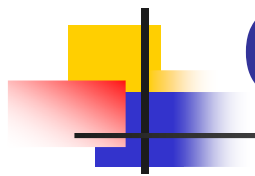




Accounting

- Definition

- The process of collecting, recording, summarizing and communicating financial information
- It is an art of recording, classifying and summarizing in a significant manner and in terms of money, transactions and events which are, in part at least, of a financial character and transactions and events which are, in part at least, of a financial character and interpreting the results thereof



Objectives of Accounting

- To keep a systematic record of financial transactions that affect the business enterprise
- To ascertain the profits earned or losses incurred by the business unit during a particular accounting period
- To ascertain the financial position of the business unit during the accounting period
- To exercise control on business assets and properties



Advantages of Accounting

It provides information:

- For economic decisions
- To the users with limited authority/ability or resources to obtain information and who rely on financial statements on an enterprise's economic activities
- To investors/creditors for predicting, comparing and evaluating potential cash flows/timing/uncertainty
- To judge the management's ability to utilize enterprise resources effectively
- To judge the enterprise's earning power



Types of Accounting

- The different types include:

- Financial Accounting: External reporting
- Cost Accounting: Primarily to find cost to produce goods/services
- Management Accounting: to enhance efficiency of the enterprise
- Social Accounting: Estimate social benefit

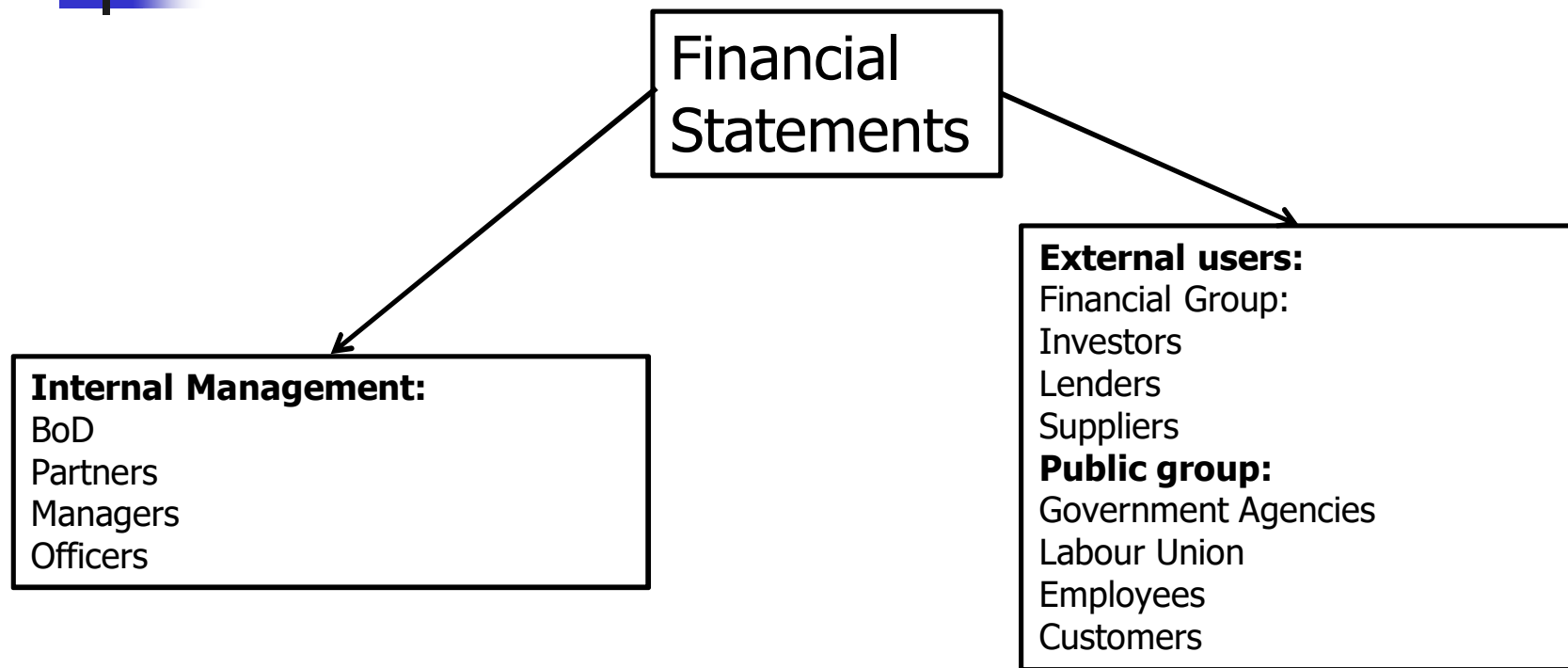


Financial vs. Management Acct

Financial Accounting	Management Accounting
For external users	For internal management
Based on past transactions	Deals with future/potential decisions
Constrained by legal regulation	Relatively free from legal regulation
As per statute	As per internal management need
Emphasizes on types of transaction	Mostly for product/processes
More on rules of accounting	More on control/decision making
Overall view of business	Detailed analysis of business



Users of Financial Accounting





Terms to be used

- Assets, Liabilities
- Income, Expense
- Debit, Credit
- Accounts
 - Personal
 - Real
 - Nominal



Accounting equation

- $\text{Assets} = \text{Liabilities} + \text{Capital}$
- $A = L + C$
- $C = A - L$
- $L = A - C$



Sequence of documents

- Transaction
- Journal
- Ledger
- Trial balance
- Prepare:
 - Balance sheet
 - P & L



Double Entry System

- Mostly accepted system
- Transaction will affect two heads
- Equal debit and credit with all types of transactions
- Can prepare Financial Statements - like:
 - Balance sheet
 - Profit and loss
- Can ascertain financial position, profit/loss
- Provides consistency



Personal Accounts

- Personal Accounts examples
 - Owner
 - Customer
 - Suppliers
 - Money Lenders
 - Banks



Real Accounts

■ Real Accounts examples

- Land / Building / Plant
- Machinery
- Patent
- Investment
- Inventory
- Cash
- Bills receivable
- Trade mark



Nominal Accounts (examples)

- Income
- Losses
- Gains
- Expenses
- Wages paid
- Discount Allowed
- Purchase
- Sales
- Commission
- Rent
- Returns Outward Purchase
- Import Duty
- Bad Debt
- Depreciation
- Salaries
- Interest



Rule of Accounting

- Personal Accounts
 - Debit the person who Receives
 - Credit the person who Gives something
- Real Accounts
 - Debit the Asset / Property that comes into Business
 - Credit the Asset / Property that goes out of Business
- Nominal Accounts
 - Debit the accounts Expenses and Losses
 - Credit the accounts Incomes and Gains



Journal

- The first document for recording the transactions
- The usual information / columns are:
 - Name of Business
 - Date of transaction
 - Particulars
 - LF
 - Dr Rs. / Cr Rs.

Journal: ABC Trading Company				
Date	Particulars	LF	Dr. Rs.	Cr. Rs.



Ledger

- The second document, prepared from Journal
- Provides summary, account-wise
- The usual information / columns are:
 - On both Debit side and credit side:
 - Date
 - Particulars
 - JF
 - Amount

Ledger of ABC Ltd.							
Bank A/c							
Dr.				Cr.			
Date	Particulars	JF	Rs.	Date	Particulars	JF	Rs.



Ledger posting

- Identify the Debit A/c in the journal
- On the debit side particulars, enter the 'To' A/c credited
- Enter date and the debit amount with JF as in the journal
- For Credit A/c particulars, enter the A/c debited with 'By'
- Enter date and the credit amount with JF as in the journal
- Complete the cross reference on LF in journal
- Balance the ledger
- Close



Balancing the ledger

- Sum up
 - Debit side
 - Credit side
- Use C/d (Carried down) amount to balance the two sides
- If Debit > Credit, it has a Debit balance
- If Credit > Debit, it has a Credit balance
- The balance will move to the next Accounting Period as Balance B/d (Brought down)
- To close an amount, put one line on top, two below

Ledger posting process

Journal (Page 5)					Dr.	Cr.
Date	Particulars	L.F.	₹	₹		
2017 July 9	Cash A/c Dr. To Capital A/c (Being new capital introduced)	9 20	10,000	10,000		

Ledger Cash Account (Page 9)								Dr.	Cr.
Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹		
2017 July 9	To Capital A/c	5	10,000						

Capital Account (Page 20)								Dr.	Cr.
Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹		
				2017 July 9	By Cash A/c	5	10,000		

A journal – to prepare Ledger

Date	Particulars	LF	Dr.	Cr.
			Rs.	Rs.
01-01-2017	Bank A/c Dr Cash A/c Dr To Capital A/c Being start of business		200000 40000	240000
1	Fitting & Furniture A/c Dr VAN A/c Dr To Bank A/c Being purchase, fittingd & Van		40000 60000	100000
2	Rent A/c Dr To Bank A/c Being rent paid		5000	5000
3	Purchase A/c Dr To Zakir & Co. A/c Being goods purchase on credit		50000	50000
5	Cash A/c Dr To Sales A/c Being sale on cash		5000	5000
8	Wages A/c Dr To Cash A/c Being wages paid to Assistant		1000	1000
10	Insurance A/c Dr To Bank A/c Being insurance payment		500	500
12	Cash A/c Dr To Sales A/c Being sale on cash		8000	8000
15	Wages A/c Dr To Cash A/c Being wages paid to Assistant		1000	1000

15	Zakir & Co. A/c Dr To Return outward A/c Being goods returned		6000	6000
17	Zakir & Co. A/c Dr To Bank A/c Being payment by cheque		30000	30000
19	Purchase A/c Dr To Rao & Co. A/c Being purchase of goods on credit		25000	25000
19	Cash A/c Dr To Sales A/c Being sales on cash		7000	7000
22	Wages A/c Dr To Cash A/c Being wages paid to Assistant		1000	1000
24	Stationary A/c Dr To Cash A/c Being purchase, stationary		500	500
25	Cash A/c Dr To Sales A/c Being sales on cash		15000	15000
27	Rao & Co. A/c Dr To Bank A/c Being payment by cheque		14000	14000
29	Wages A/c Dr To Cash A/c Being wages paid to Assistant		1000	1000
31	Bank A/c Dr To Cash A/c Being payment of 20k into bank		20000	20000
	Grand total		530000	530000

Ledger – Bank A/c

Dr.				Bank Account				Cr.			
Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
1.1.2017	To Capital A/c		2,00,000	1.1.2017	By Furniture & Fittings A/c		40,000				
31.1.2017	To Cash A/c		20,000		By Van A/c		60,000				
				2.1.2017	By Rent A/c		5,000				
				10.1.2017	By Insurance A/c		500				
				17.1.2017	By Zakir & Co A/c		30,000				
				27.1.2017	By Rao & Co A/c		14,000				
				31.1.2017	By Balance c/d		70,500				
			2,20,000				2,20,000				
1.2.2017	To Balance b/d		70,500								

Ledger – Cash A/c

Dr.				Cash Account				Cr.							
Date		Particulars		J.F.		₹		Date		Particulars		J.F.		₹	
1.1.2017		To Capital A/c				40,000		8.1.2017		By Wages A/c				1,000	
5.1.2017		To Sales A/c				5,000		15.1.2017		By Wages A/c				1,000	
12.1.2017		To Sales A/c				8,000		22.1.2017		By Wages A/c				1,000	
19.1.2017		To Sales A/c				7,000		24.1.2017		By Stationery A/c				500	
25.1.2017		To Sales A/c				15,000		29.1.2017		By Wages A/c				1,000	
								31.1.2017		By Bank A/c				20,000	
								31.1.2017		By Balance c/d				50,500	
						75,000								75,000	
1.2.2017		To Balance b/d				50,500									

Ledger: other accounts

Dr. Capital Account				Cr.			
Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
31.1.2017	To Balance c/d		2,40,000	1.1.2017	By Bank A/c		2,00,000
			2,40,000	1.1.2017	By Cash A/c		40,000
							2,40,000
				1.2.2017	By Balance b/d		2,40,000

Dr. Furniture & Fittings Account				Cr.			
Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
1.1.2017	To Bank A/c		40,000	31.1.2017	By Balance c/d		40,000
1.2.2017	To Balance b/d		40,000				

Dr. Van Account				Cr.			
Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
1.1.2017	To Bank A/c		60,000	31.1.2017	By Balance c/d		60,000
1.2.2017	To Balance b/d		60,000				

Ledger: Rent A/c, Purchase A/c

Dr. Rent Account				Cr.			
Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
2.1.2017	To Bank A/c		5,000	31.1.2017	By Balance c/d		5,000
1.2.2017	To Balance b/d		5,000				

Dr. Purchases Account				Cr.			
Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
3.1.2017	To Zakir & Co A/c		50,000	31.1.2017	By Balance c/d		75,000
19.1.2017	To Rao & Co A/c		25,000				
			75,000				75,000
1.2.2017	To Balance b/d		75,000				

Ledger: Zakir & Co., Sales A/c

Dr.				Zakir & Co Account				Cr.			
Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹				
15.1.2017	To Returns Outwards A/c		6,000	31.1.2017	By Purchases A/c		50,000				
17.1.2017	To Bank A/c		30,000								
31.1.2017	To Balance c/d		14,000								
			50,000								
				1.2.2017	By Balance c/d		14,000				

Dr.				Sales Account				Cr.			
Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹				
31.1.2017	To Balance c/d		35,000	5.1.2017	By Cash A/c		5,000				
				12.1.2017	By Cash A/c		8,000				
				19.1.2017	By Cash A/c		7,000				
				25.1.2017	By Cash A/c		15,000				
			35,000								
				1.2.2017	By Balance b/d		35,000				

Ledger: Wages, Insurance A/c's

Dr. Wages Account				Cr.			
Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
8.1.2017	To Cash A/c		1,000	31.1.2017	By Balance c/d		4,000
15.1.2017	To Cash A/c		1,000				
22.1.2017	To Cash A/c		1,000				
29.1.2017	To Cash A/c		1,000				
			4,000				4,000
1.2.2017	To Balance b/d		4,000				

Dr. Insurance Account				Cr.			
Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
10.1.2017	To Bank A/c		500	31.1.2017	By Balance c/d		500
1.2.2017	To Balance b/d		500				

Returns, Rao & Co, Stationary

Dr.				Returns Outwards Account				Cr.	
Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹		
31.1.2017	To Balance c/d		6,000	15.1.2017	By Zakir & Co A/c		6,000		
				1.2.2017	By Balance b/d		6,000		

Dr.				Rao & Co Account				Cr.	
Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹		
27.1.2017	To Bank A/c		14,000	19.1.2017	By Purchases A/c		25,000		
31.1.2017	To Balance c/d		11,000				25,000		
			25,000	1.2.2017	By Balance b/d		11,000		

Dr.				Stationery Account				Cr.	
Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹		
24.1.2017	To Cash A/c		500	31.1.2017	By Balance c/d		500		
1.2.2017	To Balance b/d		500						