

Balance Sheet

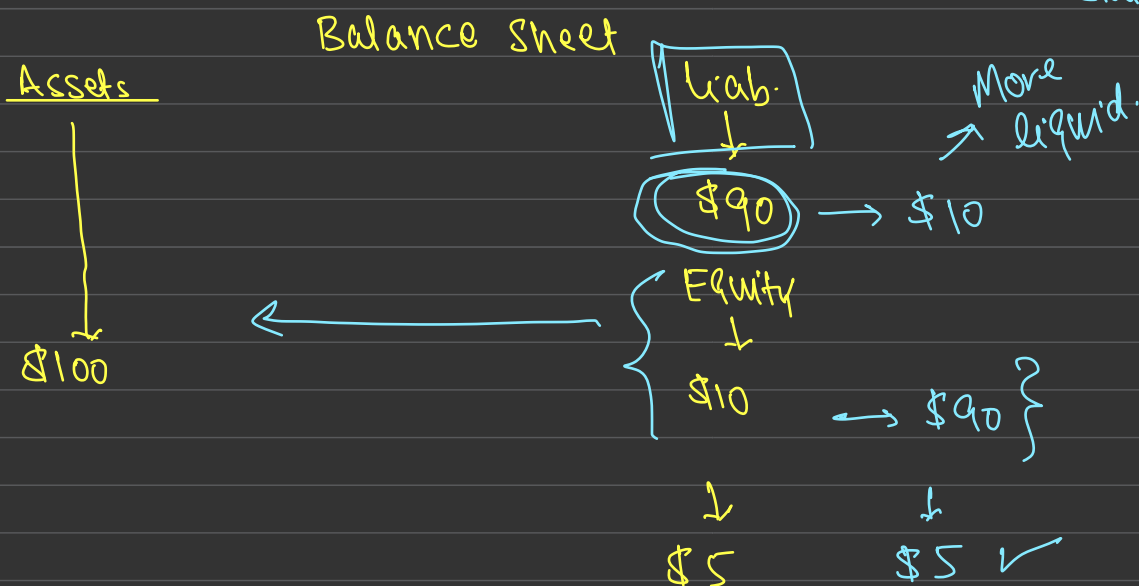
- Assets
- Liabilities
- Equity

Income Statement

- Revenue
- Expenses

Net profit →

- ✓ Management
- ✓ Shareholders → profitability → Income Statements
- ✓ Creditors → Rs. 100,000 loan → Liquidity → Balance Sheet + Income Statement

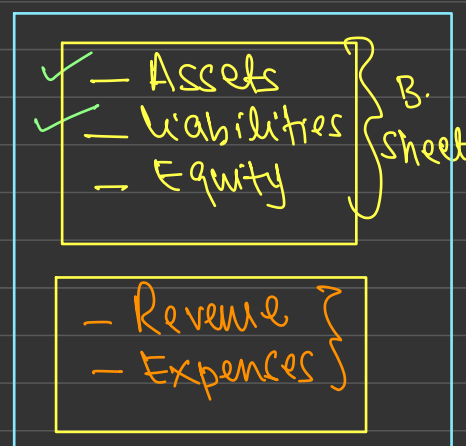


Accounting is not an end in itself

It is a mean to an end.

way

↓ Efficient decisions.



- Customer:

- Tax Department

- Assets: Increase in asset is debited.
Decrease in asset is credited.

- Liabilities: Increase in liability is credited.
Decrease in liability is debited.

Example: Loan Rs. 100,000

Cash ↑ by 100,000

Liability ↑ by 100,000

General Journal — 1st book of entry

Compound entry Simple entry

Date	Acc Title and Description	Dr	Cr
1 Sep, 2021	Cash Acc Bank loan Acc Borrowed from bank for six months at 10% p.a.	100,000	100,000

1 Sep, 2021	Cash Acc	100,000		✓
	Bank loan Acc		100,000	
	Cash - Acc	100,000		X
	Bank loan Acc		100,000	

3. Equity :

Cash Acc	50,000	
Equity Acc		50,000

- Increase in equity is credited.
- Decrease in equity is debited.

4. Revenue: Increase in Revenue is credited. Decrease in Revenue is debited.

5. Expense :

Expense Acc	10,000	
Cash Acc		10,000

- Increase in expense is debited.
- Decrease in expense is credited.

6. Drawings: Drawing Acc 50,000 Cash Acc 50,000

Increase in equity is debited.
Decrease in drawing is credited.

— Separate Entity Principle:

	<u>Legal</u>	<u>Accounting</u>
① Sole proprietorship:	Same	Different
② Partnership	Same	Different
③ Corporations	Different	Different

→ Transactions And Events

Building A/c	1,000,000	
Cash A/c		1,000,000
— — —		

Assets, Liabilities, Equity

Revenue, Expenses

1 - Jan. 2021: → Owner invests \$80,000 in a newly setup business.
↳ Cash ↑ → Equity ↑ → Cr

— 1 Jan. \$6,000 as advance for 6 months.
↳ Cash ↓ → Cr Pre-paid Rent ↑ → Dr.

3 - Tools and Equipment → \$13,800 on credit.
↳ A/Payable ↑ → Cr Tools and Equipment ↑ → Dr

5 - Land for \$52,000 cash.
↳ Cash ↓ → Cr ↳ Land ↑ → Dr

6 - Building for \$36,000 → \$6,000 cash → \$30,000 written
↳ Cash ↓ → Cr 6,000 | Building ↑ → Dr for 30,000 | A/Payable ↑ → Cr.

7 - Received Rs. 600 from the buyer of tools and equipment.
↳ Cash ↑ → Dr. A/Receivable ↓ → Cr.

8 - partial payment of A/Payable (\$6,800)
↳ Cash ↓ → Cr ↳ A/Payable ↓ → Dr.

Date	Acc Title	Dr	Cr.
1-1-2021	Cash Acc Equity Acc The owner invested \$80,000 in business.	80,000	80,000
2-	Pre-paid Rent Acc Cash Acc	6,000	6,000
3-	Tools and Equipment Acc Accounts Payable Acc	13,900	13,800
5-	Land Acc Cash Acc	52,000	52,000
	Building Acc Cash Acc Accounts Payable Acc	36,000	6,000 30,000
	Cash Acc Accounts Receivable Acc	600	600
	Accounts Payable Acc Cash Acc	6,800	6,800

Balance Sheet

Asset	
Cash	74,000 \$80,000 16,000
pre-paid Rent	6,000
Tools and Equip.	13,800
Building	36,000
Land	52,000

Total Assets

→ ~~\$80,000~~

→ ~~\$93,800~~

→ \$123,800

Liabilities and Equity	
A/payable	13,800
N/payable	30,000
Total Liab.	<u>\$43,800</u>
Equity	\$80,000

Total Liab. and Equity

→ ~~\$80,000~~

→ ~~\$93,800~~

→ \$123,800

Drawing:

Increase in Drawings is debited.
Decrease in Drawing is credited.

— Separate Entity principle

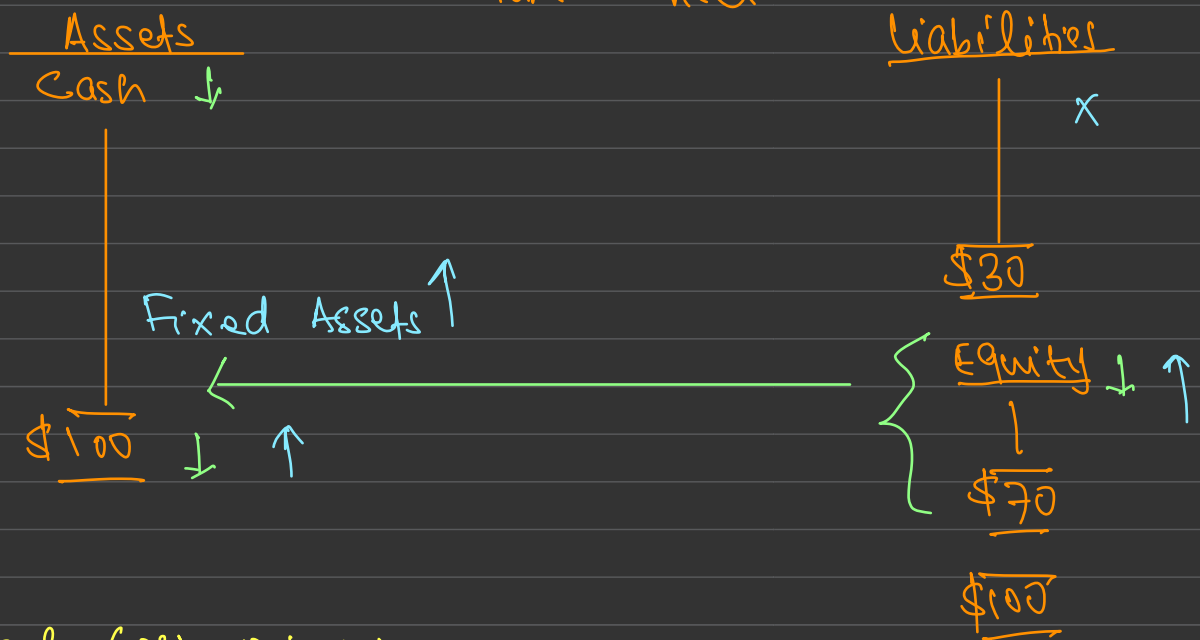
legal perspective
Accounting perspective.

① Sole proprietorship:

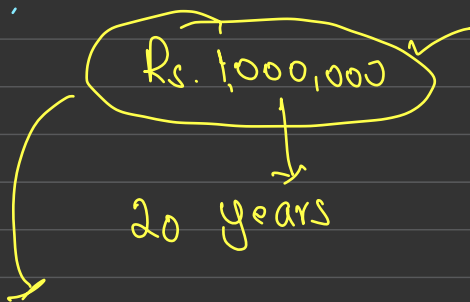
② Partnership:

③ Corporations: → artificial person

Balance Sheet.



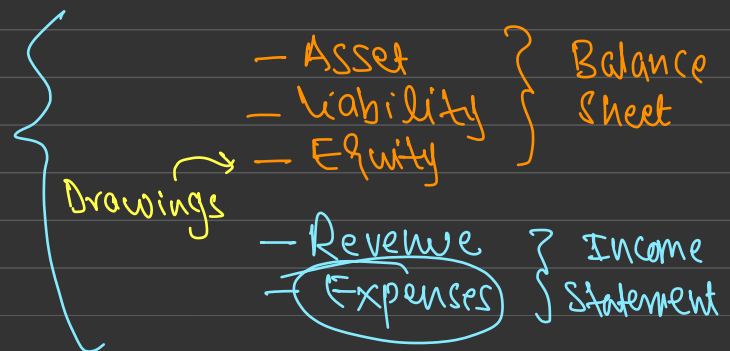
Historical Cost principle.



→ Objectivity

→ Subjectivity

— Transaction and event:



Date	Salaries Expense A/c	500,000
	Cash A/c	500,000

Vehicle A/c 1,000,000
Cash A/c 500,000
Payable A/c 500,000

Compound Entry

Bought Car Reg. # 1027 from ABC. paid
\$5000 in cash, the remainder to be paid in 6 months.

1st Jan., 2021:

Cash ↑ by \$80,000 → Asset ↑ → debited

Equity ↑ by \$80,000 → credited

Balance sheet
Auto repair
2/1-1-2021

Revenue

Expenses

Net Income

Assets

Liab. And Equity

Cash	10,600	
Pre-paid Rent	6,000	
Land	52,000	
Building	36,000	↑
Tools & Equipment	13,800	12,000 ↓
Accounts Receivable	1,200	↑

N / payable	\$30,000
A / payable	7,000

liabilities

$\$30,000$
 $\underline{\hspace{1cm}}$
 $37,000$

Equity \$80,800

Total Assets

$\$80,000$

$-\$10,000$

$\$117,800$

Total liab. & Eq. ~~\$90,000~~
~~\$110,000~~
\$117,800

- Assets, liabilities, Equity, revenue or expenses
- 2nd of Jan. → \$6,000 as advance rent for 6 months.
- Land for \$52,000 Cash.
- Building for \$36,000 → \$6,000 → \$30,000 in 6 months.
- purchases Tools and Equipment for \$13,800 on Credit.
- partial payment of A/Payable of \$6,800
- Collection of Revenue from Customers. \$2,200

Date	Alc Title	Dr	Cr.
1-1-2021	Cash Alc Equity Alc	80,000	80,000
2-	Pre-paid Rent Alc Cash Alc	6,000	6,000
3-	Land Alc Cash Alc	52,000	52,000
5-	Building Alc Cash Alc N/Payable Alc	36,000	6,000 30,000
	Tools and Equipment Alc A/Payable Alc	13,800	13,800
	A/Receivable Alc Tools & Equipment Alc	1,800	1,800
25-	Cash Alc A/Receivable	600	600
26-	A/Payable Alc Cash Alc	6,800	6,800
30-	Cash Alc Revenue Alc	2,200	2,200
30-	Salaries Expense Alc utility Expense Alc Cash Alc	1,200 200	1,400
1-2-	Promotion Expense Alc Cash Alc	360	360
2-2-	Promotion Expense Alc A/Payable	470	470

Matching principle:

Accounting period

