Unit-1 D-7.05.2022

Transactions:-

→ Transactions are those activites of a business which involve transfor of money or goods or services bet two or more persons.

Ex:- perches of goods from x and sales of that goods to y.

* Goods:-

→ Goods means any things or property which can be tangible in nature means which can be touches, can be seen and can be feal.

* Services:-

→ services refers to a kind which are intangible in nature which can not be seen and touch but only can be feal.

Ex:- S/W application, CA services, Doctor providing service to his or her patient.

Book keeping:-

Book keeping is an activity concern with recording of financial data relating to business operation in a significant manner.

Accounting:-

→ Luca pacioli is the Father of accounting.

→ Accounting is the systematic process of identifying, measuring, recording, classifying, summerizing, analysizing, integrpreting & communicating "Financial information".

Book Keeping Vs Accounting:-

Book Keeping	Accounting
→ Book keeping is a process of recording transactions.	→ Accounting is a process concerned with summerizing of recorded transaction.
→ It constitute as a base for accounting.	→ It is consider as a language of the bussiness.
→ Financial statement don't form part of this process.	→ Financial statement are prepare at the end of the period.
→ There is no sub-field of book keeping.	→ It has several sub-fields like cost-accounting, financial accounting and management accounting.
→ Book keeping is clerical in nature.	→ Accounting is analytical in nature.

* capital:— Mony invested by the owner is known as capital.

* Financial statement :— Financial statement includes trading account, profit and loss account and balance sheet. (asset & liabilities) → Loan

* Analysis & Interpretation. Property understanding & evaluation of the performace and aiding planning of the future.

D- 9.05.2022.

Objectives of financial Accounting:—

① To keep systematic records:—

→ Accounting is done to keep a systematic records of financial transaction.

② To protect and control business properties:—

→ Accounting provides protection to business property from unjustified used.

③ Ascertainmaint (Findout) of result of the above recorded transactions:—

→ The main motive of recorded transaction is to ascertain wheather the firm is running under profit or loss.

→ The profit and loss can be ascertain through profit & loss statement.

④ Ascertainmaint of financial position:—

→ The financial position of a company can be ascertain through balance sheet which includes assets and liabities of a company.

⑤ provide information to the users for decission making :—

→ Accounting provides the information to both the internal users as well as to the external users of the organization.

→ So, the accounting is Known as "Language of the bussiness."

Ⅲ Scope of accounting :—

① Financial accounting has a wide scope of area.

② It is spread in all the sphere of the society.

③ It is dynamic in nature.

④ It's scope & area of operation have been always increasing keeping pace with the changes in socio echonomic impact.

⑤ It also practices in non-trading institutions.

like NGO, Temple etc.

Dt. 10.05.2022

Ⅳ Users of Accounting :—

① Internal users of accounting :—

① Owner :—

→ The owners provides funds or capital for the organisation they posses wheather the business is conducted in a sound manner or not.

Scanned with OKEN Scanner

so, they are intrested in knowing the financial position of a company.

→ There considered as internal users of an organisation.

ⅱ **Employees :-**

→ Growth of the employees is directly related to the growth of the organisation.

so, they are intrested to known the stability (potential) growth of the enterprise.

② **External users :-**

ⅰ **Banks and investors :-**

→ Banks and investors are essential part of any organisation as they provide loans or investment to the business.

→ They watch the performance of the business to know the future profit and growth.

ⅱ **Consumers :-**

→ consumers does not always require account any information but some industrial consumers required accounting information because it helps them to choose the correct suppliers.

ⅲ **Govt :-**

→ The goverment uses financial statement to check wheather the company is following rules and regulation or not.

→ The information also helps them to take Policy decission.

(iv) public:–

→ The public sometimes want the financial information to know about the company.

Researcher use accounting information in their research work.

D-13.05.2022

Terms used in accounting:–

① Entity:–

→ Entity means a reality that has a definite indiviSual existance.

→ Business entity means a specifically identifible business enterprise like ITC limited, relance etc.

② Capital:–

→ Money invested by the owner in the business is known as capital.

→ It may be brought in the form of cash or assets by the owner for the business.

→ It is therefore shown on the libilityside of the balance sheet.

③ Drawing:–

→ Mony withdrawal by the owner/proprietor from the business for personal use is known as drawing.

④ Expenses:–

→ An expenses refers to the money spent by the company. simple it means cost involved in running a business.

⑤ Revinue:-

→ Income earned by the company from its business activites, is known as revinue.

Limitation of Financial Accounting:-

① Incomplete information:-

→ The accountant measures only those events which are financial in nature means which are express in money.

→ Non monetary items however significant are not recorded in accounting.

② Inexactness:-

→ Accounting data sometimes based on estimation which may be accurate or not.

→ Therefore profits and financial position disclosed by the company may not be true and exact.

③ personal influence of accountant:-

→ Accounting may be influence by the personal judgement of the accountant.

→ He applies a choice bet^n different methods of inventory/stock valuation, charges & depreciation on different methods etc.

④ Assets may not be shown at their real value:-

→ Fixed assets are shown at cost less depreciation.

→ There may be a great difference bet^n

book value at which assets are shown in the balance sheet.

5. There are occasions when accounting principles conflict with each other.

D- 16/05/2022

Accounting concept:-

→ Concept are the basic assumption on the basis of which financial statement are prepared means it is the guidelines, principles the organization must have to follow.

Accounting convention:-

→ conventions are accounting practices adopted by various organization over a period of time.

→ There are 10 concepts, 4 conventions and 3 assumption the organization have to follow.

Concept:-

1. Business entity concept:-

→ As per this concept business enterprise is separate from its owner. So, business prepare books of accounts and owners prepared personal books of accountant.

→ From legal point of view sole traders that is owners and management both are same but from company point of view both ownership and management are different.

② Dualaspect concept :-

→ Every financial transaction have two aspect one is debit another one is credit.

→ Left hand side of an account is known as debit side and righthand side of an account is known as credit side. so, in this case debit must be equal to credit.

$\boxed{Dr = Cr}$

assumption

③ Going concern concept :-

→ Financial statements are prepare on the assumptions that an enterprise is going concern and will continue in operation for fosseable (contineous) future period.

④ Mony measurement concept :-

→ Only those transactions and events are recorded in the books of account which can be measure interms of money. so, a transaction which can not be measured interms of money i.e, non-monetary transactions are not recorded in the books of account.

Ex:- Honesty of employees, self generated goodwill (reputation) are not recorded in the books of account.

⑤ Historical cost concept:—

→ As per this concept an assets is recorded in the books of account at the price of which the assets were acquired. So, the acquisition cost relate to past is known as Historical cost.

→ However, cost concept does not mean that asset will contineously be shown acqusition price, it may be reduced from year to year by reducing the depreciation.

⑥ Accounting period concept:—

→ This is also called the concept of definite accounting period.

→ Financial statement are prepared at the end of the specific period. So, this concept requires that life of the business should be devided in to appropriate segment for studying the financial result.

D - 20.05.2022

⑦ Matching concept:—

→ All the expenses are match with revinue.

→ This concept is very important for correct determination of net profit.

→ According to this concept revinue should be recognized first and it should be matched with expenses. So, Revinue - expenses = profit

8. Objectivity concept:—

→ It said that accounting should be free from personal biasedness. (partiality)
→ Measurement are based on veryfiable evidence are objectives of accounting.

9. Realization concept:—

→ According to this concept revinue have been realized when a transaction have been enter in to operation and the obligation to receive the amount have been established.

Ex:— An enterprise sold goods in dec. 2020 and received the amount in april 2021. Revinue of the sale should be recognized in december 2020. i.e. when goods are sold.

→ It is so because the legal obligation has been established in december 2020.

10. Accrual concept:—

→ As per this concept a transaction is recorded on the basis of its occurance means transactions are recorded at the time when it is entered into organization.

Right to receive even not receive (income)
duty to paid even not paid (expenses)

convention :—

assumption ① convention of Full disclosure :—

→ This convention requires that all the significant information relating to economic affair as of the enterprise should be completely disclosed.

→ All the monetary transactions are to be recorded in the books of accounts.

② conventions of Materiality :—

→ According to this conventions items having insignificant/inmaterial effects or being irrelevant to the users need not be disclosed.

③ convention of consistency :—

→ Accounting policies are followed consistently from 1 period to another period.

change is possible in 3 cases :—

* There is a change in accounting standard.
* change in law/required by statute
* Better presentation/preparation of true & fair financial statements.

④ conservatism :—

→ Anticipated possible future losses but not future gains.

* Accounting polices:-

→ Accounting polices are rules and guidlines that are selected by a company for use in preparing and presenting its financial statements. Accounting policies are important as they set a framework, which all companies follow, and provide comparable and consistent standard financial statements across years and relative to other companies.

Accounting period
31-march to 1st April

Unit-2

Assets:-

→ An assets is any owned physical object or right, having a money value. In other words, assests are economic resources which are owned by a business and from which future economic benefits are expected to flow to the enterprise.

→ Assets are economic resources which are owned by a business and expected to benifits further operations.

Ex:- cash, Debtors, investment, stock of good, Land & Building, Goodwill etc.

* Classification of Asset:-

ⓐ Fixed Assets:-

→ It refers to those assets which have been purchased by the enterprise for long term used and not for resale in the ordinary course of business. The benefit from fixed assets is derived over a long-period.

→ fixed assets may be classified as follows:—

(i) Tangible fixed assets:—

→ It refers to those fixed assets which can be touched and seen. These may include movable assets (vechicles, equipments, machinery) immovable assets (land and building). wasting assets (mines, oil wells)

(ii) Intangible fixed assets:—

→ It refers to those fixed assets which cannot be toched and seen. These are usually the rights to use, produce or provide the goods for services.

Ex:- good will, patent right, copyright, trade mark.

(b) current assets:—

current assets are those assets which are held:

(i) in the form of cash
(ii) for their conversion into cash, as early as possible (usually within one year). and
(iii) for their consumption in the production of goods.

Ex:- cash in hand, cash at bank, stock of finished goods, Debitors, Bills Receivable, stock of row materials etc.

or current asset are those asset which can be used within one accounting period in the form of cash.

Fixed assets	Current assets
→ property which can be used more than one year.	→ which can be used within one year.
→ Can not be converted in to cash.	→ It can be converted in to cash.
→ It cannot be use for resale purpose.	→ It can be use for resale purpose.
Ex:- land, building.	Ex:- cash in hand, cash in bank.

Ⓒ Fictious Assets:-

* It refers to those asset which have no physical value and realisable value.
* These are non-recurring.
* Such assets can not be converted into cash.

* Realisable value:-

→ It refers to (sale price of an asset) - (estimated cost of sailing the asset).

* Non-recurring:-

→ Those expenses which don't happen regularly.

Ex:- formation expenses of a company (Preliminary expenses).

* Equity:-

→ It refers to all the claims or rights against the asset of the enterprise, for every asset of the business some one had pay for it or the amount is payable to someone.

→ The amount payable to such person is called equity.

→ It can be divided in to 2 parts.

(i) owner's equity is called capital

(ii) Outsider's equity is called liability.

→ Owner's Equity + Outsider's Equity = Assets

→ Capital + liability = Assets.

D - 23.05.2022

Liabilities:-

→ It refers to an amount owing by one person (A debtor) to another (A creditor) payable in ~~memory~~ money, goods and services.

classification of liability:-

(1) current liability:-

→ These are those liability which are payable within one accounting period. These are also known as short term liability.

Ex:- creditors, short term loans, outstanding expenses etc.

(2) Fixed liability:-

→ It refers to long term liability which are payable after one year.

Ex:- long term loans, public deposites etc.

③ contigent liability:-

→ It refers to the amount which may or may not be payable in future.

→ It depends upon the future event whether it is really a liability or not.

Ex:- Financial cases, pending against the business in the court of law.

→ Such liability is shown as a foot note (outside the balance sheet) in the balance sheet.

Accounting eqⁿ:-

⇒ Asset (Resources) = liability (creditors) + capital (owners capital against resources).

Ex:- on 1st April 2021 Rekha started a business in the name of Rekha stored by contracting 2 lakh 50 thousand as capital.

(i) cash comes in to business

(ii) capital also increases in business

So, A = L + C

2,50,000 = 0 + 2,50,000

2,50,000 = 2,50,000

→ Dr = Cr

Assets

⇒ An assets is any owned physical object or right, having a money value. In other words assets are economic resources which are owned by a business and from which future economic benefits are expected to flow to the enterprise.

⇒ Assets are economic resources which are owned by a business and expected to benefits further operations.

eg:) cash, Debtors, investment, stock of good, Land and building, Good will etc.

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i) In the form of cash.

ii) For their conversion into cash, as early as possible (usually within one year).

iii) for their consumption in the production of goods.

e.g; cash in hand, cash at bank, stock of finished goods, Debitors, Bills Receivable, stock of raw materials etc.

OR

current asset are those asset which can be used within one accounting period in the form of cash.

Fixed assets	current assets
i) Property which can be used more than one year.	i) which can be used within one year.
i) cannot be converted into cash.	i) It can be converted into cash.
i) It cannot be use for resale purpose.	i) It can be use for resale purpose.
e.g; Land, building.	e.g; cash in hand, cash in bank.

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e.g; formation expenses of a company (preliminary expenses).

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- It refers to all the claims or rights against the asset of the enterprise for every asset of the business some one had pay for ~~it on~~ it or the amount is payable to someone.
- The amount payable to such person is called equity.
- It can be divided into 2 parts.
  - (i) owner's equity is called capital
  - (ii) outsider's equity is called liability.
- owner's Equity + outsider's Equity = Assets
- capital + liability = Assets

Liabilities :-

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so, A = L + C

2,50,000 = 0 + 2,50,000

2,50,000 = 2,50,000

- Dr = Cr

Double entry system:-

- A system of accounting which records both aspect of a transaction is termed as double entry system.
- It is a generally accepted system which has been proved to be useful in recording business transaction.

Account:-

- An account is a statement which records transaction relative to a person, property or an item of expenses and income.
- It is a summary of similar transactions in chronological (sequentially) order relating to a person or property or

expenses and income.

a) Name of different account in traditional approach:-
(Rules of journal)

1) Personal account.
2) Impersonal account (Real & Nominal account)

b) Name of different account under morden approach:-

1) Assets account
2) Liabilities account
3) capital account
4) Expenses Account
5) Revenue account

1) Personal Account:-

- Accounts relating to individuals, firms, clubs, companies, hospital etc. are personal account.

- Personal account are divided into 3 parts.
  i) Natural personal account
  ii) ~~Artifish~~ Artificial personal account
  iii) Representative personal account

i) Natural Personal account:-

- Account relating to individuals or human beings are termed as natural personal account.

ii) Artificial personal account:-

- Artificial personal are manmade.

- Accounts relating to artificial persons like bank, club, educational institution etc are artificial personal account.

iii) Representative personal account:-

→ When an account stands or represent for a person or group of person is known as representative personal account.

Ex:- Outstanding salary, rent, pre paid, capital, drawing etc.

2) Impersonal Account:-

a) Real account:-

→ Accounts relating to properties and possesion of a business are turned as real account.

→ Real accounts are 3 types.

i) Tangible account

ii) Intangible account

iii) Current account

Ex:- Plant account, Furniture account, Goodwill account, copy right account.

b) Nominal account:-

→ Accounts relating to expenses, losses, income and gains at termed as nominal account.

Ex:- Rent account, Salary account, Advertisement account etc.

Types of account	Golden rules of Journal
① personal account	* Debit the reciever * credit the giver.
2/ Real account	* Debit what comes in to business. * Credit what goes out from the business.
3/ Nominal account	* Debit all the expenses and losses. * credit all the incomes and gains.

1. Salary paid

Salary (Nominal A/C)

cash (Real A/C)

Salary A/C Dr.
   to cash A/C cr.
(Being salary paid)

2. cash withdrawal by Ram for personal use reupees 40,000.

cash (Real A/C) cr.

drawing (Representative personal A/c) Dr.

Drawing A/C Dr.
   to cash A/c cr.
(Being cash withdrawl by Ram)

3) Furniture purchased rupees 30,000

Furniture (Real A/c) Dr.

Cash (Real A/c) Cr.

Furniture A/c Dr.

to cash A/c Dr. (Being furniture purchase)

4) Recived cash from Ramesh rupees 300.

Cash Dr. (Real A/c)

Ramesh Cr. (Natural personal A/c)

Cash A/c Dr.

to Ramesh A/c Cr.

(Being cash received from Ramesh)

5. Mohan started a business with cash 50,000.

Capital (Representative personal A/c) Cr.

Cash (Real A/c) Dr.

Cash A/c Dr.

to capital A/c.

(Being Mohan started a business)

6. purchase of mechinary 30,000.

Mechinary (Real A/C) Dr.
Cash (Real A/C) Cr.

Machinary A/c Dr.
to cash A/C.
(Being purchase of Machinary)

7. cash sales 5000

cash (Real A/c) Dr.
Sale (Nominal A/c) Cr.

cash A/c Dr.
to sale A/c
(Being cash sales)

8. Salary ~~paid~~ recived 7000.

Salary (Nominal A/c) Cr.
cash (Real A/c) Dr.

cash A/c Dr.
to salary A/c.
(Being salary paid)

9. Paid to ~~Ra~~ Ram 10,000

Ram (Natural personal) Dr.
cash (Real A/c) Cr.

Ram A/c Dr.
to cash A/c
(Being paid to Ram)

10. outstanding rent 3000

Rent (Nominal A/C) Dr.

outstanding (R. personal A/C) Cr.

Rent A/C Dr.
to outstanding A/C
(Being outstanding)

11. Received cash from Ram 1000

cash (Real A/C) Dr.

RAM (natural personal A/C) Cr.

cash A/C Dr.
to RAM A/C
(Being received cash from RAM)

12. purchase plant from SAM on credit 3000.

Plant (Real A/C) Dr.

SAM (Natural personal A/C) Cr.

Plant A/C Dr.
to SAM A/C
(Being purchase plant from SAM)

13.

Purchase (Nominal A/C) Dr.

cash (Real A/C) Cr.

Purchase A/C Dr.
to cash A/C

14. Goods distributed by free sample.

Advertisement A/C Dr.

~~15. Income tax~~ to purchase A/C.

15. Income tax paid

Drawing A/C Dr.

to cash A/C.

* Life insurance premium and income tax are treated as personal expenses of the propertier (owner) because of soletrading business. So, it is treated as drawing.

16. Saheba started a business with cash rupees 3lakh.

capital cash

(Natural personal) (Real A/C)

A/C dr.

cr.

(cash a/c Dr. to saheba A/C)

(Being saheba started business)

17. cash withdrawl by Saheba from personal use Rupees 40,000.

Baddebt:-

- Baddebt refers to irrecoverable amount from the customer.
- It is a loss to the business. such loss may arries due to debt, dishonesty of the customer.
- Incase of baddebt their may be no recovery or partial recovery of the debt.
- The amount recovered is debited to cash A/C and the amount unrecovered is debited to baddebt account.
- As it is a loss to the business.

Ex:- RAM owed rupees 1000 is declared insolvent and 60 paisa in a rupees is received as final divident.

J.E

cash A/C Dr.	600
Baddebt A/C Dr.	400
To RAM	1000

* Treatment of the Baddebt recover:-

Ram remitted 400 against the amount written of as baddebt.

cash A/C Dr.	400
To Baddebt recover A/C	400

HW

1/ Ajit started business with cash 40,000

capital — cash

(Natural personal) A/C — Real A/C

Cr. — Dr.

cash a/c Dr. to Ajit A/c Cr.

Being Ajit started a business.

2/ Paid into the bank 2,000.

Bank — cash

(Artificial Personal A/c Dr.) — (Real A/C) Cr.

Bank A/C Dr. to cash A/c (Being he paid into Bank 2,000)

3. Purchased goods for cash 15,000

Purchased Dr. — cash (Real A/C) Cr.

Purchased A/c Dr. to cash A/c (Being purchased good for cash)

Journals of Ajit

Date	Particulars	Amount (Dr.)	Amount (Cr.)
Dec 1	Cash A/c Dr.	40,000	
	To Capital A/c		
	(Being cash brought into business)		
Dec 3	Bank A/c Dr.	2000	
	To cash A/c		2000
	(Being cash paid to bank)		
Dec 5	Purchase A/c Dr.	15000	
	To cash A/c		15000
	(Being goods purchased for cash)		
Dec 8	Cash A/c Dr.	6000	
	To sales A/c		6000
	(Being goods sold for cash)		
Dec 10	Furniture A/c Dr.	5000	
	To bank A/c		5000
	(Being furniture purchased by cheque)		
Dec 12	Arvind A/c Dr.	4000	
	To sell A/c		4000
Dec 14	Purchase A/c Dr.	10,000	
	To Amrit A/c Cr.		10,000
	(Being good purchased from Amrit)		

Date	Particulars	Dr.	Cr.
Dec 15	Cash A/C Dr.		
	To Arvind A/C		
	(Being cash received in full settlement)		
Dec 18	Drawing A/C Dr.	1000	
	To purchase A/C		1000
	(Being goods with drawn for personal use).		
Dec 20	Drawing A/C Dr.	2000	
	To cash A/C		2000
	(Being cash with drawn for personal use)		
Dec 24	Telephone charge A/C Dr.	1000	
	To cash A/C		1000
	(Being telephone charges paid)		
Dec 26	Amrit A/C Dr.	4900	
	To cash A/C		4900
	(Being cash paid to Amrit in Full settlement		
Dec 31	Stationary A/C Dr.	200	
	rent A/C Dr.	500	
	Salary A/C Dr.	2000	
	To cash A/C		2700
	(Being cash paid for stationary, rent & salaries)		
Dec 31	Advertisement A/C Dr.	1000	
	to purchase A/C		1000
	(Being goods distributed by free sample)		
	Total	103,560	103,560

Journal for Ramesh illustration - 6

Date	Particulars	Amount (Dr.)	Amount (Cr.)
April 1	Cash A/C Dr.	10,000	
	To capital A/C.		10,000
	(Being cash brought into business)		
April 2	Bank A/C Dr.	7000	
	To cash A/C		7000
	(Being cash paid to bank)		
April 3	Purchase A/C Dr.	500	
	To cash A/C		500
	(Being goods brought for cash)		
April 5	Cash A/C Dr.	100	
	To bank A/C		100
April 13	Krishna A/C Dr.	150	
	To sell A/C		150
	(Being goods sold to Krishna on credit)		
April 20	Purchase A/C Dr.	225	
	to shyam A/C		225
April 24	Cash A/C Dr.	145	
	Discount A/C Dr.	5	
	(Being cash received from Krishna with discount)		150

April 28	Shyam A/C Dr.	225	
	To cash A/C.		215
	To discount A/C		10
	(Being cash paid to Shyam with discount received)		
April 30	cash A/C Dr.	800	
	Rent A/C Dr.	50	
	Salary A/C Dr.	100	
	To cash A/C.		950
	(Being cash sales, rent paid and salary paid)		
Total		19,300	19,300

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Baddebt A/c Dr.	400
To RAM	1000

* Treatment of the Baddebt recovery Ram remitted 400 against the amount written of as baddebt.

Cash A/c Dr.	400
To Baddebt recover A/c	400

Discount :- It is divided into 2 parts.

(1) Trade discount

(2) cash discount

Trade discount

1) It is allow ~~once~~ once or concession given by seller to buy by way of reduction in the price.

2) It is given by manufacture to wholeseller or whole saler to retailor or by retailor to consumer.

3) The trade discount may be given on bulk purchase ~~or~~ on an the purchase of specific quantity.

4) Trade discount is not recorded in the book of A/c.

Ex:- sold goods to RAM of the list price rupees 1000 trade discount 10%.

RAM A/C Dr. 900/-

TO sales A/C 900

cash discount

i) In some cases creditor may allow some concession to his debtor to promote him to make the payment within the credit period. Such concession is known as cash discount.

~~Illustration~~ :-

Ex-1 Received 1000/- from RAM in full settlement against the amount you from him rupees 1050.

J.E :

Cash A/C Dr.	1000
Discount allowed A/C Dr.	50
TO RAM	1050

Ex-2

Paid 960 rupees to nath in full settlement against the amount due to him rupees 1000.

J.E

Nath A/C Dr.	1000
TO cash A/C.	960
TO discount received	40

Ledger :-

- Ledger is a principle or primary books of account which contains all the classified and recorded transactions. So, it is called books of final entry.

Features of ledger :-

- It is a primary books of A/C.
- The transactions are classified under appropriate head ~~two~~ called accounts.
- These ~~ab~~ a/c contains all the recorded and summerized transactions.
- It is the basic of preparing final A/C (Trading A/C, Profit / loss A/C, and ~~the~~ balancesheet).

Ex-1 Machinary purchased rupees 10,000 in cash from.

Journal entry

Machinary A/C Dr.	10,000
To cash A/C	10,000
(Being Machinary purchased)	

Machinary A/C

Dr ... Cr

Dt	Particulars	L.F	A/m	Dt	Particular	L.F	A/m
8/07/22	To cash A/C		10,000		By Balance carrdown (c/d)		10,000
			10,000				10,000
					(B/f)		

cash A/C

Dr. Cr.

Dt	Particulars	L.F	A/m	Dt	Particulars	L.F	Dt
31/07/22	To balance c/d		10,000		By machinary		10000
			10,000				10,000

② Business started with cash 40,000

J.E

Transaction	Dr.	Cr.
cash A/C Dr. To capital A/c	40,000	40,000

Ledger

Dr. cash A/C Cr.

Dt	Particulars	L.f	A/m	Dt	Particulars	L.f	A/m
18/07/22	To capital A/C (B/f)		40000		By Balance c/d (B/f)		40,000
			40000				40,000

capital A/C

Dr. Cr.

Dt	Particulars	L.f	A/m	Dt	Particulars	L.f	A/m
31/07/22	To Balance c/d (B/f)		40,000		By cash A/c		40,000
			40,000				40,000

Difference Between Journal and Ledger :-

Basis of difference	Journal	Ledger
i) Stage of entry	(i) It is a book of prime entry	(i) It is a book of final entry.
ii) Timing of recording	(ii) As soon as the transaction originates, it is recorded in journal.	(ii) Transaction are posted in th ledger after the have been recorded in the journal.
iii) Occurance vs classifications.	(iii) Transactions are recorded in order of occurance i.e strictly in order of date.	(iii) Transactions are classified according to the nature and all grouped in the concerned accounts.
iv) Narration	iv) Narration is written for each entry.	(iv) Narration not required.
v) Folio	v) Ledger folio is written in the Journal.	(v) Folio of the journal or sub journal is written in the ledger.
vi) Final accounts	vi) Final accounts cannot be prepared directly from journal.	vi) Ledger is the basis of preparing final accounts.
vii) Columns vs sides	(vii) Journal has two columns one for debit amount and another for credit amount.	(vii) Ledger has two sides left side is debit side and right side is credit side.
viii) Balancing	viii) Journal is not balanced but totalled at the end of each page.	(viii) Every account the ledger is balanced at an appropriate time.

Performa of ledger account :-

- The following is the performa of ledger account commonly used in class rooms.

Date	Particulars	L.F	Amount	Date	Particulars
	To name of the credit Account in Journal		₹		By name of the debit Account in Journal.

- Each ledger account is devided into two sides as shown in the performa by a verticle line.
- The left hand side of account is termed as "Debit side" and right hand side - termed as "credit side".
- Both sides have your columns.
- On the top of every ledger account the word "Dr" and "Cr" are written on left and right corners respectively.
- The explanation of each column is given below:

① Data:-

This column records the year, month & date on which the transaction has taken the year is written at the top in the column.

Trial Balance :-

- The main objective of accounting is to ascertain the profit or loss and financial position of the business.
- So, in order to check the arithmatical accuracy of books of account a schedule of accounting balances is prepared which is known as trial balance.

→ So, a list of debit and credit balances of all the ledger A/C is called trial balance, which is prepare as on the last date of on the accounting period.

Features:-

1) It is just a statement not an A/C.

2) It is the list of balances of all the ledger A/C and cashbook.

3) It is always prepare on a particular data & not for a particulars period.

4) It is prepared to check the arithmatical accuracy and cash book.

5) The total of debit and credit amount column of the trial balance must be fail.

Objective of trial balance:-

→ It helps in comparison of double entry systen.

→ It helps in preparing the final account which includes trading A/C; profit and loss A/c and balance sheet.

→ It helps in finding out the enact accuracy of all the ledger A/C.

Limitation of trial balance:- (Disadvantages):-

→ It doesnot guarantee that all the transactions are recorded in the books of A/C.

→ It fails to show separate disclosers of asset and liability.

→ It fails to shows the operating day to day expenses the result of an enterprise (Business).

:) certain errors remains undetected in a trial balance.

:) Therefore, it is said that trial balance is not a conclusive evidence.

Preparation of trial Balance (steps):-

:) Ascertain the balances of each A/C in the ledger.

:) The heads of all the account are written in the perform of the trial balance.

:) calculate the total debit balance of trial balance.

:) calculate the total credit balance of trial balance.

:) verify the sum of debit balance = sum of credit balance.

Methods of trial balance:-

① Total method :-

:) under this method the total of debit side of all the amount is placed.

:) under debit column and total of credit side of all the account is placed in credit column.

:) The preparation of trial balance under this method should be done imidiatly after the completion of journal and ledger.

② Balance method :-

:) According to this method a trial balance is prepared on the basis of balances of all the account.

:) A trial balance under this method can be prepare only when all the ledger account having balanced.

3/ compound method :-

i) This method present both balance and total method.

* Suspense Account :-

i) The difference amount or trial balance is posted to A/C which is known as suspense A/C.

* Subsidiary book :-

Subsidiary Books are books of original entry. These are also known as Day book or special journal we recorded transaction of similar nature in subsidiary Book. They are helpful in overcoming the limitations of journal book of journal entries. we will see different types of subsidiary books.

Different types of subsidiary books we can divide the subsidiary book into the following types :-

(1) cash book
(2) purchases book
(3) sales book
4) purchases return or return outwards book.
5/ sales return or return inwards book.
6/ Bills receivable book
7/ Bills payable book
8/ Journal proper

1/ cash book :-

i) It records all the cash and bank receipts and payments. It is a book of original entry as we record transactions in it for the first time from the source documents such as vouchers, invoices etc.

:) A cash book has a debit and credit side both. Thus, it is similar to a ledger A/c.

:) It is a subsidiary book where only cash transaction are to be recorded. Credit transaction are not to be recorded at all.

i/ Single column cash book:-

:) It is a just like a cash ledger account. It contains one column in each side. It's debit side shows received column and credit side shows payment column.

Format:-

Date	Particular	L/F	A/m	Date	Particular	L/F	A/m

ii/ Double column cash book:-

:) It contains two columns in each side debit side shows discount to allow and received and it's credit side shows discount received & cash payment.

Format:-

Date	Particulars	L/F	discount	Cash	Date	Particular	L/f	Discount	Cash

iii) Triple column cashbook :-

i) It contains 3 column in cash side, discount, cash, bank column. It's debit side shares discount allows cash and cheque received similarly it's credit side shows discount received cash and cheque payment.

Format :-

Date	Particulars	L/F	Discount	Cash	Bank	Date	Particulars	L/F	Discount	Cash	Bank

Contra Entry :-

The entry which elaborate both cash column and bank column at a time is known as a contra entry.

Ex :- i) cash deposited in bank.

ii) cash withdraw from bank.

iv) Simple petty cash book :-

i) It has two column for amount But a single column is maintained for particulars.

Journal :-

voucher no.

Amount received	CBF	Date	Particular	V. No	Amount	Folio

v) Analytical petty cash book :-

i) As in the case of any other cashbook, petty cash book also has very infrequences entries because cash received by petty cashier, is mainly from the cashier in the beginning or closing of a specified period. Each important petty expenses, there is a separate column at therefore it is also known as analytical petty cash book.

₹

Amount received	CBF	Particular	V. no.	Amount paid	Post ages telegram	Printing stationary	Cariage cartage

2) Purchase Book :-

i) A firm records all the credit purchases of goods in Purchase book or purchase day book where as all the cash purchase of the goods are recorded in the cashbook.

ii) we don't record purchase of asset in purchase book because they are recorded in the journal proper.

Format :-

Date	particulars	L.f	Details	Amount
	Name of the supplier and details of the purchased		₹	₹

3) Sales Book :-

i) A firm records all credit sales of goods in sales book whereas all the cash sales are recorded in cash book.

i) we don't record the sales of asset in sales book because they are recorded in journal proper.

Performa / format :-

Date	particulars	L.f.	Details	Amount
				₹

4) Purchase return or return outwards Book :-

i) we record the return of goods purchased in the purchases return book.

i) A debit note is prepared for every return of the goods in duplicate.

i) It contains the name of the supplier, details of the goods return and the reasons their of.

i) It needs to be dated and serially number.

Format of purchase return :-

Date	particulars	Debit note no.	L.f	Details	Total

5) Sales return or return inwards Book :-

i) we record the return of goods sold in the sales return book.

-) A credit note is prepared for every return & reasons their of. It needs to be dated and serially number.

Format of sales return book :-

Date	particulars	credit note no.	L.f	details	Total

6/ Bills receivable :-

-) we recorded all the acceptance of the bill in our favour in the bills receivable books.

-) It is a subsidiary book where non-cash transaction are recorded in the form of bill, at the time of credit sales a saler draws a bill of exchange on the buyer who accept it & return to the saler.

Format of Bills receivable :-

No. of Bills	D.t & receipt	name of the receiver	name of the drawer	name of the drawer	due date	L/f	Amount

7/ Bills payable :-

-) we recorded all the acceptance of the bill that we issue in favour of others which are recorded in bills payable book.

Format of bills payable :-

no. of Bills	D.t of acceptance	name of payer	name of the drawer	name of the payee	due date	L.f	amount

8/ Journal proper:-

:) It is the last subsidiary book where all the transaction which are not recorded on the above are taken. Means it records opening entry as well as closing entry of the books.

1/ opening entry:-

cash A/c Dr.

Inventory A/c Dr.

Furniture A/c Dr.

To creditors.

To capital (B/F)

2/ closing entry:-

:) It is recorded at the end of accounting period.

1/ Trading A/c Dr.

To opening stock A/c.

To purchase A/c.

2/ closing stock A/c Dr.

~~sto~~ sales A/c Dr.

To trading A/c.

:) It includes the transaction related to sales of Assets, Depreciation, outstanding expenses, prepaid expenses, opening entry & closing entry etc.

cash book:-

Imprest system of petty cash book:-

:) At the beginning of period the head cashier pay certain sum of money to the petty cashier out of which he spent on various small expenses which is below rupees 100. The amount which is spent by the petty cashier that amount repay at the end of the period by the head cashier.

:) The whole system is known as imprest system of petty cash book.

What is depreciation? Imp

:) Depreciation is a word which derive from Latin word "depretium", where "De" means "decline" and 'pretium' means "price". The word "Depretium" means decline in the value of assets.

:) So, the depreciation means the permanent decrease in the value of an asset due to use or laps of time.

:) It is a process of allocation of cost and not of valuation of fixed asset.

:) It is a non-cash expenses.

Characteristics / features of depreciation :-

1/ Depreciation is a non-cash expenses because it has limited outflows.

2/ Depreciation may be physical or functional.

3/ It is the continuous and permanent decrease in the quality, quantity or value of an asset.

4/ It is charged to revenue to findout the net profit of the business.

Needs for charging depreciation :-

:) The depreciation is charge on the fixed asset and recorded in the books of A/C due to following reasons.

i) calculation of correct profit :-

:) Depreciation is an expenses of the business and never paid to the outsiders.

:) It is charged in fixed asset and used to earn the revenue (income).

:) It is charged as an expenses in the debit side of profit and loss account.

To calculate net profit of the business.

ii) Show the true financial position :-

:) Fixed asset are recorded to show the true value by deducting depreciation from concerned fixed asset in the balance-sheet.

iii) Replacement of asset :-

:) Asset used in the business can be replaced after the ~~expiry~~ expire of their usefull life.

:) The business have to create a fund to replace the old asset.

:) By utilizing this fund the business will replace the old asset with new one.

iv) Helps to finding out the accurate cost :-

:) The business uses some plant, machinary tools, equipment for manufactoring the goods.

i) Depreciation charged on this asset is a factory overhead, which is included to find out the accurate cost of production.

v) Saving in income Tax :-

i) When depreciation is charged in the debit side of the P/L A/C, the profits are reduced and consequently the tax liability on the profit to Govt is also reduced.

vi) Distribution of divided out of profit only :-

i) If depreciation is charged to P/L A/C, the profit is reduced and balance of profit is reduced and balance of profit left after depreciation is available to distribute as divided to shareholder.

ii) If depreciation is not charged to profit and loss A/C, the profit will be more and the excess divided will paid.

Causes of depreciation :-

i) The causes of depreciation, are of two types;

a) physical

b) Functional

a) physical :- physical cause may be as follows.

i) Wear & tear :- some assets are physically deteriorated due to wear & tear. so, depreciation increases due to greater of assets.

ii) Destructions :- The physically destructive of an asset reduces its utility value.

→ The cause of destruction may be due to an accident like fire, flood and earth-quake etc.

iii) **Decay**:- It refers to lessening in the utility of an asset by the effect of an nature.

Ex:- Rain, change in wheather, moisture etc.

b) **Functional**:-

The functional causes may be as follows.

i) **Obsolescence**:-

→ Obsolescence means the process of becoming obsolete or out of date.

Ex:- An old machine which is still in workable condition may have to be replaced by a new machine which produces more than the old machine.

ii) **In-adequacy**:- It refers to the termination of the use of an asset because of growth and increasing in the volume of business activities.

iii) **Effluxion of time**:- There are certain assets with a fixed period of legal life such as patents, copyrights, licences, lease etc. Such assets become valueless after the expiry of their life period.

iv) **Depletion**:- Depleting assets such as coal mines, oilwells, may gradually lose its value due to the complete extraction of resources of material.

v) **Exhaustion**:- Assets like plantations, animal etc. lose their value gradually with the passage of time. They have their own age and exhaust in value after the expiry of certain period of their age.

Factors affecting depreciation :-

i) Amount of depreciation is always estimate. It will not be accurate following factors are considered to determine the amount of depreciation.

i) Cost of Asset :- The original cost of an asset paid on acquisition of an assets is increased with the amount spent on installation, freight, octrow, import duty etc. the aggregate amount is called cost of assets.

ii) Estimated working like :- The working life of an assets is to be estimated. This may be measured in term of years, months, hours, days, output or kilometers etc.

iii) Scrap value :- It refers to the estimated amount which will be realised on account of sale of an asset at the end of its usefull working life.

i) It is also known as residual value or savage value or depreciable amount.

i) Cost of assets minus scrapvalue is called the "Depreciable amount" which is charged over the working life of asset.

Example :-

An asset is purchase for Rs. 48,000 and expenses incurred for acquisition it is 2000 and its scrap value is Rs. 5000 after expiry of 10 years of its life calculate the depreciation p.a.

Ans:-

Total cost of an assets = cost + price + expenses

$= 48,000 + 2,000$

$= ₹ 50,000$

Scrap value = ₹ 5,000

Depreciable amount = Total cost value - scrap value

$= 50,000 - 5,000$

$= ₹ 45,000$

$$\text{Depreciation} = \frac{\text{Depreciable amount}}{\text{Number of years}}$$

$$= \frac{45,000}{10} = ₹ 4,500$$

$$\text{Rate of Depreciation} = \frac{\text{Depreciation}}{\text{cost of fixed}} \times 100$$

$$= \frac{4500}{50,000} \times 100 = 9\%$$

iv) Addition assets:-

→ If any amount is spent in the addition or extension to the old assets that is taken into consideration for calculating depreciation.

v) Provision for repairs:-

→ If proper repairs and maintenance made on the assets in regular intervals for keeping the assets in ~~regular~~ good condition on which the amount of depreciation depends.

Methods of charging Depreciation:-

① Straight line method:-

- Under this method a fixed rate of depreciation is charged each year on the original cost of the assets.
- It's value in the books is reduced to zero or residual value or scrap value.

Annual Depreciation

$$\boxed{\frac{\text{Cost of fixed asset} - \text{Scrap value}}{\text{Number of estimated life period}}}$$

$$\boxed{\text{Rate of Depreciation} = \frac{\text{Depreciation}}{\text{Cost of asset}} \times 100}$$

- It is also known as original cost method or fixed installment method.

* Merits:-

1) It is very easy method of providing depreciation and simple to calculate.
2) The asset is fully written off at the end its working life.
3) This method is very suitable for those assets which have fixed working life.

Example:- Furniture, patents, copyrights, plant and machinery.

- Under this method, the value of asset is reduced to zero.

Demerits:-

The following are the demerits of the straight line method.

1) Under this method the interest on capital invested on fixed

asset is not taken into consideration so, the asset is under capitalised.

2) It is not fully recognised by income tax department.

3) The amount of depreciation remains constant every year the expenses incurred on repairs and maintenance increase gradually. when the asset becomes older. so, the profit and loss A/c is charged more in the later year.

4) Asset in the earlier part of this working life provides more utility as compared to the later period when asset gradually becomes older.

2) Diminishing Balance method :- (WDV)-

i) under this method a fixed rate of depreciation is charged each year on the diminishing value of the asset till the amount is reduced to scrap value.

ii) Asset should be depreciated more in earlier years.

Merits :-

① under this method higher depreciation is charged in earlier years when machine/ asset is must useful and produces high revenues.

2) Income tax department recognises this methods for accounting purpose.

3) This method is suitable for those asset which have long life.

Demerits :-

① under this method the interest on capital invested in fixed asset in ignored.

2) The value of asset is never reduced to zero.

3) It is difficult to calculate the rate of depreciation.

4) This method does not solve the problem of availability of funds at the time of replacement of asset.

3) Sum of digit method :-

i) Under this method depreciation is calculated by the following formula:

Depreciation =

Amount to be written of × $\frac{\text{no. of years of the remaining life of the asset}}{\text{Total of all the digits responding the life of the asset.}}$

4) Annuity method :-

i) Under this method amount spent on purchase of an asset is regarded as an investment which is assumed to earn interest at a certain rate.

ii) Every year the asset amount is debit with the amount of depreciation.

iii) This interest is calculated on the debit balance of asset account at the beginning of the year.

5) Re-valuation method :-

i) Under this method, the asset is revalued at the end of accounting year and this value is compaired with the value of asset at the beginning of the year.

ii) This difference is treated as depreciate this method is used in live stock etc.

6/ Depletion:-

→ Under this method, the rate of depreciation is calculated per unit. It is obtained by dividing the cost of the asset by the total quantity of output expected to be avail.

Formula:-

$$\text{The rate of depreciation} = \frac{\text{cost of asset}}{\text{Estimated quantity}}$$

$$\text{Depreciation} = \text{Rate of depreciation} \times \text{Number of output extracted.}$$

This method is used in case of mines quarries.

7/ Machine hour rate:-

→ This method is used incase of machine. The life of machine is fixed interms of hours. Hourly rate of depreciation is calculated by dividing the cost of machine by the total number of hours used of machine.

Formula:-

$$\text{Machine hour rate} = \frac{\text{cost of machine}}{\text{estimated hours worked of life}}$$

$$\text{Depreciation} = \text{Machine hour rate} \times \text{no. of hours run.}$$

Bank Reconcillation statement:- (Long question)

Business maintain cash book and record both the cash as well as bank transactions.

→ A cashbook has a cash column that shows cash available with the business and a bank column that shows cash at the bank.

⇒ Bank also keeps an account for every customer in their books. All the deposits are recorded on the credit side of the customers account and withdrawl are in the debit side of the account.

⇒ Sometimes the bank balances as per the cash book and bank statement doesn't match. Incase the balance available in the business doesn't match the bank column of the cash book.

⇒ It is important to reconcile the difference for reconcillency the balances as shown in the cash book and passbook. A reconcilling statement is prepared is known as Bank Reconcillation Statement.

⇒ In other words BRS is a statement that is prepared for reconcilling the difference between balances as per the cash books bank column and passbook on a given date.

Why prepare a BRS ? (Need)

⇒ It is not compulsory to prepare a BRS and there's no fixed date for preparing BRS.

⇒ BRS is prepared in a periodical for checking that bank related transactions are recorded properly in the cash books bank column and also by the bank in their books.

⇒ BRS helps to detect errors in recording transactions and determining the exact bank balance as on a specified date.

How to prepare a BRS :-

The first step is to compare opening balance of both the bank column of the cash book as well as bank statement. These could be different due to un-creditted cheques from a previous period.

- Now, compare the credit side of the bank statement with the debit side of the bank column of the cash book and the debit side of the bank statement with the credit side of the bank column of the cash book.
- Analyze the entries both in the bank column o the cash book as well as the passbook and look for entries that have been missed to be posted in the bank column of the cash book.
- Make a list of such entries and make the necessary adjustments in the cash book.
- correct if any mistakes or errors appear in the cash book.
- calculate the corrected and revised balance of the cash book's bank column.
- Now, start the bank reconcilation statement with an updated cash book balance.
- Add the un-presented cheques (cheques which are issued by the business firm to it's ~~creditors~~ creditor but not presented for payment expenses) and deduct un-credited cheques (cheques paid into the bank but not yet collected income).
- Make all the neccessary adjustments for the bank errors. Incase the bank reconcillation statement begins with the debit balance of per the bank column of the cash-book, add all the amounts error-e easily credited by the bank. Do vice-versa incase it's start with the credit balance.

:) The resultant figure must be equal to the balance as per, the bank statement.

Benefits of preparing a BRS:-

:) Accounting errors could lead to circumstances that are more than just embarassing when the cheques bounces or companies start getting annoying calls from creditors or suppliers for payments that are already released.

:) Bank reconcillation assist you in spotting fraud and reducing the risk of transactions that could cause penalties and late . . BRS offers several advantages to a business which includes.

* Detecting errors:-

A bank reconcillation statement helps you in spotting accounting errors that are common to every business. These mistake includes errors such as addiction and substraction, missed payments and double payment.

* Tracking interest and fee :-

Banks might add interest payment, fees or penalties to your account, monthly bank reconcillation allows you to add on, substract such amount in your books.

* Detecting fraud :-

you may not be able to prevent employee from ~~for~~ stealing your money. once, however you could prevent it ~~on~~ in future, Bank reconcilition statement helps you in detecting and spotting fraudments transactions.

:) It is advisable to employees and indepent person to Perform the reconcillations for preventing the accounting employees from your books and reconcillations.

Tracking receivables :-

BRS allows you to confirm all your receipts, assisting you to avoid awkward situations and as so identifying entries for receipts that you didn't deposit. ~~sales ledger~~

Sales ledger :- The sales ledger is an account for every customer of a business an account.

Unit-3

Financial Account :-

- Account is prepared to ascertain the trading result and financial position of the business at the end of the trading period are called as final account.
- To know the trading result (Profit / loss) of the income statement a company prepare a profit and loss account and to know the financial position of the business, balancesheet is prepared.
- Final A/c consist of 3 things :-
  1. Trading A/c
  2. Profit & Loss A/c
  3. Balance sheet

① Trading A/c :-

- Trading A/c is prepared to know the gross result (gross profit & gross loss) of the business for an accounting period.

:) Gross profit is the difference between net sales and cost of good sold.

:) Trading A/c is a nominal A/c and the balance of this account is transfer. to profit and loss account.

objectives of trading A/c :-

:) To ascertain the gross profit or gross loss of the business.

:) To record all the direct expenses like wages, freight, carriage etc.

:) To provide information on the cost of good sold.

Format of trading Account :-

(Horizontal)

Trading Account of for the period ending.

Dr.

Particulars	₹	Particulars
To opening stock	1,00,000	By sales
To purchases 10,000 Less : Returns outword 500	9,500	Less: Returns inware
To carriage/cartage/carriage Inword/carriage on purchases		By closing stock
To wages/productive wages/wages & salaries/manufacturing wages/Direct wages/factory wages		By Gross loss c/d (Balancing figure)
To coal, gas and water		
To factory insurance		

To motive power		
To octrai		
To important duty & clearing charges.		
To stores consumed/ consumable stores		
To Dock charges		
To packing charges (Direct)		
To transit insurance on Purchases.		
To commission on purchases		
To Royalty on production		
To Excise duty		
To factory lighting		
To foreman's salary.		
To works managers salary		
To Gross profit c/d. (Balancing figure)		

Calculation of net sales:-

To cash sales + : credit sale	xxx xxx (amount)
Total sale	xxx
(-) : SR (sales return)	(xx)
NS (Net-sales)	x xx

calculation of cost of goods sold:-

opening stock

+ : goods purchases

+ : direct expenses

− closing stock

---

cost of good sold (COGS)

Trading Account (vertical Format):-

For the year ended

sales		xx
Less: Sales Return	xxx	xx
opening stock	(x)	
Purchase Less purchase Return	xx	
Direct expenses	xx	
wages	xx	
clearing charges	xx	
Gas water	xx	
importation duty	xx	
octroi		
commission on purchases		xx
Less: closing stock		xxx
cost of goods sold		(xx)

Profit & loss Account :-

- Profit & loss account is prepared to know the next result (net profit or net loss) of the business.
- PL Account start with the balance of gross profit or gross loss of trading account.
- If the balance of credit side to profit & loss account is greater than the debit side of PL account, it amounts to net profit and when debit side is greater than credit side it's amount to net loss of the business.
- The balance of profit and loss A/C is transfer to capital A/C. So, P/L A/C is a nominal A/C, which includes all the indirect expenses.

Balance sheet :-

- The statement which is prepare to know the financial position of the business is called balancesheet.
- It is a statement of all the personal & real A/C.

Features of Balance sheet :-

1. It is a statement but not an account the heading of 2 side is Asset & liability.
2. It is prepared at a particular date but not for a particular period.
3. It is showing the nature and value of assets and nature and amount of liability.
4. It is a summery of balances of ledger amount which have been closed. and transfer to trading & P/L A/C.

objectives or need of preparation of profit & loss account

- To ascertain the nature & value of asset.
- To ascertain the nature & amount of liability.
- To findout the financial solvency(position) of a business.

Methods of preparing balancesheet:-

- There are two methods of preparation of balancesheet.

(1) Permanance method:-

- Under this method asset & liability having high performance character are shown first.
- According to this fixed asset are shown first in the asset side of balance sheet and in liability side fixed liability are shown first.

(2) Liquidity method:-

- Under this method assets having more liquidity i.e current asset are shown first and asset having less liquidity i.e fixed asset are shown next to the current asset.

Financial statement

Trading A/C

Dr. | | | Cr.

Particular	Amount	Particular	Amount
To opening stock	xx		
To purchase xx		By sales xx	
Less purchase return x	xx	Less sales return x	xx
To carriage inward	xx	By closing stock	xx
To wages	xx	By Abnormal loss	xx
To production exp	xx	By Gross loss c/d	xx

To Gross profit c/d	xx	

Profit & loss A/C

Particulars	Amount	Particulars	Amount
To Gross loss b/d	xx	By Gross profit b/d	xx
To office exp.	xx	By profit on sale of (fixed / Asset)	xx
To selling & Distributers exp.	xx		
To Rent & Rates	xx	By discount received	xx
To net profit transferred cap A/C	xx	By rent received	xx
		By net loss c/d	xx

Liabilities :- Balancesheet as on 31.mar.2022

Liabilities		Amount	Assets	Amount
C.L		xx	C.A	
outstanding sundry creditors		xx	cash in hand	xx
Bills payable		xx	cash at Bank	xx
capital	xxx	xx	Sundry debtor	xx
Add : Netprofit	xx	P	Bills receivable	
less: Drawing	xxx	xx	closing stock	xx
	xx		F.A	
			P&M	xx
			L&B	xx
			furniture	xx
			Goodwill	xx

Basis	Trading Account	Profit & loss account
Meaning		
Timing	Trading A/C is prepared before the P&L account.	Profit/loss account is ~~pep~~ prepared after the trading a/c.
Purpose	To get know Gross profit or loss of the business	To get known Net profit or loss of the business.
Stage	It is the first stage of the final A/C.	It is the second state of the final account.
Dependency	It is a final statement or final a/c so, it is not dependent on trial balance.	It is dependent on trading a/c.
Accounts	In the trading a/c, the ledger a/c related to the Direct expenses and direct income are posted.	In the profit & loss a/c, the ledger a/c & related to the indirect expenses and indirect incomes are posted.
Transfer of balance	The Balance of trading a/c will be transferred to P and L account	The balance of P and L a/c. will b transferred to balance sheet

Unit-4

Compound Account :-

Company :-

:) A company is an artificial person created by law having a separate entity with a perpetual succession and a common seal.

Features of company :-

① Voluntary Association :-

:) It is a voluntary association of persons usually for profit.

2/ Created by law :-

:) A company gets its existence according to same law.

3/ Artificial person :-

:) A company is an artificial persons and acts through human beings who are called directors.

4/ Perpetual successions :-

:) A company has a continuous existences which means the existence of company.

:) It's existence can be terminated by law. Thus, members may come and go but the company may be forever.

:) It's life is not affected by the life of its members.

5/ Separate entity :-

:) A company has a separate legal entity, which is not affected by changes in the membership.

:) It can claim and be sued on its own ~~numbers~~ names.

6/ Common seal :-

:) The company has its common seal. It is not a natural person, hence it can not sign the documents in the same manner as a natural person would do.

- In order to enable the company to sign its documents it is provided with c legal arm called common seal.

* Share Capital :-

- Total capital of a company is divided into a small indivisible units of a fixed amount and each such unit is called a share.
- The fixed value of a share printed on share certificate is called nominal / par/ face value of a share.

Types of share capital :-

i) Authorised share capital :- It is also called as nominal share capital.

- It is the maximum amount of share capital setout in the memorandum of association (MOA) of the company which the company is entitled to issue.
(show)
- It is the amount the company is registered.

ii) Issued share capital :-

- It refers to the nominal value of that part of its capital which has actually been offered for subscription.
- It also includes bonous, cash etc.

iii) Subscribed share capital :-

- It is that part of the issued share capital which is subscribed by the public. i.e applied by the public & allotted by the company.

iv) Calledup share capital :-

- It is that portion of the subscribed capital which is the share holder are called upon to pay on the shares allotted to them.

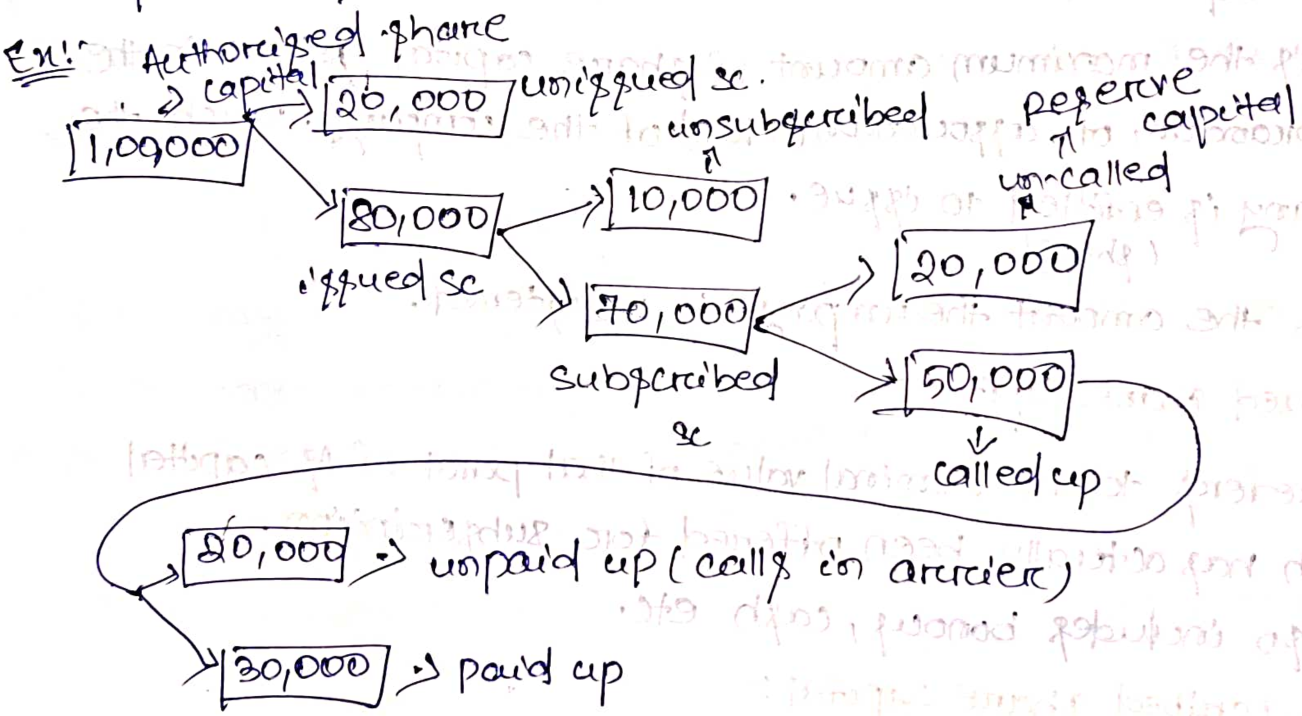
v) Paidup share capital :- It refers to that portion of the calledup capital which has been paid by the share holder.

vi) Reserved share capital :-

→ It is the portion of share capital i.e reserve by the company and which will be utilised on the happening of the certain event.

vii) calls in arrear :-

→ Sometimes the shareholder fails to pay the amount due on the allotment or calls. The total unpaid amount on one or more installment is called. call in arrear or unpaid calls.

Ex:-


ASC → ISC → SSC → CSC → PUS

Types of companies :-

① Government company :-

→ According to section 2(45) of the companies Act, 2013, "Government company" means any company in which not less than fifty one percent of the paid-up share capital is held by the central Government.

2) Foreign company:-

i) According to section 2(42) of the companies Act, 2013.
"Foreign company" means any company or body corporate incorporated outside India which-

a) has a place of business in India whether by itself or through an agent, physically or through electronic mode; and

b) conducts any business activity in India in any other manner.

3) PRIVATE COMPANY:-

i) Section 2(68) of the companies Act, 2013 defines 'private company' as a company having a minimum paid-up share capital of lakh rupees or such higher paid-up share capital as may be prescribed.

4) PUBLIC COMPANY:-

i) Section 2(71) of the companies Act, 2013 defines public company as a company which-

a) It is not a private company.

b) has a minimum paid-up share capital of five lakh rupees.

5) ONE PERSON COMPANY:-

Section 2(62) of the companies Act, 2013 defines "one person company" as a company which has only one person as a member.

6) UNLIMITED COMPANY:-

i) Section 2(92) of the companies Act, 2013 defines "unlimited company not having any limit on the liability of its members.

COMPUTERIZED ACCOUNTING

1. Introduction:-

⇒ computerized accounting system refers to the process of accounting transaction through the use of hardware and s/w in order to produce accounting records and reports. i.e journals, Ledgers, Trial Balance, profit and Loss account and Balance sheet.

2. Components of computerized Accounting System(CAS):-

Procedure:- A logical sequence of actions to perform a task.

Data:- The raw ~~that~~ fact of any business operation.

people:- users of computerized accounting system.

Hardware:- The physical components of a computer.

software:- A set of programmers to do a work.

3. Features of computerized Accounting System

1/ Simple and integrated:- computerized accounting system is designed to integrate all the business operators such as sales, finance, purchase etc.

2/ Accuracy and speed:- computerized accounting system provides fast accurate data entry of the transactions.

3/ Scalability:- The system can cope (baharciba) easily with the increase in the volume ~~of~~ of business transactions. The s/w can be used for any size and type of the organization.

4/ Security:- The system is highly secured and the data / information can be kept confidential.

5/ **Reliability:-** CAS makes sure that the critical financial information is accurate controlled & safe from data corruption.

4:- Grouping Accounts:-

i) Grouping accounts means classifying the ledger accounts & organizing them under major heads of accounts. These main groups ascertain whether a ledger affects profits and loss account as a revenue item or it affects the balance sheet.

It helps in presenting ~~the balance sheet~~ summarized reports and information.

Basically, there are five account groups viz capital, assets, liabilities, income & expenditure.

1/ Reserved or Default Groups:-

i) All accounting packages have ~~predef~~ predefined account groups. They are called reserved groups. They are:-

i) Account groups of Trading A/C.

ii) " " " profit & loss A/C.

iii) " " " Balance sheet.

1) Account groups of Trading A/C:-

Sales A/C

Purchases A/C

Direct expenses A/C

Direct incomes A/C

2/ Account groups of profit & loss A/C:-

indirect incomes

indirect expenses

3) Account groups of Balance sheet :-

A) Liability side :-

capital account
Reserves and surplus
Loans
Loan Term liabilities
current liabilities
sundry creditors
Bank overdraft
outstanding expenses
provisions

B) Asset side :-

Fixed Assets
investments
current Assets
cash in hand
cash at Bank
sundry Debtors
stock in hand
Miscellaneous expenses

4) codification of accounts :-

→ Giving a numerical number or alphabet or both to a particular account for identification is known as codification of accounts.

1. Types of codes :-

a) sequential codes :- Here numbers or alphabets are assigned in consecutive order.

b) Name of customers:- Here numbers or alphabets are assigned in consecutive order. These codes are applied primarily to source documents such as cheques, invoices etc.

i) It includes name of suppliers and customers with code.

code	Accounts
CU001	Akhil
CU002	Fijo
CU003	Joshy

Name of the suppliers:-

code	Accounts
001	ABC Ltd
002	PQL Ltd
003	XYZ Ltd

Block codes:- In Block codes, a range of numbers is allocated to a particular account group.

Here, numbers within a range follow sequential coding schema.

Room numbering system of a lodge:-

code	Account group
100-199	Rooms in 1st floor
200-299	Rooms in 2nd floor
300-399	Rooms in 3rd floor

Coding of Dresses:-

Code	Account group
HS400-HS499	Half sleve shirts
FS500-FS599	Full sleve shirts
MI600-MI699	Mens inner ware

c) **Mnemonics codes:-** A mnemonic code consist of alphabets or abbreviations as symbols to codify an account.

Code	Name of A/C
① SLR	Salary A/C.
② BOD	Bank overdraft
③ INV	Inventory

Generation of accounting Report:-

- After collecting business data, it is converted into meaningful information such summerised and converted information is known as a report.
- The report is more effective if it is based on accurate and timely information.
- A report must be relevant to the users containing all the relevant information like debtors report, creditors report, trail balance and financial statement report etc.