounts is accurate.