**UNIT - IV**

**INTRODUCTION TO FINANCIAL ACCOUNTING**

**INTRODUCTION**

Every person performs some kind of economic activity. A worker daily works and get wages and he spends to buy goods, cloths and some part of earnings saves for future. A business man purchases goods and sales it. He incurred various expenses like salaries, rent etc. A partner in firm contributes towards capital in the firm which carries on business may be trading in goods. Similarly companies, Governments are also carries on some financial activities. All are carrying some kind of economic activities. Such economic activities are performed through transactions and / or events.

Thus, the business transactions include purchase, sale of goods, rendering various services, receipts and payments for such transactions. In a business concerns the transactions are numerous. The details of all transactions cannot be remembered by the business man. Therefore, it is necessary to keep written records of all such transactions. The records of written transaction will help business to settle disputes and also possible to provide valuable information to the owner of business. Book-keeping disciple has been developed to serve this purpose. The aim of Book-keeping is to provide the information needed by the businessmen and also it helps to take decisions.

**DOUBLE ENTRY BOOK KEEPING**

Every trader generally starts business for the purpose of earning profit. So he establishes business with capital, purchases machinery, raw materials, etc., buys and sells goods and incurs some expenses. So at the end of the period he wants to know whether his business has made profit or loss. For this purpose he prepares profit and loss account and also to know what he owns (assets) and what he owes (liabilities), he prepares Balance Sheet. Hence accounting is the **Language of Business**.

Book-keeping is an art of recording the business transactions in the books of original entry and the ledgers. Accountancy begins where Book-keeping ends. Accountancy means the compilation of accounts in such a way that one is in a position to know the state of affairs of the business.

## Definition of Accounting:

**R.N. Anthony:** “Accounting system is a means of collecting summarizing, analyzing

and reporting in monetary terms, the information about the business.

**American Institute of Certified Public Accountants (AICPA):** “The 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 interpreting the results thereof.”

The utility of accounting information is greatly increased when it is compiled in a systematic manner and financial statements are prepared at periodic intervals. There is difference between the terms “Book keeping” and “Accounting”. Book keeping is merely concerned with orderly record keeping and recording business transactions and financial Accounting is border in scope than book keeping. Accounting involves analysis and judgments at different stages such as recording of transactions, classification, summarization and interpretation.

# Objectives:

The main objectives of Accounting are:

1. To maintain the permanent records of the business transactions.
2. To ascertain the profit earned or loss suffered during accounting period.
3. To know various business Assets and liabilities apart from the above main objectives.
4. To know amount due to businessman from his customers.
5. To know amount payable to Suppliers.
6. To know various taxes and duties payable to government.
7. To defect and prevent errors and frauds committed by employees and other person.
8. To provide valuable information for taking for taking various decisions.
9. To take decision on significant business matters.
10. To compare and measure the optional efficiency of his business with other firm, companies in same type of Industry.
11. To review the progress of the business from year to year.
12. To maintain permanent record of all transactions of business for future reference.
13. To excise effective control on various expenses, incomes earned over business assets, business liabilities.
14. Other firms, Companies and within the firm compare current year with previous years. Such comparison is known as infra-firm comparison.

**ACCOUNTING SYSTEM**

There are two accounting system of keeping records.

# Single Entry System

The single entry system appears to be time saving and economical but it is unscientific, having number of defects. Under single Entry system only few personal accounts are kept, as nothings; Expenses / Income accounts are totally ignored. This system is followed by sole proprietor, having total control on cash as well as on goods. However this system is not generally followed by any trader.

# Double Entry System

The Double entry system is based on scientific principle and is used universally by most of business organizations. This sy-stem recognizes the fact that every transaction has two aspects and records both aspects of each and every transaction. Every business transaction involves exchange of equal values or benefits. Exchange means the act of giving or receiving one thing in return of the other thing or service or benefit. Thus every transaction has two aspects i.e. receiving and giving. The receiving aspect is also known as the incoming aspect (Debit) and going aspect is known as the outgoing aspect (credit).

**BRANCHES OF ACCOUNTING**

Accounting has forms of branches as under:

1. **Financial Accounting:** The purpose of Accounting is to ascertain the financial results

i.e. profit or loss in the operations during a specific period. It is also aimed at knowing the financial position, i.e. assets, liabilities and equity position at the end of the period. It also provides other relevant information to the management as a basic for decision-making for planning and controlling the operations of the business.

1. **Cost Accounting:** Cost Accounting is the process of accounting for costs. It shows classification and analysis of cost on the basis of functions process, products etc. It also deals with cost computation, cost saving, cost reduction etc. In cost accounting cost per unit of output produced or services rendered is ascertained. It helps management in the control of cost of ou-tput or services rendered.
2. **Management Accounting:** It deals with the processing of data sentenced in financial accounting and cost accounting for managerial decision making. It also deals with application of managerial economic concepts for decision making for the efficient running of the business and thus in maximizing profits.

**ACCOUNTING PRINCIPLES**

The rules and conventions of accounting are commonly referred to as principles. The American institute of certified public accountants has defined the accounting principle as, “a general law or rule adopted or professed as a guide to action; a settled ground or basis of conduct or practice”. It may be noted that the definition describes the accounting principle as a general law or rule that is to be used as a guide to action.

Accounting principles are judged on their general acceptability to the makers and users of financial statements and reports. They present a generally accepted and uniform view of the accounting profession in relation to good accounting practice and procedures. Therefore, it is named as “**Generally Accepted Accounting Principles**.”

Accounting principles, rules of conduct and action are described by various terms such as concepts, conventions, doctrines, tenets, assumptions, axioms, postulates, etc. But for our purpose we shall use all these terms synonymously except for a little difference between the two terms – concepts and conventions. The term “concept” is used to connote accounting postulates i.e. Necessary assumptions or conditions upon which accounting is based. The term convention is used to signify customs or traditions as a guide to the preparation of accounting statements.

The classification of accounting principles is as under:

# Accounting Principles



**Accounting Concepts Accounting Conventions**

* 1. Business entity concept 1) Disclosure
  2. Going Concern concept 2) Materiality
  3. Money Measurement concept 3) Consistency
  4. Cost Concept 4) Conservatism
  5. Accounting period concept
  6. Dual Aspect concept
  7. Matching concept
  8. Realization concept

# ACCOUNTING CONCEPTS

Concepts mean a general idea which conveys certain meaning. Accounting concepts may be considered as basis assumption or conditions on which the science of accounting is based. Concepts are based on logical consideration. Accounts and Financial statements are always interpreted in light of concepts which govern accounting method. Different accounting concepts are discussed as follows:

1. **Business Entity Concept:** The entity concept means that the business is seen as a separate thing from its owners, creditors, and managers. We keep financial records for the business, not for the people involved with it. All business transactions are recorded in the books of accounts only from the point of view of the business. This means that every type of business organization is treated as a separate accounting entity. If we didn't treat the business as a separate entity, it would be hard to tell how well it is doing by itself, without considering the other people involved with it.
2. **Going Concern Concept:** The going concern concept means that when we record business transactions, we assume that the business will continue to operate for a long time in the future. This means that we don't expect to close the business anytime soon. The business is expected to meet all its financial obligations and achieve its goals as planned. This assumption affects how we record fixed assets and prepaid expenses in the financial statements. Fixed assets are recorded at their original cost, and depreciation is calculated on the cost or the written down value. Prepaid expenses are also recorded as assets, assuming that the business will continue and these expenses will be used in the future.
3. **Money Measurement Concept:** When businesses record their financial transactions, they need to have a way to measure and compare the value of things. Money is a common way to do this. Only things that can be measured in terms of money, like buying and selling goods or services, can be recorded in the financial books. Other important events that can't be measured in money, such as political contracts or location of a business, can't be recorded even though they may have a big impact. However, using money as the only measure has some limitations over time.
4. **Cost Concept:** According to cost concept the various assets acquired by enterprise should be recorded on the basis of actual cost incurred. The cost concept does not mean that the basis for all subsequent accounting for the assets. As per cost concept Fixed Assets are shown at cost less depreciation charged from year to year. It may be noted that if nothing has been paid for acquiring something it would not be shown/recorded in the books of accounts maintain. Financial statement based on historical cost may not be much relevant for investors and other users because they are more interested in knowing what the business actually worth today rather than the original cost.
5. **Accounting Period Concept:** In order to analyze the financial results of a business, its life is divided into parts called accounting periods. This is a specific amount of time, usually one year, where the business prepares financial statements like the income statement and balance sheet. So, each accounting period is like a report card for the business that shows how it did during that specific time.
6. **Matching Cost Concept:** To understand how much money a business really makes, it's important to compare the money it earns from selling goods or services with the cost of producing those goods or services. This is called the "matching" concept, and it means that related income and expenses should be linked together. For example, if a business buys materials to make products to sell, the cost of those materials should be matched with the revenue earned from selling the products made from them. To make sure this matching is done correctly, adjustments need to be made for things like bills the business hasn't paid yet, money the business hasn't received yet, or things the business has paid for in advance. These adjustments are made when the business prepares its final financial statements at the end of a certain period of time.
7. **Realization Concept:** This accounting concept says that a sale is only complete when the buyer owns the goods they bought from the seller. The income from a sale is earned on the date when the sale takes place. The business is not supposed to count any profit when they buy something. They only earn income when they sell something at a profit. This is why the value of the stock left unsold is recorded at the cost of buying it or the current market price, whichever is lower. This stops businesses from pretending they made more profit by recording income they expect to receive in the future.
8. **Dual Aspect Concept:** The double-entry bookkeeping concept means that every transaction that affects a company's financial records is recorded in two different parts. This is known as the "dual aspects" concept. Modern financial accounting considers both of these aspects in every transaction. One part is recorded as a debit to one or more accounts, while the other part is recorded as a credit to one or more different accounts. The total amount of the debit side is always equal to the total amount of the credit side. This means that the total assets of a business are always equal to its total liabilities. Liabilities to people outside the business are called liabilities, while liabilities to the owner are called capital.

Assets = Liabilities + Capital Therefore, Capital = Assets – Liabilities

# ACCOUNTING CONVENTIONS

The term ‘Convention’ denotes customs or traditions or practice based on general agreement between the accounting bodies which guide the accountant while preparing the financial statements.

1. **Disclosure:** The full disclosure convention means that in accounting, all important information and facts must be disclosed so that anyone who reads the accounting report can have a complete understanding of the business. This means that all important information that is relevant to the business, such as to the business owner, lenders, and investors, should be included in the financial statements. The Companies Act has several provisions for disclosure of important information, ensuring that no important information is left out..
2. **Materiality:** The convention of materiality in accounting means that only important information should be included in the financial statements, while unimportant details can be ignored. The importance of information may vary depending on the nature and size of the business. What may be important for one business may not be important for another. The accountant or auditor will use their professional judgement to determine what information is material and what can be left out. This convention helps to avoid including unnecessary details that can make accounting records more complicated.
3. **Consistency:** The consistency concept in accounting means that once a company chooses a certain way of preparing their financial statements, they should stick to that method year after year. This allows for easy comparison of financial information over time. For example, if a company values their inventory at cost one year, they should continue to use that same method in future years. This helps ensure that the financial statements are reliable and can be trusted by those who use them, such as investors or creditors.
4. **Conservatism:** The accounting convention of conservatism means that financial statements should be prepared in a way that is cautious and careful. This includes not assuming that income will be earned until it is actually earned, and making sure to account for any potential losses. When deciding how to value assets, the accountant should choose a method that results in a lower value. It's important to follow these conventions consistently, because if they're not followed, it could result in financial statements that make the company's income and assets look too high and its liabilities and expenses look too low.

**USERS OF ACCOUNTING INFORMATION**

Different categories of users need different kinds of information for making decisions. The users of accounting can be divided in two board groups: Internal users and External users

# Internal Users:

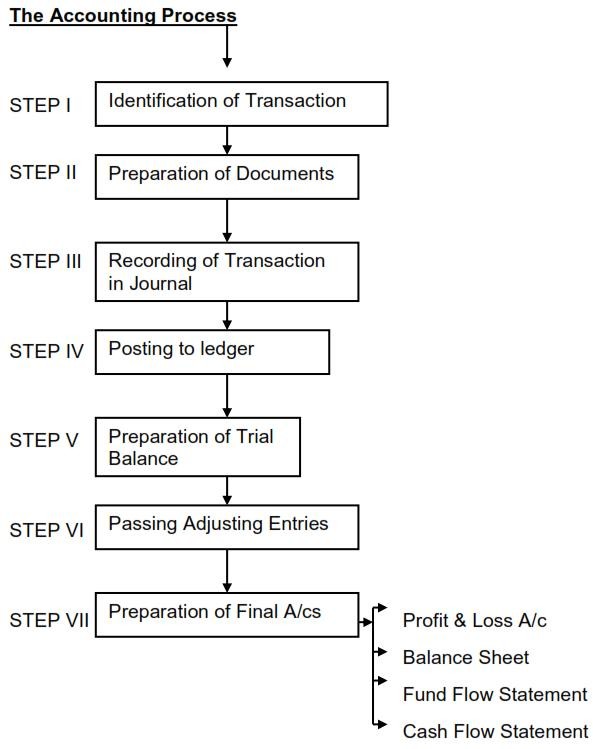
1. **Owners:** To know the profit and loss of their business and the financial status of the business.
2. **Managers:** These are the persons who manage the business, i.e. management at the top, middle and lower levels. Their requirements of information are different because they make different types of decisions. Accounting information also helps the managers in appraising the performance of subordinates. As such Accounting is termed as “the eyes and ears of management.”

# External Users:

1. **Investors:** Those who are interested in buying the shares of company are naturally interested in the financial statements to know how safe the investment already made is and how safe the proposed investments will be.
2. **Creditors:** Lenders are interested to know whether their loan, principal and interest, will be paid when due. Suppliers and other creditors are also interested to know the ability of the firm to pay their dues in time.
3. **Workers:** In our country, workers are entitled to payment of bonus which depends on the size of profit earned. Hence, they would like to be satisfied that he bonus being paid to them is correct. This knowledge also helps them in conducting negotiations for wages.
4. **Customers:** They are also concerned with the stability and profitability of the enterprise. They may be interested in knowing the financial strength of the company to rent it for further decisions relating to purchase of goods.
5. **Government:** Governments all over the world are using financial statements for compiling statistics concerning business which, in turn, helps in compiling national accounts. The financial statements are useful for tax authorities for calculating taxes.
6. **Public:** The public at large interested in the functioning of the enterprises because it may make a substantial contribution to the local economy in many ways including the number of people employed and their patronage to local suppliers.

**ACCOUNTING PROCESS**

The process of accounting involves recording classifying and summarizing of past events and transactions of financial nature, with a view to enabling the user of accounts to interpret the resulting summary. The utility of accounting information is greatly increased when it is compiled in a systematic manner and financial statements prepared at periodic intervals.



**ACCOUNTING TERMINOLOGIES**

1. **Transactions:** Any sale or purchase of goods or services is called the transaction. Transactions are two types.
   1. **Cash transaction**: cash transaction is one where cash receipt or payment is involved in the exchange.
   2. **Credit transaction:** Credit transaction will not have cash, either received or paid, for something given or received respectively.
2. **Goods:** Those things which a firm purchases for resale are called goods.
3. **Purchases:** It means purchase of goods, unless it is stated otherwise it also represents the goods purchased.
4. **Sales:** It means sale of goods, unless it is stated otherwise it also represents these goods sold.
5. **Expenses:** Payments for the purchase of goods as services are known as expenses.
   1. **Revenue Expenditure:** It refers to expenses incurred for running the business. Ex: wages, salaries, rent, etc.
   2. **Capital Expenditure:** It refers to expenses incurred to acquire fixed assets.
6. **Revenue:** It is the amount realized or receivable from the sale of goods or services.
   1. **Revenue Receipts:** It refers to those receipts from customers for goods supplied or fees received. Ex: rent, commission, discount received, etc.
   2. **Capital Receipts:** It refers to receipts from sale of fixed assets.
7. **Assets:** The valuable things owned by the business are known as assets. These are the properties owned by the business. It is of two types:
   1. **Fixed Assets:** It is of two types:
      1. **Tangible Assets:** The assets which can be seen, touch or felt and which are fixed and permanent in nature. Ex: land, buildings, machinery, furniture, etc.
      2. **In-tangible Assets:** The assets which cannot be felt or touched. Ex: goodwill, patents, copyrights, etc.
   2. **Current Assets:** These are expected to be realized in cash or consumed during business operations. Ex: debtors, stock, bills receivable, etc.
8. **Liabilities:** Liabilities are the obligations or debts payable by the enterprise in future in the term of money or goods. It refers to what the firm owes to outsiders.
9. **Debtors:** Debtors means a person who owes money to the trader.
10. **Creditors:** A creditor is a person to whom something is owned by the business.
11. **Drawings:** cash or goods withdrawn by the proprietor from the Business for his personal

or household is termed to as “drawing”.

1. **Reserve:** An amount set aside out of profits or other surplus to meet contingencies.
2. **Account:** A summarized statements of transactions relating to a particular person, thing, Expense or income.
3. **Discount:** There are two types of discounts:
   1. **Cash discount:** An allowable made to encourage frame payment or before the expiration of the period allowed for credit.
   2. **Trade discount:** A deduction from the gross or catalogue price allowed to traders who buys them for resale.
4. **Debit:** It refers to left hand side of the account.
5. **Credit:** It refers to right hand side of the account.

**TYPES OF ACCOUNTS AND RULES**

The accounts are maintained for recording all business transactions. They are divided in to 3 types:

1. **Personal Accounts:** Accounts which shows transactions related to persons are called Personal Accounts. A separate account is kept on the name of each person for recording the benefits received from or given to the person.

Ex: Gopal’s A/C, SBI A/C, Nagarjuna Finanace Ltd. A/C, Capital A/C, etc.

**Rule:** The account of the person receiving benefit (receiver) is to be debited and the account of the person giving the benefit (given) is to be credited.

Debit The Receiver

Credit The Giver

1. **Real Accounts:** The accounts relating to properties or assets are known as Real Accounts. Every business needs assets such as machinery, furniture, etc, for running its activities. A separate account is maintained for each asset owned by the business.

Ex: cash A/C, furniture A/C, building A/C, machinery A/C etc.

**Rule:** When an asset is coming into the business is to be debited. When an asset is going out of the business the account is to be credited.

Debit What comes in

Credit What goes out

1. **Nominal Accounts:** Accounts relating to expenses, losses, incomes and gains are known as Nominal Account”. A separate account is maintained for each item of expenses, losses, income or gain.

Ex: Salaries A/C, stationery A/C, wages A/C, postage A/C, rent received A/C, etc.

**Rule:** When an expense is incurred or loss encountered, the account is to be debited. When any income is earned or gain made, the account is to be credited.

Debit All expenses and losses

Credit All incomes and gains

**ACCOUNTING EQUATION: Assets = Liabilities + Equity(Capital)**

**Assets = Liabilities + Owner’s Equity-Dividends+ Revenue-Expenses**

**Assets + Expenses + Dividends = Liabilities + Owner’s Equity + Revenue**

LHS= Debit(Increase when debited decrease when credited)

RHS= Credit (Increase when credited decrease when debited)

**JOURNAL**

The first step in accounting is recording of all the transactions in the books of original entry viz., Journal and then posting into ledgers. The word Journal is derived from the Latin word ‘journ’ which means “a day”. Journal is the first book in which transactions are recorded in chronological order (date wise), the moment they take place in the business. It is also called Day Book, Book of original entry, First entry and Prime Entry book.

The process of recording a transaction in the journal is called “Journalising”. The entries made in the book are called “Journal Entries”. The Performa of Journal:

**Journal Entries in the Books of ……….**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Date | Particulars | L.F.  No | Debit Rs. | Credit Rs. |
| Jan.. | Name of A/c Debited  **Dr.**  **To** name of A/c Credited  (**Being……………………….**) |  | xxx | xxx |

* 1. **Date:** To write the date of the transaction.
  2. **Particulars:** To write the names of the accounts and its description. Every entry has two aspects i.e. Debit and Credit. The name of the account to be debited is written on left side followed by “Dr.” (indicates Debit). The name of the account to be credited is written in next line using “To” before the account name. In next line the description of the transaction is written within brackets, starting with the word “Being”.
  3. **Ledger Folio (L.F. No.):** To write the page number of the account in ledger.
  4. **Debit (Rs.):** To write the amount to be debited.(Destination)
  5. **Credit (Rs.**): To write the amount to be credited.(Source)

**LEDGER**

All the transactions in a journal are recorded in a chronological order. After a certain period, if we want to know whether a particular account is showing a debit or credit balance it becomes very difficult. So, the ledger is designed to accommodate the various accounts maintained the trader. It contains the final or permanent record of all the transactions in duly classified form.

“A ledger is a book which contains various accounts.” The process of transferring entries from journal to ledger is called “Posting”. Posting into ledger is done periodically, may be weekly or fortnightly as per the convenience of the business.

The format of ledger A/c is “T” shape. The left hand side is debit side (Dr.) and right

hand side is credit side (Cr.). The Performa of a ledger:

Dr. Particulars A/c Cr.

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Date | Particulars | JF.  No | Amount  Rs. | Date | Particulars | JF.  No | Amount  Rs. |
|  |  |  |  |  |  |  |  |

1. **Date:** Write here the date of the transaction as noted in Journal.
2. **Particulars:** Every entry on the debit side of this column must begin with the word 'To' and on credit side with the word 'By'.
   1. On the debit side of the account after the word 'To' write "Name of the Credit Part of the Journal entry.
   2. On the credit side of the account, after the word' By' write 'Name of the Debit Part of the Journal entry'.
3. **Journal Folio:** Write the page number of Journal from where the entry is posted.
4. **Amount:** Write here the amounts of the transaction. The amount in the debit column of the Journal is entered on the debit side. The amount in the credit column of the Journal is entered on the credit side.

# Balancing an Account:

Accounts are balanced with a view to prepare the final accounts. Take the totals of the two sides of account and enter the higher balance on both the sides. Enter the difference amount and write “To/By balance c/d” against the balance. The balance is brought forward at the beginning of next period written as “To/By balance b/d”. If the debit and credit balance are equal it implies nil balance.

**JOURNAL VS. LEDGER**

|  |  |  |
| --- | --- | --- |
| **JOURNAL** | | **LEDGER** |
| 1 | It is known as the book of primary entry or original entry. | It is the principal book of accounts. |
| 2 | Transactions are recorded in detail. | Summarized form of all transactions is recorded in it. |
| 3 | Narrations are used in journals | No narrations are used in ledgers. |
| 4 | There are two columns in a journal and they are totaled at the end of the day or a certain period. | There are two sides of each account in a ledger and the balancing of each account is made at the end of a certain period. |
| 5 | Transactions are recorded chronologically. | Transactions are posted analytically in a ledger. |
| 6 | There is no scope of carrying forward to the next year in a journal. | The balances of real and personal accounts are carried forward to the next year. |
| 7 | Trading and Profit & Loss Accounts cannot be prepared through a journal. | It helps to prepare Trading and Profit & Loss Accounts with the help of nominal accounts balances. |
| 8 | Ledger folio is mentioned in it. | Journal folio is mentioned in a ledger. |
| 9 | Generally, entries are made in a journal on the basis of vouchers. | Here, entries are made on the basis of records maintained in a journal. |
| 10 | It helps to prepare a ledger. | It helps in preparing the financial statements are represent the financial position of a firm or an enterprise. |

**TRAIL BALANCE**

The fundamental principle of double entry book keeping is that debit must be equal to credit. In other words, debit aspect of any transaction is always equal to its credit aspect. All ledger accounts are balances. A debit balance in a general ledger account indicates an excess of debit side over credit side of the account. A credit balance in a ledger account indicates the excess of credit side over debit side of the account.

A trial balance is a summary of all the ledger balances outstanding as on particular date. List of debit balances and credit balances should be equal. It said that Trial balance is tallied. When trial balance tallies are establishes the arithmetical accuracy of record. It is a statement prepared before preparing the final accounts. It is a link between books of account and final accounts i.e. the Trading & Profit & Loss A/c and Balance Sheet.

## Definition:

**Spicer and Poglar:** A trail balance is a list of all the balances standing on the ledger accounts and cash book of a concern at any given date.

Trial balances are of two types:

1. **Gross Trial Balance:** Gross Trial Balance is prepared by taking all ledger account debit total and credit total, instead of considering ledger balances, as on a particular date.
2. **Net Trial balance:** Net trial balance is list of debit & credit balance, taken from ledger accounts on particular date. Normally, net trial balance is prepare, since it is transferred to final accounts and personal and real accounts balance are carried forward from current year to subsequent year.

Trail balance for Mr…………………… as on …………

|  |  |  |  |
| --- | --- | --- | --- |
| No. | Name of account  (Particulars) | Debit  Amount (Rs.) | Credit  Amount(Rs.) |
|  |  |  |  |

**INTRODUCTION TO FINAL ACCOUNTS**

The transactions of a business are first recorded in Journal then posted to the Ledger and at the end of accounting year, Trial balance is prepared to test accuracy, both the aspects of the transactions have been correctly recorded in the books of accounts of original entry as well as in the Ledger. The last stage in accounting process is the preparation of final Accounts.

A Trading, Profit & Loss A/c is prepared to determine the Profit or Loss made during a particular year, and Balance Sheet is prepare which consists of all assets, Liabilities and Capital of proprietor.

For preparing Final Accounts from Trial Balance following procedure should be followed:

* **Debit Account balances:** Balances appearing on the debit column of the trial balance may represent - (a) assets (b) Expenses and Losses. Assets are shown on right hand side of the balance sheet while expenses and loss are debited either to the Trading A/c or to the Profit & Loss A/c, depending upon nature of expenditure or loss.
* **Credit Account balances:** Credit items in the trial balance represents (a) Capital, Liabilities, expenses. These items are entered on the left hand side of the balance sheet (b) Income and gains. These are either credited to Trading A/c or Profit and Loss A/c.

# TRADING ACCOUNT

The main purpose of preparing the trading account is to ascertain gross profit or gross loss as a result of buying and selling the goods. However, Gross Profit is the balancing figure, in case debit side total exceeds the credit side, then balance will be Gross Loss, it is shown on credit side of Trading A/c as ‘By Gross Loss’.

# Performa of a Trading A/c:

Dr. Trading A/c of.…………………. for the year ended ……… Cr.

|  |  |  |  |
| --- | --- | --- | --- |
| **Particulars** | **Amount** | **Particulars** | **Amount** |
| To Opening Stock  To Purchases xxx  Less: Returns xx To Carriage Inwards  To Wages  To Freight charges To Customs Duty To Octroi  To Gas, Fuel, Coal, Water To Factory Rent  To Factory Expenses  To Other Mfg. Expenses | xxx  xxx xxx xxx xxx xxx xxx xxx xxx xxx xxx xxx | By Sales xxx  Less: Returns xx By Closing Stock  By Gross Loss  (transferred to P& L A/c debit side) | xxx xxx  xxx |
| To Gross Profit  (transferred to P&L A/c credit side) |  |  |  |
|  | xxx |  | xxx |

# PROFIT AND LOSS ACCOUNT

The business man is always interested to know his Net Profit. It represents the excess of gross profit plus the other revenue. The debit side of Profit & Loss A/c shows the expenses and the credit side the incomes. If the total of the credit side is more, it will be the Net Profit. And if the debit side is more, it will be Net Loss.

# Performa of a Profit & Loss A/c:

Dr. Profit & Loss A/c of ……………….for the year ended……… Cr.

|  |  |  |  |
| --- | --- | --- | --- |
| **Particulars** | **Amount** | **Particulars** | **Amount** |
| To Gross Loss b/d | xxx | By Gross Profit b/d | xxx |
| To Office Salaries | xxx | By Interest received | xxx |
| To Rent, Rates, Taxes | xxx | By Discount received | xxx |
| To Printing & Stationery | xxx | By Commission received | xxx |
| To Legal Charges & Audit fee | xxx | By Investments | xxx |
| To Insurance, Interest | xxx | By Dividend on shares | xxx |
| To General, Admin. Expenses | xxx | By Rent received | xxx |
| To Advertisements | xxx | By Net Loss  |  |
| To Bad Debts | xxx | (transferred to capital a/c) |  |
| To Carriage Outwards | xxx |  |  |
| To Repairs | xxx |  |  |
| To Depreciation | xxx |  |  |
| To Interest on Capital, Loans | xxx |  |  |
| To Discount Allowed | xxx |  |  |
| To Commission Allowed | xxx |  |  |
| To Net Profit  | xxx |  |  |
| (transferred to capital a/c) | xxx |  |  |
|  | xxxx |  | xxxx |

# BALANCE SHEET

It is prepared often after the Trading A/c and Profit & Loss A/c have been compiled and closed. A balance sheet may be considered as a statement of the financial position of the concern at a given date.

According to **J.R.Botliboi -** *“*A balance sheet is a statement with a view to measure exact financial position of a business at a particular date”.

Thus, Balance sheet is defined as a statement which sets out the assets and liabilities of a business firm and which serves to ascertain the financial position of the same on any particular date. On the left-hand side of this statement, the liabilities and the capital are shown. On the right-hand side all the assets are shown. Therefore, the two sides of the balance sheet should be equal. Otherwise, there is an error somewhere.

# Performa of a Balance Sheet:

Balance Sheet of . …………………… as on …………………

|  |  |  |  |
| --- | --- | --- | --- |
| **Liabilities** | **Amount** | **Assets** | **Amount** |
| Capital xxx  **Add:** Net Profit xxx  Interest xxx  xxx  **Less:** Drawings xxx  Net Loss xxx  Creditors Bills Payable  Bank Overdraft Loans  **Add:** Interest Mortgage Reserve fund  Outstanding Expenses | xxx xxx xxx xxx xxx xxx xxx xxx | Cash in Hand Cash at Bank Bills Receivable Debtors  xxx  **Less:** Bad Debts xxx  Investments Furniture & Fittings  **Less:** Depreciation xxx  Plant & Machinery xxx  **Less:** Depreciation xxx  Land & Buildings xxx  **Less:** Depreciation xxx  Patents, Copyrights Goodwill, Trade Marks Prepaid Expenses Outstanding Incomes Closing Stock | xxx xxx xxx  xxx xxx  xxx xxx  xxx xxx xxx xxx xxx xxx |
| XXX | XXX |

# Final Accounts – Adjustments:

The adjustments to be made to final accounts will be given under the Trial Balance.

Every adjustment is to be made in the final accounts twice:

* 1. once in Trading A/c and Profit & Loss A/c and
  2. other in Balance Sheet

The following are some of the important adjustments to be made at the time of preparing of final accounts:

|  |  |  |  |
| --- | --- | --- | --- |
| **S**  **No** | **Item** | **If given in Trail Balance** | **If given in adjustment** |
| 1 | Closing Stock | Shown only in balance  sheet “Assets Side”. | 1. It should be posted at the credit   side of “Trading A/c”.   1. Shown at the asset side of the   “Balance Sheet”. |
| 2 | Outstanding Expenses | Shown only on the liability side of Balance Sheet. | 1. It should be added to the concerned expense at the debit side of Profit & Loss A/c or Trading A/c. 2. It should be added at the liabilities side of the Balance Sheet. |

|  |  |  |  |
| --- | --- | --- | --- |
| 3 | Prepaid Expenses | Shown only in assets side of the Balance Sheet. | 1. Deducted from the concerned expense in debit side of Profit & Loss A/c or Trading A/c. 2. It should be shown at the assets side of the Balance Sheet. |
| 4 | Depreciation | Shown only on the debit side of the profit and loss account. | 1. It should be shown on the debit side of the Profit & Loss A/c. 2. It should be deduced from concerned asset in Balance sheet assets side. |
| 5 | Bad Debts | Shown on the debit side of the profit and loss account. | 1. It should be shown on the debit side of the Profit & Loss A/c. 2. It should be deducted from debtors in the assets side of the Balance Sheet. |
| 6 | Outstanding Income (or) Accrued Income | Shown only on the assets side of the Balance Sheet. | 1. It should be added to the concerned income at the credit side of Profit & Loss A/c. 2. It should be shown at the assets side of the Balance sheet. |
| 7 | Interest on Loan | Shown only on debit side of the profit and loss account. | 1. It should be shown on debit side of the Profit & Loss A/c. 2. Added to loan in the liabilities side of the Balance Sheet. |
| 8 | Provision for Doubtful Debts | Shown on the debit side of the profit and loss account. | 1. Shown on the debit side of the Profit & Loss A/c. 2. Deducted from debtors in the assets side of the Balance Sheet. |
| 9 | Unearned Income | Shown only on the liabilities side of the Balance Sheet. | 1. Deducted from the concerned income at the credit side of Profit & Loss A/c. 2. Shown in liabilites side of Balance sheet. |
| 10 | Interest on Capital | Shown only on debit side of the profit and loss account. | 1. It should be shown on debit side of the Profit & Loss A/c. 2. Added to the capital in the liabilities side of the Balance Sheet. |

**ILLUSTRATIONS**

1. Enter the following data in the journal of Praveen.

Pradeep commenced business with a cash of Rs. 500000/- Deposited cash with bank Rs. 10000/-

Purchased goods from Kiran Rs. 20000/- Goods sold for cash Rs. 5000/- Purchases Rs. 2000/-

Returned goods to Kiran Rs. 600/- Paid Wages Rs. 1000/-

Paid for advertisement Rs. 1500/- Paid cash to Kiran Rs. 19000/-

## Solution:

Journal Entries in the books of Praveen

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Date | Particulars | L.F.  No | Debit Rs. | Credit Rs. |
| 1 | Cash A/c Dr.  To Capital A/c  (Being commenced business with cash by Pradeep) |  | 5,00,000 | 5,00,000 |
| 2 | Bank A/c Dr.  To Cash A/c  (Being deposited cash with bank) |  | 10,000 | 10,000 |
| 3 | Purchases A/c Dr.  To Kiran A/c  (Being Purchased goods from Kiran) |  | 20,000 | 20,000 |
| 4 | Cash A/c Dr.  To Sales A/c  (Being Goods sold for cash) |  | 5,000 | 5,000 |
| 5 | Purchases A/c Dr.  To Cash A/c (Being goods purchased) |  | 2,000 | 2,000 |
| 6 | Kiran A/c Dr.  To Purchase Returns A/c (Being Returned goods to Kiran) |  | 600 | 600 |
| 7 | Wages A/c Dr.  To Cash A/c (Being Paid Wages) |  | 1,000 | 1,000 |
| 8 | Advertisement A/c Dr.  To Cash A/c  (Being Paid for advertisement) |  | 1,500 | 1,500 |
| 9 | Kiran A/c Dr.  To Cash A/c (Being Paid cash to Kiran) |  | 19,000 | 19,000 |

1. Prepare Journals and cash account (Ledger) from the following transactions as on 31st December 2016.

Dec’1st Mr. Srinivas started business with capital Rs. 5,00,000

Dec’3 Purchased goods from Kumar Rs. 30,000 Dec’12 Salaries paid to employees Rs. 50,000 Dec’15 Sold goods to Sudhakar Rs. 50,000 Dec’18 Paid wages Rs. 2,000

Dec’20 Cash paid to Sirisha Rs. 3,000

Dec’22 Cash received from Raju Rs. 20,000 Dec’25 Amount deposited into Bank Rs. Rs. 25,000 Dec’26 Cash withdrawn from Bank Rs. 10,000 Dec’31 Paid stationery expenses Rs. 15,000

## Solution:

Journal Entries

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Date | Particulars | L.F.  No | Debit Rs. | Credit Rs. |
| 2010  Dec-1st | Cash A/c Dr.  To Capital A/c  (Being started business with capital by Mr. Srinivas) |  | 5,00,000 | 5,00,000 |
| Dec-3rd | Purchases A/c Dr.  To Kumar A/c  (Being Purchased goods from Kumar) |  | 30,000 | 30,000 |
| Dec-12th | Salaries A/c Dr.  To Cash A/c  (Being Salaries paid to employees) |  | 50,000 | 50,000 |
| Dec-15th | Sudhakar A/c Dr.  To Sales A/c  (Being Sold goods to Sudhakar) |  | 50,000 | 50,000 |
| Dec-18th | Wages A/c Dr.  To Cash A/c (Being Paid wages) |  | 2,000 | 2,000 |
| Dec-20th | Sirisha A/c Dr.  To Cash A/c  (Being Cash paid to Sirisha) |  | 3,000 | 3,000 |
| Dec-22nd | Cash A/c Dr.  To Raju A/c  (Being Cash received from Raju) |  | 20,000 | 20,000 |
| Dec-25th | Bank A/c Dr.  To Cash A/c  (Being Amount deposited into Bank) |  | 25,000 | 25,000 |
| Dec-26th | Cash A/c Dr.  To Bank A/c  (Being Cash withdrawn from Bank) |  | 10,000 | 10,000 |
| Dec-31st | Stationery A/c Dr.  To Cash A/c  (Being Paid stationery expenses) |  | 15,000 | 15,000 |

Dr. Cash A/c Cr.

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Date | Particulars | JF.  No | Amount  Rs. | Date | Particulars | JF.  No | Amount  Rs. |
| 2010 | To Capital A/c To Raju A/c To Bank A/c  To Balance b/d |  |  | 2010 |  |  |  |
| Dec-1st | 5,00,000 | Dec-12th | By Salaries | 50,000 |
| Dec- 22nd | 20,000  10,000 | Dec-18th  Dec-20th | A/c  By Wages A/c | 2,000  3,000 |
| Dec-26th |  | Dec-25th | By Sirisha A/c | 25,000 |
|  |  | Dec-31st | By Bank A/c | 15,000 |
|  |  | Dec-31st | By Stationery | 4,35,000 |
|  | 5,30,000 |  | By Balance c/d | 5,30,000 |
| 2011 | 4,35,000 |  |  |  |
| Jan-1st |  |  |

1. Enter the following transactions in journal format: Paid salaries Rs. 5000

Sold goods to Venkat Rs. 10000 Sold machinery Rs. 30000 Commission received Rs. 2000 Allowed discount Rs. 1000

Brought goods from Raghava Rs. 4000 Sold goods to X for cash Rs. 6000

## Solution:

Journal Entries

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Date | Particulars | L.F.  No | Debit Rs. | Credit Rs. |
| 1 | Salaries A/c Dr.  To Cash A/c (Being salaries paid) |  | 5,000 | 5,000 |
| 2 | Venkat A/c Dr.  To Sales A/c  (Being goods sold to venkat) |  | 10,000 | 10,000 |
| 3 | Cash A/c Dr.  To Machinery A/c (Being machinery sold) |  | 30,000 | 30,000 |
| 4 | Cash A/c Dr.  To Commission A/c (Being commission received) |  | 2,000 | 2,000 |
| 5 | Discount A/c Dr.  To Cash A/c (Being discount allowed) |  | 1,000 | 1,000 |
| 6 | Purchases A/c Dr.  To Raghava A/c  (Being goods brought from raghava) |  | 4,000 | 4,000 |
| 7 | Cash A/c Dr.  To Sales A/c  (Being goods sold to X for cash) |  | 6,000 | 6,000 |

1. From the following trail balance of Mr. Surya & co as on 31st December 2016. Prepare the Trading account, profit& Loss account and Balance sheet as on date.

|  |  |  |
| --- | --- | --- |
| **Particulars** | **Debit (Rs.)** | **Credit (Rs.)** |
| Capital |  | 70,000 |
| Purchases | 40,000 |  |
| Sales |  | 75,000 |
| Returns | 1,000 | 2,000 |
| Opening stock | 20,000 |  |
| Wages | 1,000 |  |
| Coal & Power | 1,500 |  |
| Carriage Inwards | 3,000 |  |
| Salaries | 2,000 |  |
| Sundry Debtors | 15,000 |  |
| Sundry Creditors |  | 12,500 |
| Bills Payable |  | 5,000 |
| Bills Receivable | 10,000 |  |
| Plant & Machinery | 7,500 |  |
| Cash in Hand | 27,000 |  |
| Cash at Bank | 15,000 |  |
| Discount | 500 |  |
| Discount received |  | 2,000 |
| Loans |  | 5,000 |
| Bank Overdraft |  | 5,000 |
| Buildings | 33,000 |  |
| **Total** | **1,74,000** | **1,74,000** |

Adjustments:

* 1. Closing stock Rs. 30,000
  2. Bad debts on sundry debtors Rs. 1,000
  3. Deprecation on buildings Rs. 3,000
  4. Outstanding salaries Rs. 500

## Solution:

Dr. Trading and Profit & Loss A/c of Mr. Surya & co. for year ending 31-12-2016 Cr.

|  |  |  |  |
| --- | --- | --- | --- |
| Particulars | Amount | Particulars | Amount |
| To Opening stock  To Purchase 40,000  (-) Returns 2,000 To Wages  To Coal & Power To Carriage Inwards To Gross Profit c/d  To Salaries 2,000  (+) outstanding 500 To Discount  To Bad debts  To Depreciation on buildings To Net Profit  (transferred to Capital a/c) | 20,000  38,000  1,000  1,500  3,000  40,500 | By Sales 75,000  (-) Returns 1,000 By Closing Stock  By Gross Profit b/d By Discount | 74,000  30,000 |
| 1,04,000 | 1,04,000 |
| 2,500  500  1,000  3,000  35,500 | 40,500  2,000 |
| 42,500 | 42,500 |

Balance Sheet of Mr. Surya & Co. as on 31-12-2016

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Liabilities | | Amount | Assets | | Amount |
| Sundry Creditors |  | 12,500 | Cash in Hand |  | 27,000 |
| Bills Payable |  | 5,000 | Cash at Bank |  | 15,000 |
| Bank Overdraft |  | 5,000 | Bills Receivable |  | 10,000 |
| Loads |  | 5,000 | Debtors | 15,000 |  |
| Outstanding Salaries |  | 500 | (-) Bad debts | 1,000 | 14,000 |
| Capital | 70,000 |  | Closing stock |  | 30,000 |
| (+) Net profit | 35,500 | 1,05,500 | Buildings | 33,000 |  |
|  |  |  | (-) Depreciation | 3,000 | 30,000 |
|  |  |  | Plant |  | 7,500 |
|  |  | 1,33,500 |  |  | 1,33,500 |

1. From the following trail balance to prepare Trading account, Profit and loss account and Balance sheet as on 31-3-2016.

|  |  |  |  |
| --- | --- | --- | --- |
| Sales | 4,00,000 | Sundry debtors | 1,20,000 |
| Capital | 50,000 | Carriage inwards | 2,500 |
| Land | 50,000 | Bad debts | 10,000 |
| Opening stock | 20,000 | Carriage outwards | 75,000 |
| Wages | 5,000 | Salaries | 60,000 |
| Purchase Returns 10,000 | | Rent (credit) | 20,000 |
| Interest 5,000 | | Bills payable | 30,000 |
| Sundry Creditors 60,000 | | Buildings | 70,000 |
| Furniture | 60,000 | Purchases | 1,00,000 |
| Rent | 10,000 | Bills Receivable | 50,000 |
| Loans  Adjustments: | 67,500 |  |  |

1. Closing stock Rs. 60,000 2. Outstanding wages Rs. 1000

1. Doubtful debts on sundry debtors @ 5%
2. Depreciation on furniture @ 10% and on buildings @ 10%

## Solution:

Dr. Trading and Profit & Loss A/c for year ending 31-03-2016 Cr.

|  |  |  |  |
| --- | --- | --- | --- |
| Particulars | Amount | Particulars | Amount |
| To Opening stock | 20,000 | By Sales | 4,00,000 |
| To Purchase 1,00,000 |  | By Closing Stock | 60,000 |
| (-) Returns 10,000 | 90,000 |  |  |
| To Wages 5,000 |  |  |  |
| (+) outstanding 1,000 | 6,000 |  |  |
| To Carriage Inwards | 2,500 |  |  |
| To Gross Profit c/d | 3,41,500 |  |  |
|  | 4,60,000 |  | 4,60,000 |
| To Salaries | 60,000 | By Gross Profit b/d | 3,41,500 |
| To Rent  To Bad debts 10,000 | 10,000 | By Rent | 20,000 |
| (+) New Bad debts 6,000 | 16,000 |  |  |
| To Interest | 5,000 |  |  |
| To Depreciation on Buildings | 7,000 |  |  |

|  |  |  |  |
| --- | --- | --- | --- |
| To Depreciation on Furniture To Carriage Outwards  To Net Profit  (transferred to Capital a/c) | 6,000  75,000  1,82,500 |  |  |
| 3,61,500 | 3,61,500 |

Balance Sheet as on 31-03-2016

|  |  |  |  |
| --- | --- | --- | --- |
| Liabilities | Amount | Assets | Amount |
| Sundry Creditors | 60,000 | Land | 50,000 |
| Bills Payable | 30,000 | Bills Receivable | 50,000 |
| Outstanding wages | 1,000 | Debtors 1,20,000 |  |
| Capital 50,000 |  | (-) Bad debts 6,000 | 1,14,000 |
| (+) Net profit 1,82,500 | 2,32,500 | Buildings 70,000 |  |
| Loans | 67,500 | (-) Depreciation@10% 7,000 | 63,000 |
|  |  | Furniture 60,000 |  |
|  |  | (-) Depreciation@10% 6,000 | 54,000 |
|  |  | Closing stock | 60,000 |
|  | 3,91,000 |  | 3,91,000 |

1. From the following trail balance, prepare the Trading account, profit& Loss account and Balance sheet as on 31-3-2016.

|  |  |  |  |
| --- | --- | --- | --- |
| Opening stock | 30,000 | Wages | 1,000 |
| Purchase | 45,000 | Sales | 70,000 |
| Sales Returns | 3,000 | Purchase returns | 2,000 |
| Carriage inwards | 1,000 | Power & fuel | 500 |
| Salaries | 1,000 | Interest | 2,000 |
| Rent | 500 | Insurance | 500 |
| Bad debts | 500 | Commission (Credit) | 10,000 |
| Capital | 80,000 | Discount (credit) | 15,000 |
| Creditors | 40,000 | Bank overdraft | 20,000 |
| Cash at bank | 15,000 | Machinery | 40,000 |
| Land & buildings | 50,000 | Sundry debtors | 50,000 |

*Adjustments:*

* 1. Closing stock Rs. 40,000
  2. Prepaid carriage inwards Rs. 500
  3. Deprecation on land & buildings @ 10%
  4. Deprecation on Machinery @ 10%
  5. Bad debts on sundry debtors @ 5%

## Solution:

Dr. Trading and Profit & Loss A/c for year ending 31-03-2015 Cr.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Particulars | | Amount | Particulars | | Amount |
| To Opening stock |  | 30,000 | By Sales  (-) Returns  By Closing Stock | 70,000  3,000 |  |
| To Purchase | 45,000 |  | 67,000 |
| (-) Returns | 2,000 | 43,000 | 40,000 |
| To Wages |  | 1,000 |  |
| To Power & Fuel |  | 500 |  |

|  |  |  |  |
| --- | --- | --- | --- |
| To Carriage Inwards 1,000 (-) prepaid 500  To Gross Profit c/d  To Salaries To Rent  To Bad debts To Interest To Insurance  To Depreciation on L & B  To Depreciation on Machinery To Net Profit | 500  32,000 | By Gross Profit b/d By Discount  By Commission |  |
| 1,07,000 | 1,07,000 |
| 1,000  500  500  2,000  500  5,000  4,000  43,500 | 32,000  15,000  10,000 |
| 57,000 | 57,000 |

Balance Sheet as on 31-03-2015

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Liabilities | | Amount | Assets | Amount |
| Sundry Creditors |  | 40,000 | Cash at Bank | 15,000 |
| Bank Overdraft |  | 20,000 | Debtors 50,000 |  |
| Capital | 80,000 |  | (-) Bad debts 2,500 | 47,500 |
| (+) Net profit | 43,500 | 1,23,500 | Closing stock | 40,000 |
|  |  |  | Land & Buildings 50000 |  |
|  |  |  | (-)Depreciation@10% 5,000 | 45,000 |
|  |  |  | Prepaid Carriage Inwards | 500 |
|  |  |  | Machinery 40,000 |  |
|  |  |  | (-)Depreciation@10% 4,000 | 36,000 |
|  |  | 1,83,500 |  | 1,83,500 |

1. Prepare the trading, profit & Loss account and Balance Sheet for the following as on 31st

March’ 2016.

|  |  |  |
| --- | --- | --- |
| **Particulars** | **Debit (Rs.)** | **Credit (Rs.)** |
| Capital |  | 25,000 |
| Loans |  | 5,000 |
| Sales |  | 35,000 |
| Bills Payable |  | 5,000 |
| Accounts Payable |  | 4,000 |
| Purchase Returns |  | 2,000 |
| Dividend Received |  | 3,000 |
| Plant and Machinery | 13,000 |  |
| Buildings | 17,000 |  |
| Receivables | 9,650 |  |
| Purchases | 18,000 |  |
| Discount allowed | 1,200 |  |
| Wages | 7,000 |  |
| Salaries | 3,000 |  |
| Travelling Expenses | 750 |  |
| Freight charges | 200 |  |
| Insurance | 300 |  |
| Commission paid | 100 |  |
| Bank | 1,700 |  |
| Repairs | 500 |  |

|  |  |  |
| --- | --- | --- |
| Investment on loans | 600 |  |
| Opening stock | 6,000 |  |
| **Total**  *Adjustments:* | **79,000** | **79,000** |

## Solution:

1. Closing stock Rs. 8,000
2. Depreciation on plant and machinery at 15% and 10% on buildings
3. Provision for doubtful receivables Rs. 500
4. Prepaid Insurance Rs. 50 and Outstanding Rent Rs. 100

Dr. Trading and Profit & Loss A/c for year ending 31st March’ 2016 Cr.

|  |  |  |  |
| --- | --- | --- | --- |
| Particulars | Amount | Particulars | Amount |
| To Opening stock | 6,000 | By Sales | 35,000 |
| To Purchase 18,000 |  | By Closing Stock | 8,000 |
| (-) Returns 2,000 | 16,000 |  |  |
| To Wages | 7,000 |  |  |
| To Freight charges | 200 |  |  |
| To Gross Profit c/d | 13,800 |  |  |
|  | 43,000 |  | 43,000 |
| To Salaries | 3,000 | By Gross Profit b/d | 13,800 |
| To Travelling Expenses To Discount allowed  To Insurance 300 | 750  1,200 | By Dividend Received | 3,000 |
| (-) prepaid insurance 50 | 250 |  |  |
| To Repairs | 500 |  |  |
| To Outstanding Rent | 100 |  |  |
| To Doubtful receivables | 500 |  |  |
| To Depreciation on P&M | 1,950 |  |  |
| To Depreciation on Machinery | 1,700 |  |  |
| To Commission paid | 100 |  |  |
| To Net Profit  (transferred to Capital a/c) | 6,750 |  |  |
|  | 16,800 |  | 16,800 |

Balance Sheet as on 31st March’ 2016

|  |  |  |  |
| --- | --- | --- | --- |
| Liabilities | Amount | Assets | Amount |
| Capital 25,000 |  | Receivables 9,650 |  |
| (+) Net profit 6,750 | 31,750 | (-) Doubtful 500 | 9,150 |
| Loans | 5,000 | Buildings 17,000 |  |
| Bills Payable | 5,000 | (-) Depreciation@10% 1,700 | 15,300 |
| Accounts Payable | 4,000 | Plant & Machinery 13,000 |  |
| Outstanding Rent | 100 | (-) Depreciation@15% 1,950 | 11,050 |
|  |  | Bank | 1,700 |
|  |  | Closing stock | 8,000 |
|  |  | Investment on loans | 600 |
|  |  | Prepaid Insurance | 50 |
|  | 45,850 |  | 45,850 |

**IMPORTANT QUESTIONS**

* 1. Give a brief account on the important records of Accounting under Double Entry System and discuss briefly the scope of each?
  2. Explain the following concepts and illustrate their treatment with imaginary data.
     1. Depreciation
     2. Prepaid expenses
     3. Reserve for bad and Doubtful debts
     4. Income received in advance
  3. Explain the main objectives of Accounting and its important functions.
  4. What do you understand by Double Entry Book Keeping? What are its advantages?
  5. What is Trial Balance? Why it is prepared?
  6. What are the different Concepts and Conventions of Financial Accounting?
  7. Explain the purpose of preparing the following accounts/statements and also elaborate the various items that appear in each of them.
     1. Trading Account
     2. Profit & Loss Account
     3. Balance Sheet
  8. Explain the following adjustments and illustrate suitably with assumed data.
* Closing stock
* Outstanding expenses
* Prepaid Income
* Bad debts
  1. Journalize the following transactions and prepare a cash ledger.

1. Ram invests Rs. 10, 000 in cash.
2. He bought goods worth Rs. 2000 from shyam.
3. He bought a machine for Rs. 5000 from Lakshman on account.
4. He paid to Lakshman Rs. 2000
5. He sold goods for cash Rs.3000
6. He sold goods to A on account Rs. 4000
7. He paid to Shyam Rs. 1000
8. He received amount from ‘A’ Rs. 2000
9. Journalize the following transactions and post them into Ledgers

Jan 1. Commenced business with a capital of Rs. 10000

,, 2. Bought Furniture for cash Rs. 3000

,, 3. Bought goods for cash from ‘B’ Rs. 500

,, 4. Sold goods for cash to A Rs. 1000

,, 5. Purchased goods from C on credit Rs.2000

,, 6. Goods sold to D on credit Rs. 1500

,, 8. Bought machinery for Rs. 3000 paying Cash

,, 12. Paid trade expenses Rs. 50

,, 18. Paid for Advertising to Apple Advertising Ltd. Rs. 1000

,, 19. Cash deposited into bank Rs. 500

,, 20. Received interest Rs. 500

,, 24. Paid insurance premium Rs. 200

,, 30. Paid rent Rs. 500

,, 30. Paid salary to P Rs.1000

1. During January 2016 Narayan transacted the following business. Journalize the above transactions and prepare cash Account

|  |  |  |
| --- | --- | --- |
| Date | Transactions | Amount |
| 2003 |  |  |
| Jan.1 | Commenced business with cash | 40000 |
| ,, 2 | Purchased goods on credit from Shyam | 30000 |
| ,, 3 | Received goods from Murthy as advance | 3000 |
| ,, 4 | Paid Wages | 500 |
| ,, 5 | Goods returned to shyam | 200 |
| ,, 6 | Goods sold to Kamal | 10000 |
| ,, 7 | Goods returned by Kamal | 500 |
| ,, 8 | Paid into Bank | 500 |
| ,, 9 | Goods sold for Cash | 750 |
| ,, 10 | Bought goods for cash | 1000 |
| ,, 11 | Paid salaries | 700 |
| ,, 12 | Withdrew cash for personal use | 1000 |

1. Record the following transactions in a Journal and also prepare Cash Account.

|  |  |  |
| --- | --- | --- |
| Date | Transactions | Amount |
| 2004 Jan 1 | Started business with cash | 20000 |
| 2 | Paid for purchases of Machinery from M/s  Ram and Co | 3000 |
| 3 | Paid insurance premium | 200 |
| 5 | Paid rent for the month of Dec 2003 | 500 |
| 8 | Paid cash for purchase of goods | 3000 |
| 10 | Sold goods for cash | 4000 |
| 12 | Drew cash for personal use | 200 |
| 14 | Paid to Arun Rs.400 for full settlement of  Rs.500 |  |
| 15 | Received Cash from Karuna Rs. 1000 in full  settlement of Rs. 1050 |  |

1. From the following list of balances prepare a Trial Balance as on 30-03-2016

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Sno. | Items | Rs. | Sno. | Items | Rs. |
| i | Opening Stock | 1800 | xiii | Plant | 750 |
| ii | Wages | 1000 | xiv | Machinery tools | 180 |
| iii | Sales | 12000 | xv | Lighting | 230 |
| iv | Bank loan | 440 | xvi | Creditors | 800 |
| v | Coal coke | 300 | xvii | Capital | 4000 |
| vi | Purchases | 7500 | xviii | Misc. receipts | 60 |
| vii | Repairs | 200 | xix | Office salaries | 250 |
| viii | Carriage | 150 | xx | Office furniture | 60 |
| ix | Income tax | 150 | xxi | Patents | 100 |
| x | Debtors | 2000 | xxii | Goodwill | 1500 |
| xi | Leasehold premises | 600 | xxiii | Cash at bank | 510 |
| xii | Cash in hand | 20 |  |  |  |

1. Prepare a Trial Balance from the following Data for the year 2016.

|  |  |  |  |
| --- | --- | --- | --- |
|  | Rs. |  | Rs. |
| Freehold property | 10800 | Discount received | 150 |
| Capital | 40000 | Returns inwards | 1590 |
| Returns outwards | 2520 | Office expenses | 5100 |
| Sales | 80410 | Bad debts | 1310 |
| Purchases | 67350 | Carriage outwards(sales exp) | 1590 |
| Depreciation on furniture | 1200 | Carriage inwards | 1450 |
| Insurance | 3300 | Salaries | 4950 |
| Opening stock | 14360 | Book debts | 11070 |
| Creditors for expenses | 400 | Cash at bank | 2610 |
| Creditors | 4700 |  |  |

1. Journalize the Transactions in the books of Prasad

Prasad commenced business with a cash of Rs. 30000/- Cash sales Rs. 4000/-

Bought machinery Rs. 15000/- Sold goods to raju Rs. 10000/-

Purchased goods from Ramana Rs. 8000/- Sold goods to Gupta Rs. 5000/-

Paid for stationery Rs. 1000/- Carriage expense Rs. 500/-

Sold goods to Krishna for cash Rs. 3000/- Received discount Rs. 800/-

Received cash from Mahesh Rs. 1500/-

1. Journalize the following and prepare ledger:

Bought furniture for Rs.15000/- from Mohan and paid cash Rs. 3000/- Purchased Car for personal use Rs. 250000/-

Purchased Motor Vehicle for office purpose Rs. 300000/-. Sold old type writer Rs. 1000/-

Received a cheque from ABC Ltd. Rs. 3000/- Withdrawn cash from Bank for personal use Rs. 1000/-

1. Post these transactions in journal format and prepare ledger. Paid salaries Rs. 5000

Sold goods to Venkat Rs. 10000 Sold machinery Rs. 30000 Commission received Rs. 2000 Allowed discount Rs. 1000

Brought goods from Raghava Rs. 4000 Sold goods to X for cash Rs. 6000

1. Journalize the following transactions? Prepare journal entries and ledger accounts (Cash A/c, purchase A/c, Sales A/c and Bank A/c). 2009 December,

1st Ajit started business with cash Rs. 40000 3rd Paid in to the bank Rs. 2000

5th Purchased goods for cash Rs. 15000 8th Sold goods for cash Rs. 10000

10th Purchased furniture and paid by cheque Rs. 6000

12th Sold goods to Arvind Rs. 4000

14th Purchased goods from Arun Rs. 10000 16th Paid salaries Rs. 1500

17th Paid depreciation Rs. 500

22nd Amount deposited in to the bank Rs. 4000 25th withdrew cash from bank Rs. 3000

28th cash paid to Raju in full settlement Rs. 4950 31st Paid expenses Rs. 700

1. The following are the closing balances extracted from the books of Bhargav for the year ending 31st December 2016 with the help of which prepare Trading Account, Profit and Loss A/c and Balance Sheet.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Debit balances** | **Rs.** | **Credit Balances** | **Rs.** |  |
| Opening stock | 6,050 | Sales | 13,720 |  |
| Purchases | 9,030 | Purchases returns | 130 |  |
| Carriage | 220 | Capital | 3,000 |  |
| Drawings | 450 | Creditors | 4,500 |  |
| Investments | 3,800 | Discounts received | 350 |  |
| Debtors | 2,500 | Mortgage loan | 4,000 |  |
| Cash | 1,350 |  |  |  |
| Printing charges | 1,200 |  |  |  |
| Wages | 1,100 |  |  |  |
|  | **25,700** |  | **25,700** |  |

## Adjustments:

* 1. Closing stock was valued at Rs.16,000
  2. Wages outstanding by Rs.900
  3. Outstanding discounts receivable Rs.150
  4. Write off bad debts Rs. 500
  5. Create a Reserve for Bad and doubtful debts Rs.500.

1. The following is the Trial Balance of Abhiram, was prepared on 31st March 2016. Prepare Trading and Profit& Loss Account and Balance Sheet.

|  |  |  |
| --- | --- | --- |
|  | Debit Rs. | Credit Rs. |
| Capital | ------ | 22000 |
| Opening stock | 10000 | ------ |
| Debtors and Creditors | 8000 | 12000 |
| Machinery | 20000 | ------- |
| Cash at Bank | 2000 | ------- |
| Bank overdraft | ------ | 14000 |
| Sales returns and Purchases returns | 4000 | 8000 |
| Trade expenses | 12000 | ------- |
| Purchases and Sales | 26000 | 44000 |
| Wages | 10000 | ------- |
| Salaries | 12000 | ------- |
| Bills payable | ------- | 10600 |
| Bank deposits | 6600 | ------- |
| TOTAL | 110600 | 110600 |

Closing Stock was valued at Rs.60,000

1. Prepare Trading and Profit &Loss A/C for the year ended 31.12.2016 and a Balance Sheet as on that date from the following Trial Balance.

|  |  |  |
| --- | --- | --- |
|  | Dr, Rs. | Cr, Rs. |
| Furniture | 6500 |  |
| Plant and machinery | 60000 |  |
| Buildings | 75000 |  |
| Capital |  | 125000 |
| Bad debts | 1750 |  |
| Reserve for bad debts |  | 3000 |
| Sundry debtors | 40000 |  |
| Sundry creditors |  | 24000 |
| Stock(1.1.2001) | 34600 |  |
| Purchases | 54750 |  |
| Sales |  | 154500 |
| Bank over draft |  | 28500 |
| Sales returns | 2000 |  |
| Purchase returns |  | 1250 |
| Advertising | 4500 |  |
| Interest | 1180 |  |
| Commission received |  | 3750 |
| Cash in hand | 6500 |  |
| Salaries | 33000 |  |
| General expenses | 7820 |  |
| Car expenses | 9000 |  |
| Taxes and insurance | 3500 |  |
|  | 340000 | 340000 |

Closing stock valued at Rs. 50000

1. The following figures have been extracted from the records of Fancy Stores a proprietary concern as on 31.12.2016. Prepare Final Accounts.

|  |  |  |  |
| --- | --- | --- | --- |
|  | Rs. |  | Rs. |
| Furniture | 15000 | Insurance | 6000 |
| Capital A/C | 54000 | Rent | 22000 |
| Cash in hand | 3000 | Sundry debtors | 60000 |
| Opening stock | 50000 | Sales | 600000 |
| Fixed deposits | 134600 | Advertisement | 10000 |
| Drawings | 5000 | Postages and telephone | 3400 |
| Provision for bad debts | 3000 | Bad debts | 2000 |
| Cash at Bank | 10000 | Printing and stationary | 9000 |
| Purchases | 300000 | General charges | 13000 |
| Salaries | 19000 | Sundry creditors | 40000 |
| Carriage inwards | 41000 | Deposit from customers | 6000 |

1. Prepare Trading and Profit &Loss A/C for the year ended 31.12.2016 and a Balance Sheet as on that date from the following Trial Balance.

|  |  |  |
| --- | --- | --- |
|  | Debit Rs. | Credit Rs. |
| Purchases | 45000 |  |
| Debtors | 60000 |  |
| Interest earned |  | 1200 |
| Salaries | 9000 |  |
| Sales |  | 96300 |
| Purchase returns |  | 1500 |
| Wages | 6000 |  |
| Rent | 4500 |  |
| Sales returns | 3000 |  |
| Bad debts return off | 2100 |  |
| Creditors |  | 36600 |
| Capital |  | 31800 |
| Drawings | 7200 |  |
| Printing and stationary | 2400 |  |
| Insurance | 3600 |  |
| Opening stock | 15000 |  |
| Office expenses | 3600 |  |
| Furniture and fittings | 6000 |  |
| GRAND TOTAL | 167400 | 167400 |

Adjust the following:

1. Closing stock Rs.20000
2. Write off furniture @ 15% per annum.