SAI GROUP TUITIONS
F.Y.J.C
BOOK- KEEPING AND ACCOUNTANCY

1. TERMS USED IN BOOK-KEEPING

1) BUSINESS:
Any activity carried on by a person with the intention to earn profit is called as business.
It is the production and distribution of goods and services. It has two branches. Viz.;
a) Industry.
b) Commerce.
Industry is a Centre where production is carried out. The raw material is processed and the finished goods are produced.
Commerce is distribution of the goods produced by the Industry. Hence distribution of goods produced by the Industry. Hence distribution of goods, and services is called as commerce.
Commerce includes trade and aids to trade. Trade is exchange of goods and services (i.e. buying and selling of goods and services) and aids to trade are the services which enhance trade. These services help us to carry out our trade smoothly.
e.g. of Aids to Trade are:
a) Banking.
b) Insurance.
c) Transport.
d) Advertising.
e) Salesmanship.
f) Warehousing, Mercantile Agents.
g) Communication etc.

When a persons aim is to earn profit, the activity carried on him to fulfill his aim, is called business. The business may turnout into loss also, but the outcome is not important. The initial aim should be to earn the profit.
Business may be regular or seasonal, temporary or permanent, legal or illegal etc.

2) TRANSACTIONS:
Business dealings having some monetary value is called as transaction. It is the exchange of goods and services either on cash or on credit.
Transactions are divided in three categories.
a) Cash transaction
b) Credit transaction.
c) Exchange transaction.

In cash transaction cash is received or paid immediately. The benefit is received and payment is made immediately or benefit is given and payment is received immediately. In credit transaction the payment is delayed. The payment is not paid or received immediately. It is paid after a certain period. In exchange transaction goods are exchanged for goods.

One commodity is exchanged for other commodity. E.g. : Rice is exchanged for wheat or furniture for Machinery etc.

3) ENTRY:
Recording of transactions in the books of accounts is called as an entry.

4) NARRATION :
When an entry is recorded it has to be followed by an explanation.This explanation is called Narration. It is written just below the entry on the next line and is enclosed in bracket.

5) JOURNAL:
A journal is a book of original entry. It is a book where the entry is first recorded. The entries are recorded in this book in a chronological order. This book is called as the Prime book.

6) JOURNAL ENTRY:
Recording of entries in the journal is called as journal entry or journalising. This is done by recording both debit as well as credit aspect of each transaction.

7) BOOK OR PRIME ENTRY:
These books are also known as books of original entry, in which entries are first recorded.

8) ACCOUNT:
An account is a summarised record of transaction pertaining either a person , an asset, a liability, an expense or an income. Its abbreviated form is A/c or a/c.
Accounts are classified as personal, real and nominal.

9) HEAD OF ACCOUNT:
It is the name of account or the title of an account. Example: An account relating to Gauri, is called as "Gauri's account". Similarly account pertaining to cash is called "Cash a/c".

10) LEDGER:
A ledger is a bound volume of all the accounts. It is a book where all the accounts are maintained. It is a principal book of accounts.

11) POSTING :
It is an act of transferring or recording the entries in the ledger from the journal or from the books of prime entry.

12) CASTING:
Totaling of books accounts is known as casting. Totalling has to be done of the ledger accounts and also of journal.

13) <u>FOLIO</u>:

It means page or leaf. It is the page number of books of accounts. E.g : Journal folio or J.F. means journal page and ledger folio or L.F. means ledger page.
The use of the folio number helps in locating the place in the book where the transaction has been first recorded and from where it goes ultimately to the account in the ledger.

14) <u>DEBT</u>:

It is the amount owed or payable by a person to another e.g. If a person buys the goods on a credit till the time he has to pay a certain amount to another person.

15) <u>DEBTOR</u>:

A person who owe a debt is called a debtor. He is the person who has to pay a certain amount to another person.

16) <u>BAD DEBT</u>:

A debt which is not recoverable is a bad debt. It is loss to the creditor.
A debt which is fully recoverable is good debt. When the debts are doubtful of recovery it is called as doubtful debt.

17) <u>CREDITOR</u> ;

A person to whom an amount is payable is called a creditor. He is the person to whom others owe the money.

18) <u>GOODS</u>:

Goods are the commodities or items or articles in which a businessman deals. They are the commodities, which are either produced and sold or purchased and sold. e.g Cloth for a cloth merchant, gold for goldsmith, Chairs and Tables for a furniture dealer.

19) <u>ASSET</u> :

Property of any kind owned by a person is called as asset. E.g. Cash and Bank balance, Machinery, Building Vehicles etc.
Assets are classified according to their nature as follows:

Fixed assets
Current Assets
Tangible assets
Intangible assets
Liquid assets
Wasting assets

NOTE : Students should carefully note the difference between goods and assets. Certain commodities are goods for certain persons where as for certain other persons, it is assets. e.g. a radio is goods for a radio manufacturing Co. or a radio dealer whereas it is an asset for a customer who purchases it for his own use. Similarly Jewellary is goods for goldsmith where as it is an asset for the user.

20) <u>LIABILITIES</u>:
Liabilities are the debts payable by a person. It is the amount, which a person has to pay to another. e.g. Loan taken from bank, taxes payable to the government.

21) <u>CAPITAL</u> :
It is the amount invested in the business by the trader or the businessman. Capital is also called as wealth. It is the excess of assets over the liabilities.

Thus, Capital = Assets – Liabilities

OR

Capital + Liabilities = Assets

The amount invested in the business may be in the form of cash, goods or assets.

22) <u>DRAWINGS</u> :
It is an amount withdrawn by the proprietor from the business for his personal use. The amount withdrawn may be in the form cash, goods or assets.

23) <u>SOLVENT</u> :
When the assets of a person exceeds or equals his liabilities he is said to be solvent. It means he is able to pay off all his liabilities in full.

24) <u>INSOLVENT</u> :
A person is said to be insolvent when his liabilities exceeds his assets. It means he is not in a position to pay his liabilities in full. An insolvent person is also called bankrupt.

25) <u>STOCK</u>:
Goods left unsold or material left unconsumed is called as stock. Stock at the beginning is called opening stock and at the end of the year is called closing stock.

26) <u>DISCOUNT</u>:
It is an allowance in price given by a seller to a buyer or by a creditor to a debtor. It can be either trade discount or cash discount.

27) <u>EXPENSES</u>:
The efforts made by business to obtain revenue are termed as expenses. It is amount spent on production and distribution of goods and services.

28) <u>REVENUE</u>:
Revenue is the amount that adds to the capital. A businessman earns revenue only when sales takes place.

29) <u>INCOME</u>:
Amount received by a person in exchange of the services rendered is called income.

30) ON ACCOUNT:
When the trader receives a part payment from his debtor or when the trader pays to his creditor partly, the amount so received or paid is called as on account.

31) PROFIT:
It is the excess of income over expenses. It can be further classified as G.P., N.P. etc.

32) DEBIT:
It is a term, which denotes the receiving of benefit by one account from another. Its abbreviated form is "Dr."

33) CREDIT:
It is a term, which denotes the giving of benefit by one account to another. It's abbreviated form is "Cr."

34) TO DEBIT AN ACCOUNT:
IT means posting an aspect of a transaction to the debit side of an account.

35) TO CREDIT AN ACCOUNT:
It means posting an aspect of a transaction to the credit side of an account.

36) BALANCE:
It is the difference between the debit and credit side totals of an account.

37) BALANCING :
It is the process of finding out a difference between the two sides of an account and putting it on lighter side, so that the totals of both the sides are equalized.

38) LIVE STOCK:
Animals or cattle's like horses, bullocks, dogs, cows etc. used in the business as a fixed assets is called live stock.

39) PURCHASES :
Goods bought by a firm are usually referred to as "Purchases".

40) SALES:
Goods sold by a firm are usually referred as "Sales".

41) PURCHASE RETURN (RETURN OUTWARD) :
These are the return of goods made by a firm out of its purchases to the suppliers or seller of those goods.

42) SALES RETURNS (RETURN INWARDS):
These are the return of goods to the firm from the buyer out of the sales already made.

43) <u>BOOK KEEPING</u> :
Book keeping is the art of recording, classifying, and summarising the financial transactions and events in the business. It is a systematic recording in terms of money in a set of books.

44) <u>ACCOUNTING</u> :
It is an art of scientifically recording, classifying and summarising the transactions of an enterprise and interpreting the results thereof.

45) <u>INVOICE</u>:
It is a document sent by the seller to the buyer on credit sales which gives details of sales.

2. PRINCIPLES OF DOUBLE ENTRY SYSTEM OF BOOK KEEPING

Double entry system of book keeping is the most systematic, perfect and complete system of recording business transactions in the proper books of accounts. Under this system every business transaction has two aspects. One of this is a debit aspect and another is a credit aspect. The debit aspect receives the benefit, the credit aspect gives the benefit. The debit aspect is recorded or posted to the debit side of an account while the credit aspect is posted to the credit side of another account. This shows that each and every transaction is recorded at two different places in the ledger in two accounts. Thus, every debit has corresponding credit of equal amount.

This system of recording of each transaction in the ledger at two places with the same amount is known as double entry system of book-keeping.

Thus,

1) Every transaction has two aspects.
2) One aspect receives the benefit and the other gives the benefit.
3) The effect which receives the benefit is always debited and the effect which gives the benefit is always credited.
4) The amount of benefit given and the benefit received is always the same. Hence, every debit has corresponding credit of equal amount.

Advantages: -

1) This is the only system of accounting which keeps complete record of all business transactions.
2) Since, all debits have corresponding credit of equal amount, it ensures arithmetical accuracy of books of account.
3) The various real accounts show the financial position of business.
4) The various personal accounts show the amounts due from customers and the amount due to each suppliers.
5) The various nominal accounts show the items of expenditure and income and thereby the profit or loss.
6) It enables the preparation of final accounts each year.
7) This system is suitable for all kinds of business activities.
8) Any errors made in recording the transactions can easily be checked and corrected.
9) A possibility of fraud is reduced.

NOTE

Normally business transactions are either cash/credit. Whenever a transactions takes places it has to be recorded. Each transaction has two effects. One of it is debited the other is credited.

In cash transaction cash is involved. Cash is either received or paid. Therefore one effect always goes to cash account. Cash account is debited if cash is received and credited when it is paid. The second effect in a cash transaction always goes to the reason. If the reason is not available then the persons' name is recorded.

Similarly in a credit transaction cash is not involved. Hence, no effect is given for cash account. Instead a person's account is recorded. A person's account is debited if he is the receiver and his account is credited, if he is the giver. The second effect always goes to the commodity given or received.

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3. CLASSIFICATION OF ACCOUNTS

INTRODUCTION:

Book keeping is essential to the traders, businessmen, industrialists and all. Every business requires the following three conditions to be fulfilled: -

1) A businessman has to deal with a large number of persons. E.g. :- Individuals, Firms, banks, govt. department etc.
2) He carries on business activities with the help of goods, furniture, machinery, building and other assets.
3) He has to incur certain expenses while carrying on his business. e.g. :- rent, salary, telephone bill etc.

Similarly, he receives his income from certain sources such as interest, commission, discount etc.
Hence, in order to keep the complete record of his business transaction he has to keep the account of persons with whom he deals, the account of assets and properties which he owns and the expenses and losses, incomes and gains.

Meaning: -
An account is a systematic and summarized record of transaction relating to person, a property or one head of expenses or loss or income or gain.
Every account is vertically divided into two equal parts. The left-hand side is called the debit side and right hand side is called the Credit side. Hence "To Debit" an account means to enter a transaction on the L.H.S. i.e. on the DEBIT SIDE of the account and "To Credit" an account means to enter the transaction on R.H.S. i.e. on the CREDIT SIDE of the account. Each side of the account is further divided into four columns for date, particulars Folio and Account. Each entry on the debit side begins with 'To' and that on the credit side with "By'.

Proforma of an Account

Dr. Name of the Account Cr.

Date	Particulars	J.F.	Amount	Date	Particular	J.F.	Amount
	To.....a/c				By.....a/c		

Types of Accounts.

- Accounts
  - Personal Accounts
  - Impersonal Accounts
    - Real Accounts or (Property Accounts)
    - Nominal Account or(Fictitious Accounts)

<u>Personal Account</u>: -

These are the accounts of individuals, firms, companies, Banks, Associations with whom the businessman deals etc. A person on whom the suit can be filed in the court falls in the category of personal account. The Personal accounts can be creditors, debtors, bankers' etc. e.g.

1) <u>Natural Persons</u>:
   Individuals, Male, Female, Major, Minor etc.

2) <u>Artificial Persons</u>:
   Hospitals, Clinics, Schools, Colleges, Hotels, Companies, Banks, Clubs, Gymkhanas, Libraries, Firms, Co-operative Soc., Corporations, Temples, Churches, Business houses.

3) <u>Representative Persons</u>:
   Outstanding expenses, Prepaid expenses, advanced income, Outstanding income etc.

<u>Impersonal Account</u>: -

These are the accounts, which relate to other than person. These may relate to any property or asset or income or expenditure.

Impersonal account can further be divided into two categories: -

1) Real Account 2) Nominal Account.

1) <u>Real Account (Property Account)</u> :-
   These are the accounts of properties, assets or possessions of the businessmen. It represents the belongings of the businessmen. Real Accounts can be further be classified into tangible and intangible. Tangible assets are physically present. It can be seen, touched, moved from one place to other place etc. Intangible assets are not visible e.g.: -

   <u>Tangible Assets</u>: -

   Land & Building, Plant & Machinery, Furniture & Fixture, Vehicles, premises, Livestock etc.

Intangible Assets:
Goodwill, Patent, trademarks, copy rights, patterns etc.

2) Nominal Accounts (Fictitious Accounts):-
These accounts are pertaining to the expenses, incomes, losses and gains. These accounts are called 'Fictitious accounts', as they do not represent any tangible asset e.g.: -

1) Expenses:-
Salary, Rent, postage, telephone bill, wages, advt., Commission, interest on loan.
2) Losses: -
Loss by fire, theft, accident, natural calamities, loss on sale of asset, depreciation etc.
3) Incomes: -
Rent received, commission received, interest received, dividend received etc.
4) Gains: -
Bad debts recovered, profit on sale of asset, Appreciation, lottery winning.

Difference between Real Accounts & Nominal Accounts.

Real Accounts	Nominal Accounts
1) These are the accounts of assets and properties.	1) These are the accounts of expenses or losses or income and gains.
2) They represent something tangible or real	2) They do not represent anything tangible or real.
3) Real Accounts represents assets, which continue year until they are sold off.	3) They do not continue year after year. They appear in the Accounts of the year in which they are incurred.
4) At the end of the year the balance on a Real A/c is shown on the asset side of the Balance sheet.	4) At the end of the year, the balance of Nominal A/c. is transferred to profit and loss A/c.

Rules for Debit and Credit:

Personal Accounts: -	DEBIT THE RECEIVER CREDIT THE GIVER.
Real Accounts: -	DEBIT WHAT COMES IN CREDIT WHAT GOES OUT.
Nominal Accounts: -	DEBIT THE EXPENSES AND LOSSES. CREDIT THE INCOMES AND GAINS.

Chart showing Applications of Rules

Accounts

- Personal A/c
  - Debit: Record here by value for which this person is the Receiver
  - Credit: Record here any value for which the person is the Giver.
- Real A/c
  - Debit: Record here any of the which comes in
  - Credit: Record here the value of the item which goes out.
- Nominal A/c
  - Expenses or Loss
    - Debit: Record here any expenses or loss.
    - Credit: Record here any amount reduced or transferred
  - Income or gain
    - Debit: Record here any amount reduced or transferred
    - Credit: Record here any amount of income or gain.

Rules of debit and Credit are also illustrated in a different way in the following chart

- Assets
  - Increase (+) DEBIT
  - Decrease (-) CREDIT

  Debit increases in assets and Credit decreases in assets.
- Liabilities
  - Decrease (-) DEBIT
  - Increase (+) CREDIT

  Debit decreases in liabilities. Credit increases in liabilities.

Capital

Decrease (-)	Increase (+)
DEBIT	CREDIT

Debit decreases in Capital.
Credit increases in Capital.

Income or Gain

Decreases (-)	Increase (+)
DEBIT	CREDIT

Debit decreases in income or gains
Credit increases in Income or Gains

Expenses or Losses

Increase (+)	Decreases (-)
DEBIT	CREDIT

Debit increases in Expenses or Losses.
Credit decreases in Expenses or Losses.

<u>Significance of Debits and Credits</u>

In case of debits, the following should be noted:

a) If some personal account is debited, that indicates that either the person owes the firm the relevant amount or some obligation to him has been discharged. It is also means that the person has become liable to do something for the firm.

b) If an account of some asset is debited it means the physical store of that assets is increased. It may also indicate increase in the value.

c) If an account other than the above is debited, it means that money has been spent or some benefit of money spent is recovered.

In the case of creditors, the following should be noted:

1) Creditors to personal account means that the person has discharged his obligation or he is entitled to some obligations in future from the firm.

2) A credit to a real account shows that the value of the asset has gone down.

3) A credit to a nominal account indicates that there is an income for services rendered.