BEFA (Unit -4)

Topic – 1

Introduction of Accounting

Definition of Accounting

- Accounting is the language of business. The main objective of accounting is safe guard the interest of business, its proprietors and others connected with the business transactions.
- According to AICPA (American Institute of Certified Public Accountant) defines accounting as an art of recording, classifying and summarizing in a significant manner, and in terms of money and events which are, in part at least, of a financial character and interpreting the results there of.

Significance of Accounting

- Maintain its own records of business.
- Monitor the business activities.
- Calculate profit or loss for a given period.
- Fulfill legal obligations.
- Show financial position for a given period
- Communicate the information to the interested parties

UsersofAccountingInformation

1. **Managers:** These are the persons who manage the business, i.e. management at thetop, middle and lower levels. Their requirements of information are different because they make different types of decisions.Accounting information also helps the managers in appraising the performance of subordinates .As such Accounting is termed as"the eyes and ears of management."

2. **Investors:** Those who are interested in buying the shares of company are naturallyinterested in the financial statements to know how safe the investment already made is and how safe the proposed investments will be.

3. **Creditors:** Lenders are interested to know whether their load, principal and interest,will be

paid when due. Suppliers and other creditors are also interested to know the ability of the firm to pay their dues in time.

4. **Workers:**In our country,workers are entitled to payment of bonus which depends on the size of profit earned. Hence, they would like to be satisfied that the bonus being paid to them is correct. This knowledge also helps them in conducting negotiations for wages.

5. **Customers:** They are all so concerned with the stability and profitability of the enterprise. They may be interested in knowing the financial strength of the company to rent it for further decisions relating to purchase of goods.they also look for goods at less prices.

Good accounting control leads to reduction in cost of production which in turn will give scope for less price for the products.

6.Government: Governments allover theworld are using financial statements for compiling statistics concerning business which, in turn, helps in compiling national accounts.The financial statements are useful for tax authorities for calculating taxes.

7. Public : The public at large interested in the functioning of the enterprises because itmay make a substantial contribution to the local economy in many ways including the number of people employed and their patronage to locals uppliers.

8.Researchers: The financial statements, mirror of business conditions, is of great interest to scholars undertaking research in accounting theory as well as business affairs and practices.

Branches of Accounting:

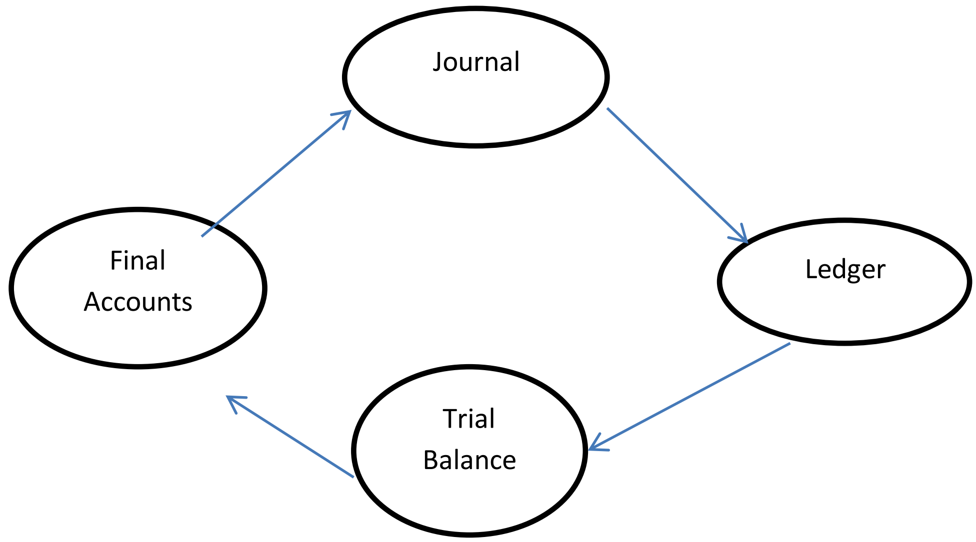
a. **Financial Accounting:** The purpose of Accounting is to ascertain the financial results i.e. profit or loss in the operations during a specific period. It is also aimed at knowing the financial position, i.e. assets, liabilities and equity position at the end of the period. It also provides other relevant information to the management as a basic for decision-making for planning and controlling the operations of the business. The **tools and techniques** of financial accounting includes subsidiary books, ledger accounts, trial balance and financial statements.

b. **Cost Accounting:** The purpose of this branch of accounting is to ascertain the cost of a product / operation /project and the costs incurred for carrying out various activities. It also assists the management in controlling the costs.The necessary data and information are gathered form financial and other sources.

- The **tools and techniques** of cost accounting include opportunity cost, Marginal costing, Break-Even analysis and so on.

c. **Management Accounting:** Its aim to assist the management in taking correct policy decision and to evaluate the impact of its decisions and actions. The data required for this purpose are drawn from financial accounting and cost-accounting

- The **tools and techniques** of management accounting include ratio analysis, capital budgeting and so on.


Journal
Ledger
Trial
Balance
Final
Accounts

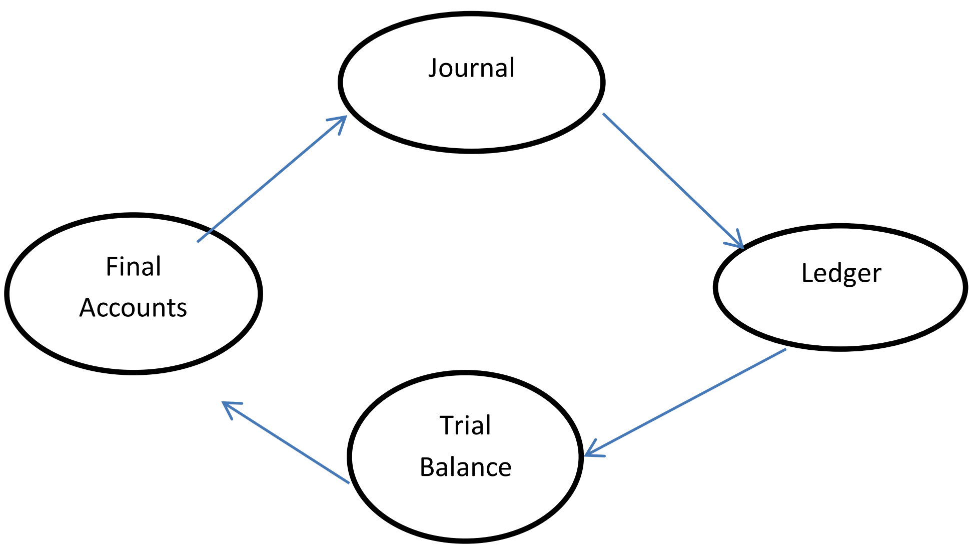
BEFA (Unit -4)

Topic – 2

Accounting Cycle & Terminology

Accounting Cycle:

The accounting cycle is a multistep process used by businesses to create an accurate record of their financial position, as summarized on their financial statements. During the cycle's various stages, companies will record their financial transactions in a journal, transfer the details into a general ledger, analyze the entries and make sure the books are balanced and error-free before generating financial statements and closing the books for the period.



Journal is a detailed record of all transactions done by a business. The information recorded in a journal is used to reconcile accounts.

Lledger in accounting refers to a book that contains different accounts where records of transactions pertaining to a specific account are stored.

Trial balance is a report that lists the balances of all general ledger accounts of a company at a certain point in time. The accounts reflected on a trial balance are related to all major accounting items, including assets, liabilities, equity, revenues, expenses, gains, and losses.

Final accounts are those accounts that are prepared by a joint stock company at the end of a fiscal year. The purpose of creating final accounts is to provide a clear picture of the financial position of the organization to its management, owners, or any other users of such accounting information.

Final account preparation involves preparing a set of accounts and statements at the end of an accounting year. The final account consists of the following accounts:

1. Trading and Profit and Loss Account
2. Profit and Loss Appropriation account
3. Balance Sheet

Accounting Terminology:

- **Business Transaction** – A business transaction is a financial event between two or more parties. It involves an exchange of goods and services for money and gets recorded in the books of accounts for the organisations involved

- **Double - entry Book keeping** : This is a system of book keeping where for every debit there will be an equal amount of credit.
- **Account** :Is a **'T'** shaped format under double entry system to deal with financial transactions .
- Debit: Debits are accounting entries that increase assets or decrease liabilities. They are the functional opposite of credits and are positioned to the left-hand side in accounting documents.

Credit: Credits are accounting entries that increase liabilities or decrease assets. They are the functional opposite of debits and are positioned to the right-hand side in accounting documents.

Accounting period :Refers to a period for which accounts are maintained normally for a period of 1 year ,half yearly, or quarterly.

Transaction – cash & credit

Assets: i) Current assets

Are expected to be realized inn cash during business operations

- Eg; cah in hand, cash at bank ,stock ,debtors etc.

ii)Fixed assets : Tangible & intangible

Tangible fixed assets are those assets which have particular form & shape, which have long life , firms reaps benefits for long period & resell it later.

Eg; Plant and machinery,Land & buildings, Furniture & fixtures**.**

Intangible fixed assets are those assets which do not have any form & shape but still adds value/worth to the firm .

Eg; Good will, Patents , Trade marks, Copyrights etc**..**

Capital – : In common usage, capital (abbreviated "CAP.") refers to any asset or resource a business can use to generate revenue. Capital is a critical component of any business to run its daily operations and help its future growth. The capital for a business comes either from its owners or from outsiders (shares, debentures or bonds).

Drawings – Drawings refer to the withdrawals made by the owners of a business for personal use. It gets deducted from the Owner's Capital in the Liabilities side of a Balance Sheet.

Liabilities:

- What the firm has to pay legally, they are called liabilities.
- In other words, it refers to what the firm owes to outsiders.

Current Liability:

- Current liability are those which are payable in the near future say less than one year. (creditors, bills payable, bank overdraft and outstanding or accrued expenses)

Creditor – A creditor is an individual or entity to whom a business owes money. Companies treat it as a liability because they will have to pay them in the near or distant future.

Debtor – A debtor is an individual or entity that owes money to a business. Companies treat it as an asset because they will get money from them in the near or distant future.

Bills Receivable:

- Refers to the acceptance received from the customers or business parties to pay an agreed amount of money.
- Acceptances received are called bills receivable (current asset)

Bills Payable:

- The acceptances given to the suppliers of goods or other business parties to an agreed amount of money are called bills payable.
- Acceptances given are called Bills payable (Current Liability)

Purchase – Purchase is the activity of buying an item to either use it in the production of goods and services or resell it to another entity.

Purchase returns : These refers to the goods returned by the firm (buyer) to the supplier or stores with a complaint about damage or defects.

Net purchases = Purchases – Purchase returns.

Sales – Sales is an economic activity where a business exchanges goods or services with another entity for money. It is the primary source of revenue for any organisation.

Sales Return (Return Inwards):

- These refers to the goods returned by customers with a complaint about damage or defects.

Net Sales = Sales – Sales Returns

Stock/Inventory:

- Stock or inventory refers to the goods in which the firm deals.
- A large business may have 3 types of stock : **raw material, work in progress and**

finished goods

- The closing stock of an accounting period becomes opening stock for the next

accounting period.

Expenditure (Capital and Revenue) – A business incurs Capital Expenditure to acquire assets for long-term income generation. It also incurs Revenue Expenditure to run the day-to-day operations of a business.

Income – Income is the revenue that a business earns from the sale of its goods or services. It is essential for the survival and growth of any enterprise, and the failure to generate revenue can lead to a shutdown of the business.

Profit – Profit is the positive difference between the income generated from selling goods or services and the Expenses incurred to perform that business activity. Profit is the excess of revenues over the expenses.

Gain – A Gain is an increase in the total value of an asset of a business. It takes place when the current price of the asset exceeds its original purchase price. It can occur at any time during the useful life of an asset.

Loss – Loss is the excess of the Expenses incurred from selling goods or services over the income generated to perform that business activity. Sustained losses over time can lead to the shutdown of a business organisation.

BEFA (Unit -4)

Topic – 3

Accounting Concepts & Conventions

1. **The business entity concept**: According to this, the business and owner are separate entities. Business transactions are recorded in the books of accounts from the company's point of view, and not the owner's. The owners are considered separate from their business's point of view and are regarded as creditors to the extent of their capital.
2. **The money measurement concept**: According to this, transactions and events are measured in monetary terms in the books of accounts of the enterprise.
3. **The going concern concept**: Under this concept, it is assumed that the business will continue for an indefinite period, and there is no intention to close the business or cut down its operations significantly.
4. **The accounting period concept**: According to the accounting period concept, the life of an enterprise can be broken into smaller periods, usually termed accounting periods, so that its performance is measured at regular intervals.
5. **The cost concept**: According to this concept, an asset is recorded in the books of account at the price paid to acquire it, and the cost is the basis for all following accounting of the asset.
6. **The dual concept**: According to the dual aspect concept, every business transaction entered into by the organisation has two aspects, a debit and an equal creditor amount. For every debit, there will be an equal amount of credit.
7. **The revenue recognition concept**: According to this concept, revenue is determined to have been realised when a transaction has been written in the books and the obligation to receive the amount has been ascertained.
8. **The matching concept**: Here, it is ascertained that every cost incurred to earn the revenue should be recognised as an expense in the accounting period when revenue is earned. In a given accounting period, expenses are matched with the revenue earned.
9. **The accrual concept**: A transaction is said to be accrued if a transaction is recorded at the time when it takes place and not at the time when the settlement takes place.

Accounting conventions

The guidelines that are followed to prepare financial statements are called accounting conventions. These are as follows:

1. **Full disclosure**: Convention of full disclosure states that there should be complete reporting on the financial statements of all important information relating to affairs of the business. All the material facts are to be disclosed.

2. **Consistency:** Convention of consistency states that accounting practices, once selected and adopted, should be followed consistently year after year for a better understanding and comparability of the accounting information.
3. **Prudence concept or conservatism concept**: This convention states that we should not anticipate a profit before its realizable but provide for all possible losses which might occur in the course of business.
4. **Materiality concept**: The materiality concept relates to the relative information of an item or an event. An item is considered material when such knowledge of that could influence the decision of an investor.

Conclusion

Financial accounting is related to the recording of financial transactions, summarizing and interpreting them, and communicating the results to the interested parties. Accounting information is understandable in a better manner if prepared with the following set of accounting concepts and conventions uniformly. Accounting concepts are the basic assumptions on which accounting operates. Accounting conventions are guidelines that are followed for preparing financial statements. If the given accounting concepts and conventions are utilised, then firms can easily have control over costs, which will lead to better financial results.

BEFA (Unit -4)

Topic – 4

Types and Rules of Accounting

Personal Account

A personal account is a general ledger account that pertains to individuals. It can be natural persons - such as humans, or artificial persons, like corporations, firms, associations, and so on.

" Debit the Receiver and Credit the giver."

Real Account

A real account is a normal ledger account that can record all the assets and liabilities. It has both - actual and intangible assets. Tangible assets include furniture, land, buildings, machinery, and so on. Intangible assets, on the other hand, such as goodwill, copyright, patents, and so on.

"**Debit what comes in - credit what goes out."**

Nominal Account

A nominal account is a normal ledger account that records all income, expenses, profits, and losses for a business. It records all transactions for a single fiscal year. The balances are reset to zero and the process can begin again. A nominal account is one that pays interest.
"Debit all expenses & losses - Credit all incomes & gains "

Examples

- **Purchased goods from Ram worth Rs. 10,000**

Purchases a/c….Dr	Real Account
To Ram a/c………	Personal Account

- **Sold goods for Cash Rs. 5,000**

Cash a/c ……Dr Real account

To Sales a/c…… Real Account

- **Discount allowed Rs.500**

Discount allowed a/c….. Dr Nominal account

To Cash a/ c…….. Real Account

- **Paid Rent Rs. 500**

Rent a/c……..Dr Nominal account

To cash a/c….. Real account

- **Good returned to Ram worth Rs. 1000**

Ram a/c….Dr Personal Account

To Purchases return a/c Real account

- **Cash deposited into Bank Rs. 20,000**

Bank a/c….. Dr Personal Account

To Cash a/c…. Real ac count

BEFA (Unit -4)

Topic – 5

<u>How to Journalize the Transaction</u>

In accounting, a journal is a record of all financial transactions that a business makes, recorded in chronological order. It's also known as the book of original entry because it's the first place where transactions are recorded.

Journal Entry Format			
Date	**Account Name**	**Debit**	**Credit**
January 1			
	Debited Account	xxxx	
	-Credited Account		xxxx
	Description of the Journal Entry		

Journalize the following in the books of Varun & co. 2022

- 2^{nd} Jan 2022 - Started a business with Rs. 70,000
- 5^{th} Jan 2022 - Purchased land for Rs 1,50,000
- 6^{th} Jan 2022 - Sold goods for Rs. 15,000 to Mr. Kiran
- 7^{th} Jan 2022 – Purchased good from Manoj Rs. 22,000 and issued a cheque
- 10^{th} Jan 2022 – Goods returned by kiran worth Rs. of 5,000
- 15^{th} Jan 2022 – Cheque deposited into bank worth Rs. 10,000
- 20^{th} Jan 2022 - Goods returned to Manoj worth Rs. Of 2,000
- 30^{th} Jan 2022 – Paid salary, Comission received and General expenses Rs. 15,000,

Rs. 25,000 and Rs. 500 respectively.

Journal Entries in the books of Varun & Co.

Date	Particulars	L.F.	Debit (Rs.)	Credit (Rs.)
2/1/2022	Cash a/c….Dr To Capital Account [Being the business Commenced]		70,000	70,000
5/1/2022	Land a/c….Dr To Cash a/c [Being Land purchased]		1,50,000	1,50,000
6/1/2022	Kiran a/c…..Dr To Sales a/c… [Being goods sold to kiran]		15,000	15,000
7/1/2022	Purchase a/c…..Dr To Bank a/c [Being goods purchased from manoj]		22,000	22,000
10/1/2022	Sales return a/c…..Dr To Kiran a/c [Being goods returned by kiran]		5,000	5,000
15/1/2022	Bank a/c….Dr To Cash a/c [Being cash deposited into bank]		10,000	10,000
20/1/2022	Manoj a/c….Dr To Purchase return a/c [Being good returned to manoj]		2,000	2,000
30/1/2022	Salary a/c….Dr Comission a/c…Dr General expenses a/c….Dr To Cash a/c		 15,000 25,000 5,000	 45,000

BEFA (Unit -4)

Topic – 6

Posting Journal Entries into Ledger

Ledger is a book that contains several accounts. The process of preparation of accounts from the journal into ledger is called posting in the Ledger.

The purpose of providing a ledger account for each account is to record and categorize transactions, and to ensure that each transaction is properly accounted for. A ledger, also known as a general ledger, accounting ledger, or financial ledger, is a company's record-keeping system for financial transactions.

Dr. Name of the ledger account Cr.

Date	Particulars	J.F.	Amount ₹	Date	Particulars	J.F.	Amount ₹

Journalize the following transaction and enter into the ledger accounts

- 2nd Jan 2022 - Started a business with Rs. 70,000
- 5th Jan 2022 - Purchased land for Rs 1,50,000
- 6th Jan 2022 - Sold goods for Rs. 15,000 to Mr. Kiran
- 7th Jan 2022 – Purchased good from Manoj Rs. 22,000 and issued a cheque
- 10th Jan 2022 – Goods returned by kiran worth Rs. of 5,000
- 15th Jan 2022 – Cheque deposited into bank worth Rs. 10,000
- 20th Jan 2022 - Goods returned to Manoj worth Rs. Of 2,000
- 30th Jan 2022 – Paid salary 15,000, Comission paid 25,000 and General expenses Rs. 5,000

Journal Entries in the books of Varun & Co.

Date	Particulars	L.F.	Debit (Rs.)	Credit (Rs.)
2/1/2022	Cash a/c….Dr To Capital Account [Being the business Commenced]		70,000	70,000
5/1/2022	Land a/c….Dr To Cash a/c [Being Land purchased]		1,50,000	1,50,000
6/1/2022	Kiran a/c…..Dr To Sales a/c… [Being goods sold to kiran]		15,000	15,000
7/1/2022	Purchase a/c…..Dr To Bank a/c		22,000	22,000

	[Being goods purchased from manoj]			
10/1/2022	Sales return a/c…..Dr To Kiran a/c [Being goods returned by kiran]		5,000	5,000
15/1/2022	Bank a/c….Dr To Cash a/c [Being cash deposited into bank]		10,000	10,000
20/1/2022	Manoj a/c….Dr To Purchase return a/c [Being good returned to manoj]		2,000	2,000
30/1/2022	Salary a/c….Dr Comission a/c…Dr General expenses a/c….Dr To Cash a/c		15,000 25,000 5,000	45,000

Dr Cash a/c Cr

Date	Particulars	L.F	Rs	Date	Particulars	L.F	Rs
2/1/2022	To Capital a/c		70,000	5/1/2022	By Land a/c		1,50,000
				15/1/22	By Bank a/c		10,000
					Salaries a/c		15000
					Commission a/c		25000
					General expenses a/c		5000
31/1/22	To bal c/d		**1,35,000**				
			2,05,000				**2,05,000**
				1/2/2022	By bal b/d		135000

Dr Land a/c Cr

Date	Particulars	L.F	Rs	Date	Particulars	L.F	Rs
5/1/2022	To Cash a/c		1,50,000	31/1/22	By bal c/d		**1,50,000**
			1,50,000				**1,50,000**
1/2/2022	To bal b/d		1,50,000				

Dr Capital a/c Cr

Date	Particulars	L.F	Rs	Date	Particulars	L.F	Rs
31/1/22	To bal c/d		**70,000**	2/1/2022	By Cash a/c		70,000
			70,000				**70,000**
				1/2/2022	By bal b/d		70,000

Dr				Kiran a/c			Cr
Date	**Particulars**	**L.F**	**Rs**	**Date**	**Particulars**	**L.F**	**Rs**
6/1/2022	To Sales		15,000	10/1/2022	By Sales return		5,000
				31/1/22	By bal c/d		10,000
			15,000				**15,000**
1/2/2022	To bal b/d		10,000				

Dr				Sales a/c			Cr
Date	**Particulars**	**L.F**	**Rs**	**Date**	**Particulars**	**L.F**	**Rs**
31/1/22	To bal c/d		15,000	6/1/22	By Kiran a/c		15,000
			15,000				**15,000**
				1/2/22	To Bal b/d		15,000

Dr				Sales return a/c			Cr
Date	**Particulars**	**L.F**	**Rs**	**Date**	**Particulars**	**L.F**	**Rs**
6/1/22	To Kiran a/c		5,000	31/1/22	By bal c/d		5,000
			5,000				**5,000**
1/2/22	To bal b/d		5,000				

Dr		Purchases a/c			Cr
Date	**Particulars**	**Rs**	**Date**	**Particulars**	**Rs**
7/1/22	To Bank a/c	22000			
				By bal c/d	22000
		22000			22000
1/2/22	To bal b/d	22000			

Dr				Purchase return a/c			Cr
Date	**Particulars**	**L.F**	**Rs**	**Date**	**Particulars**	**L.F**	**Rs**
	To bal c/d		2000	20/1/22	By manoj a/c		2000
			2000				**2000**
				1/2/22	By bal b/d		2000

Dr				Manoj a/c			Cr
Date	**Particulars**	**L.F**	**Rs**	**Date**	**Particulars**	**L.F**	**Rs**
20/1/22	To purchase returns a/c		2000				
					By bal c/d		2000
			2000				**2000**
1/2/22	By bal b/d		2000				

Dr			Bank a/c				Cr
Date	**Particulars**	**L.F**	**Rs**	**Date**	**Particulars**	**L.F**	**Rs**
15/1/22	To Cash		10,000	7/1/22	By Purchase		22,000
	To balc/d		12000				
			10,000				**10,000**
				1/2/22	By bal b/d		12,000

Dr			Salaries a/c		Cr		
Date	**Particulars**	**L.F**	**Rs**	**Date**	**Particulars**	**L.F**	**Rs**
30/1/22	To Cash a/c		15000	31/1/22	By Bal c/d		15,000
			15,000				**15,000**
1/2/22	To bal b/d		15,000				

Dr			Commission a/c				Cr
Date	**Particulars**	**L.F**	**Rs**	**Date**	**Particulars**	**L.F**	**Rs**
30/1/22	To Cash a/c		25000	31/1/22	By Bal c/d		25,000
			25,000				**25,000**
1/2/22	To Bal b/d		25,000				

Dr Cr			General expenses a/c				
Date	**Particulars**	**L.F**	**Rs**	**Date**	**Particulars**	**L.F**	**Rs**
30/1/22	To Cash a/c		5000	31/1/22	By Bal c/d		5000
			5000				**5000**
1/2/22	To bal b/d		5000				

BEFA (Unit -4)

Topic – 7

<u>Trial Balance</u>

- Trial Balance is statement containing debit and credit balances of various accounts taken from ledger books as on a particular date.
- A trial balance must agree as on that date.

COMPANY NAME
Unadjusted Trial Balance
------Date------

Account Name	Debit	Credit
Totals		

<u>Accounts showing Debit and Credit Balances</u>

<u>Debit Balances:</u>

- Debtors account
- Assets (land& Building, P&M,)
- Expenses (rent paid, salaries paid)
- Losses account (goods destroyed)
- Purchases account
- Sales returns
- Drawing account
- Stock / Inventory

Credit Balances:

- Creditors account
- Liabilities accounts
- Incomes accounts
- Gains & Profits
- Loan account
- Bank overdraft
- Sales account
- Purchase account

Prepare a trial balance from the following information:

Particulars	Rs
Sundry Debtors	32,000
stock (1/1/2010)	22,000
Cash in hand	35
cash at bank	1,545
Plant & machinery	17,500
Sundry creditors	10,650
Trade expenses	1,075
Ssles	2,34,500
Salaries	2,225
carriage outwards	
Rent	900
Bills payable	7,500
Purchases	2,18,870
Discount (Dr.)	1,100
Capital	79,500
Business premises	34,500

Sol)

Particulars	Debit (Rs)	Credit (Rs)
Sundry Debtors	32,000	
stock (1/1/2010)	22,000	
Cash in hand	35	
cash at bank	1,545	
Plant & machinery	17,500	
Sundry creditors		10,650
Trade expenses	1,075	
Sales		2,34,500
Salaries	2,225	
carriage outwards	400	
Rent	900	
Bills payable		7,500
Purchases	2,18,870	
Discount (Dr.)	1,100	
Capital		79,500
Business premises	34,500	
Total	**3,32,150**	**3,32,150**

BEFA (Unit -4)

Topic – 8

Final Accounts

The process of preparing final accounts of sole proprietor is of two stages:

a) Trading and Profit and Loss Account

b) Balance Sheet

Preparation of Trading

- Trading account shows gross profit or gross loss for the end of a given accounting period.
- Gross profit or gross loss is the excess of Sales revenue over the cost of goods sold.
- If the cost of goods sold is more than the sales revenue, it results in gross loss.

Gross profit = Net sales – Cost of goods sold

Proforma of Trading Account

Trading account for the year ended……….

To opening stock		xxx	By Sales	xxxx	
To purchases	xxxx		Less returns	xx	
Less returns	xxx			--------	xxxx
	-------------	xxxx	By closing stock		xxx
To Direct expenses:			By gross loss (if loss)		xxx
Carriage inward		xxx			
Freight		xxx			
Octroi		xxx			
Dock dues		xxx			
Excise duty		xxx			
Royalty		xxx			
Motive power		xx			
Coal, gas, water		xxx			
Factory expenses		xxx			
To Gross Profit (if profit)		xxx			
		xxxxx			xxxxx

Prepare a trading account for the year ended 31st March, 2016 from the following balances.

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Particulars	**Rs**	**Particulars**	**Rs**
Purchases	4,00,000	Sales return	40,000
Sales	10,00,000	Carriage on purchases	16,000
Freight and octori	13,000	Carriage on sales	20,000
Wages	60,000	Factory rent	24,000
Factort lighting	21,600	Office rent	15,000
Coal, gas and water	4,400	Import Duty	64,000

- Closing stock is valued at 1,20,000

Dr Trading a/c for the year ended 31st March 2016 Cr

Particulars	**Rs**	**Rs**	**Particulars**	**Rs**	**Rs**
To Opening Stock		80,000	By Sales	10,00,000	
To Purchases	4,00,000		**Less:** Sales return	40,000	9,60,000
Less: Purchase Return	24,000	3,76,000	By Closing stock		1,20,000
To Freight and octori		13,000			
To Wages		60,000			
To Factory lighting		21,600			
To coal, gas and water		4,400			
To factory rent		24,000			
To carriage on purchasess		16,000			
To import duty		64,000			
To Gross profit c/d		**4,21,000**			
		10,80,000			**10,80,000**

Profit and Loss Account

- Profit and Loss account shows net profit or net loss for the end of a given period.
- From the gross profit (or gross loss) transferred from trading account, deduct all expenses relating to office, selling and distribution departments.
- Add all the non- operating income such as commission or rent received, interested received etc.

Net Profit = Gross profit – Expenses + Other incomes

The examples of expenses that can be included in a Profit and Loss Account are:

. Sales Tax

. Maintenance

. Depreciation

. Administrative Expense

. Selling and Distribution Expense

. Provisions

. Freight and carriage on sales

. Wages and Salaries

Proforma of Profit and Loss Account

Profit & Loss Account

Dr. (For the year ended…) Cr.

Particulars	Amount	Particulars	Amount
To Gross loss b/d	Xxx	By Gross Profit b/d	Xxx
To Salaries	Xxx	By Discount Received	Xxx
To Office rent, rates and taxes	Xxx	By Commission Received	Xxx
To Printing & stationery	Xxx	By Bank Interest	Xxx
To Telephone expenses	Xxx	By Rent received	Xxx
To Postage & telegram	Xxx	By Dividend on shares	Xxx
To Discount Allowed	Xxx	By Interest earned on debentures	Xxx
To Insurance	Xxx	By Profit on sale of asset	Xxx
To Audit Fees	Xxx	By Net loss	Xxx
To Electricity charges	Xxx		
To Repairs & renewals	Xxx		
To Depreciation	Xxx		
To Advertisement	Xxx		
To Carriage Outwards	Xxx		
To Bad Debts	Xxx		
To Provision for Bad debts	Xxx		
To Selling commission	Xxx		
To Bank Charges	Xxx		
To Interest on loans	Xxx		
To Loss on sale of asset	Xxx		
To Net Profit	Xxx		
	xxx		xxx

From the following information, prepare Profit & Loss Account of M/s Sarthak Traders for the year ending on 31.03.2012

Particulars	Rs.
Gross Profit	43,000
Discount allowed to customers	7,000
Salaries	45,000
Interest paid on loan	13,000
Postage	2,400
Discount received from creditors	6,000
Commission received	1,000
Sales expenses	10,000

Dr Profit and loss a/c of MrSarthak Traders for the year ending 31/03/2012 Cr

Particulars	Rs	Particulars	Rs
To Dis. Allowed to Customer	7,000	By Gross profit	43,000
To Salaries	45,000	By Dis. Received from Creditors	6,000
To Interest on Loan	13,000	By Commission Received	1,000
To Postage	2,400	By Net Loss	27,400
To sales expenses	10,000		
	77,400		**77,400**

Balance Sheet

- It is a statement prepared to know the financial position of a business (i.e., financial strengths & weakness of a business on a given date)
- It is revealed by the assets & liabilities.
- Assets: All tangible and intangible items which have a realizable value
- Liabilities: All dues and loans payable

Assets – Liabilities = Capital

(This would show the strength or net worth of the business)

Proforma of Balance Sheet

Balance Sheet of ………… As at…………

Liabilities	Rs.	Assets	Rs.
		Fixed Assets:	
Capital:		Good will	
Opening Balance xxxx		Land	
Add: Net Profit xxxx		Building	
(Less: Net Loss)		Plant & Machinery	
Less: Drawings xxxx		Furniture & Fixtures	
Long-term Liabilities:		Investment:	
Loan		Current Assets:	
Current liabilities:		Closing stock	
Income received-in-advance		Accrued income	
Sundry Creditors		Prepaid expenses	
Outstanding Expenses		Sundry Debtors	
Bills Payable		Bills Receivable	
Bank Overdraft		Cash at Bank	
		Cash in Hand	

From the following information supplied by Mr. RoshanLal, prepare a Balance Sheet of Mr. RoshanLal as on 31st March, 2012

Particulars	Rs
Capital	50,000
Furniture	15,000
Debtors	25,000
Creditors	30,000
Plant and Machinery	58,000
Investments	5,000
Cash in hand	1,000
Cash at bank	1,000
Stock	10,000
Bank overdraft	8,000
Bank Loan	20,000
Net profit	10,000
Drawings	3,000

Balance Sheet of Mr. RoshanLal as on 31st March, 2012

Liabilities	Rs	Rs	Assets	Rs	Rs
Capital	50,000		Furniture		15,000
Less: Drawings	3,000		Plant and Machinery		58,000
	47,000				
Add: Net profits	10,000	57,000			
Bank overdraft		8,000	Debtors		25,000
Bank Loan		20,000	Investments		5,000
Creditors		30,000	Cash in hand		1,000
			Cash at Bank		1,000
			Stock		10,000
		1,15,000			**1,15,000**

BEFA (Unit -4)

Topic – 9

Adjustments

All the adjustments given at the end of trial balance have to be recorded twice:

a) Once in trading or profit and loss account and

b) in balance sheet

Accrual Expenses

- An accrued expense indicates that an expense has been incurred but is **NOT YET DUE** for payment.
- In case of outstanding expenses, it must be **added** to the concerned account in trading or profit and loss a/c.
- Again this item should be shown in the balance sheet as a **liability**

Outstanding Expense Adjustment in Final Accounts - Effect 1 (e.g. Salaries, Indirect Expense)

Profit & Loss Account

Particulars	Rs	Particulars	Rs
To Salaries 10,000		By Gross Profit (Balance b/f)	xx
Add. Outstanding Salaries 2,000	12,000	By Rent Received	xx
To Rent, Rates & Taxes	xx	By Discount Received	xx
...		...	

Outstanding Expense Adjustment in Final Accounts - Effect 2 (e.g. Salaries)

Balance Sheet *(Sample)*

Liabilities	Rs	Assets	Rs
Share Capital		**Current Assets**	
Authorized Capital	xx	Cash at Bank	xx
Reserves and Surplus	xx	Closing Stock	xx
Current Liabilities		**Fixed Assets**	
Outstanding Salaries	2,000	Land and Building	xx
...		...	

Prepaid or Unexpired expenses (Paid in advance)

- Expenses that are to be charged in the future or simply the future expenses that are paid in advance are known as prepaid expenses.
- In case any expense is prepaid, it must be **deducted** from the concerned head in trading or profit and loss account.
- Again it will be shown in balance sheet as an **asset.**

Prepaid Expense Adjustment in Final Accounts - Effect 1 (e.g. Rent, Indirect Expense)

Profit & Loss Account			
Particulars	**Rs**	**Particulars**	**Rs**
To Rent 10,000		By Gross Profit (Balance b/f)	xx
Less. Prepaid Rent 3,000	7,000	By Rent Received	xx
To Stationery & Printing	xx	By Discount Received	xx
...		...	

Prepaid Expense Adjustment in Final Accounts - Effect 2 (e.g. Rent)

Balance Sheet *(Sample)*			
Liabilities	**Rs**	**Assets**	**Rs**
Share Capital		**Current Assets**	
Authorized Capital	xx	Cash at Bank	xx
Reserves and Surplus	xx	Prepaid Rent	3,000
Long Term Liabilities		**Fixed Assets**	
Loans	xx	Land and Building	xx
...		...	

Provision for Depreciation (Charge Depreciation)

- Depreciation refers to the reduction in value of the assets (Wear & tear of the asset, passage of time, technological developments and obsolescence.
- **Fixed assets** are subject to depreciation.
- Generally depreciation is charged as percentage on the value of fixed asset p.a.
- If depreciation **is given as adjustment**, it is to be charged to **Profit & loss account** and again it should be **deducted** from the **concerned asset in the balance sheet**.

Cost of Depreciation = Cost of the assets-Scrap / Number of years of life

Depreciation (Without Provision) in Final Accounts - Effect 1 (e.g Furniture 10% SLM).

Profit & Loss Account

Particulars	Rs	Particulars	Rs
To Depreciation on Furniture	1,000	By Gross Profit (Balance b/f)	xx
To Telephone Expenses	xx	By Rent Received	xx
...		...	

Depreciation (Without Provision) in Final Accounts - Effect 2 (e.g Furniture 10% SLM)

Balance Sheet *(Sample)*

Liabilities	Rs	Assets		Rs
Share Capital		**Current Assets**		
Authorized Capital	xx	Cash at Bank		xx
Reserves and Surplus	xx			
		Fixed Assets		
Long Term Liabilities		Furniture	10,000	
Loans	xx	Less Depreciation	1,000	9,000
...		...		

<u>Closing Stock/ Inventory</u>

Treatment of Closing Stock - Closing stock will be treated as per the situation. Sometimes it is given in the trial balance itself and some time it is given as an adjustment at the end of the trial balance. The treatment will be different in both the cases.

When Closing Stock is given in the Trial Balance - When closing stock is given in the trial balance only single posting will be there in the balance sheet as assets.

When Closing Stock is given in the Adjustment - When closing stock is given in the adjustment, then there will be two postings. First of all, the amount of closing stock will be shown in the credit side of Trading Account and that the same figure of closing stock will be shown in the assets side of the balance sheet.

Trading Account Format

Particulars	Amount	Particulars	Amount
To Opening Stock		By Sales	
To Purchases		*(Less Return Inwards)*	
(Less Return Outwards)		By Closing Stock	
To Wages (Adjust O/S & Prepaid)		*By Gross Loss (Transfer to P&L A/C)*	
To Carriage Inwards			
To Freight, Octroi & Cartage			
To Direct Expenses			
To Fuel & Power			
To Gross Profit (Transfer to P&L A/C)			

Balance Sheet of Ms. Samriti
as on 31st March 2023

Liabilities		Amount(₹)	Assets	Amount(₹)
Capital	12,000		Furniture	15,000
Add: Net Profit	25,500	37,500	Debtors	15,500
Creditors		20,000	Bank	5,000
Outstanding wages		500	Cash	4,000
Rent received in advance		3,000	Closing Stock	15,000
			Accrued Commission	1,500
			Prepaid salary	5,000
		61,000		61,000

Writing of Bad debts and Provision for Bad and Doubtful Debts

- A bad debt is debt which is irrecoverable and hence it will be written off as a loss.
- At the time of preparation of balance sheet, some debt might have become bad and they will be written off as bad debts and there is certainty regarding that loss.

Bad Debts Adjustment in Final Accounts - Effect 1 (B.Debts 5K, Debtors 10K, Further B.Debt 2K)

Profit & Loss Account

Particulars		Rs	Particulars	Rs
To Depreciation		xx	By Gross Profit (Balance b/f)	xx
To Bad Debts	5,000		By Rent Received	xx
Add: Further Bad Debts	2,000	7,000	By Discount Received	xx
...			...	

Bad Debts Adjustment in Final Accounts - Effect 2 (B.Debts 5K, Debtors 10K, Further B.Debt 2K)

Balance Sheet *(Sample)*

Liabilities	Rs	Assets		Rs
Share Capital		**Current Assets**		
Authorized Capital	xx	Sundry Debtors	10,000	
Reserves and Surplus	xx	Less: Further Bad Debts	2,000	8,000
Long Term Liabilities		**Fixed Assets**		
Loans	xx	Land and Building		xx
...		...		

Profit & Loss Account
for the year ending 31st March, 2004

Dr. Cr.

Particulars	Rs.	Particulars	Rs.
To Provision for bad and doubtful debts A/c	3,000		

Balance Sheet as on 31st March, 2004

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
			Sundry debtors	60,000	
			Less: Provision for bad and doubtful debts	3,000	57,000

- The provision for doubtful debts is an estimated amount of bad debts that are likely to arise from the accounts receivable that have been given but not yet collected from the debtors.
- It is similar to the allowance for doubtful accounts.

BEFA (Unit -4)

Topic – 10

Problems on Final Accounts with Adjustments

The following balances were extracted from the books of Thomas as on 31st March, 2018. Prepare trading account, profit and loss account and balance sheet.

Particulars	₹	Particulars	₹
Purchases	75,000	Capital	60,000
Returns inward	2,000	Creditors	30,000
Opening stock	10,000	Sales	1,20,000
Freight inwards	4,000	Returns outward	1,000
Wages	2,000		
Investments	10,000		
Bank charges	1,000		
Land	30,000		
Machinery	30,000		
Building	25,000		
Cash at bank	18,000		
Cash in hand	4,000		
	2,11,000		2,11,000

Additional information:

- Closing stock Rs. 9,000
- Provide depreciation @ 10% on machinery
- Interest accrued on investment Rs. 2,000

In the books of Thomas

Dr. Trading and Profit and Loss Account for the year ended 31st March, 2018 Cr.

Particulars	₹	₹	Particulars	₹	₹
To Opening stock		10,000	By Sales	1,20,000	
To Purchases	75,000		Less: Returns inward	2,000	1,18,000
Less: Returns outward	1,000	74,000			
To Freight inwards		4,000	By Closing stock		9,000
To Wages		2,000			
To Gross profit c/d		37,000			
		1,27,000			1,27,000
To Depreciation on machinery		3,000	By Gross Profit b/d		37,000
To Bank charges		1,000	By Accrued interest on investment		2,000
To Net profit (transferred to capital a/c)		35,000			
		39,000			39,000

Balance Sheet as on 31st March, 2018

Particulars	₹	₹	Particulars	₹	₹
Capital	60,000		Land		30,000
Add: Net profit	35,000	95,000	Building		25,000
Creditors		30,000	Machinery	30,000	
			Less: Depreciation	3,000	27,000
			Investment	10,000	
			Add: Accrued interest	2,000	12,000
			Stock-in-trade		9,000
			Cash at bank		18,000
			Cash in hand		4,000
		1,25,000			1,25,000

2)Given below are the balances extracted from the books of Nagarajan as on 31st March, 2016. Prepare Final accounts.

Particulars	₹	Particulars	₹
Purchases	10,000	Sales	15,100
Wages	600	Commission received	1,900
Freight inwards	750	Rent received	600
Advertisement	500	Creditors	2,400
Carriage outwards	400	Capital	5,000
Cash	1,200		
Machinery	8,000		
Debtors	2,250		
Bills receivable	300		
Stock on 1st January, 2016	1,000		
	25,000		25,000

Adjustments:

- Commission received in advance Rs. 400
- Advertisement paid in advance Rs. 150
- Wages outstanding Rs. 200
- Closing stock on 31st March 2016, Rs. 2,100

In the books of Nagarajan

Dr. Trading and Profit and Loss Account for the year ended 31st March, 2016 Cr.

Particulars	₹	₹	Particulars	₹	₹
To Opening stock		1,000	By Sales		15,100
To Purchases		10,000	By Closing stock		2,100
To Wages	600				
Add: Outstanding	200	800			
To Freight inwards		750			
To Gross profit c/d		4,650			
		17,200			17,200
To Advertisement	500		By Gross profit b/d		4,650
Less: Prepaid	150	350	By Commission received	1,900	
advertisement		400	Less: Received in	400	1,500
To Carriage outwards			advance		600
To Net profit (transferred to capital a/c)		6,000	By Rent received		
		6,750			6,750

Balance Sheet as on 31st March, 2016

Particulars	₹	₹	Particulars	₹	₹
Capital	5,000		Machinery		8,000
Add: Net profit	6,000	11,000	Stock in trade		2,100
Creditors		2,400	Debtors		300
Commission received in			Bills receivable		2,250
advance		400	Advertisement prepaid		150
Outstanding wages		200	Cash		1,200
		14,000			14,000