UNIT-IV

Financial Accounts

* Debit: Expenses, Loss, Assets
* Credit: Income, gain, liability

* Types of Accounts:

- Personal A/c
- Impersonal A/c
  - Real A/c
  - Nominal A/c

→ Personal A/c: It deals with individuals and organizations.
Ex: Afshar A/c, Infosis A/c.

→ Impersonal A/c: It does not deal with individuals & organizations.

→ It has been Classified into 2 types.

1. Real A/c: It deals with assets of an organization.
   Ex: Buildings, ~~furniture~~ Bank Balance

2. Nominal A/C : It Deals with created items for the purpose of accounting
Ex : Salaries, Sales, purchases, rent etc.

*. Golden rules of Account : (GAAP) : (or) Generally accepted accounting principles :

1. Personal A/C
   - The receiver (Debit)
   - The giver (Credit)

2. Real A/C
   - what comes in (Debit)
   - what goes out (Credit)

3. Nominal A/C
   - All expenses, losses (Debit)
   - All Income, gains (Credit)

Ex: 1. Purchased goods worth 10,000/-

A: Step 1 : Identify the A/C

Purchases A/C

Cash A/C

Step 2 : Identify the A/C in which it Categories it Comes

Nominal A/C – Dr

Real A/C – Cr

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2. Sold goods worth 20,000/-

Sales A/c – Nominal – Cr

Cash A/c – Real – Dr

3. Received Cash from Ramu 1,000/-

Cash A/c – Real – Dr

Ramu A/c – Personal – Cr

4. ~~Deposited~~ Cash payed to K 5,000/-

Cash A/c – Real – Cr

K A/c – Personal – Dr

5. Deposited Cash in the Bank 10,000/-

Cash A/c – Real – Cr

Bank A/c – Real – Dr

[∵ If the name of the bank mentioned then it is personal otherwise Real]

6. Purchased goods from R 5,000/- for Credit.

Purchases A/c – Nominal – Dr

R A/c – Personal – Cr

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* Purchase A/C is always 'Dr'.
* Sales A/C is always 'Cr'.

7. Bought machine for 1,00,000/-

Machine A/C - Real - Dr

Cash A/C - Real - Cr

8. Purchased goods worth 10,000/- and paid Cash of Rs. 9,500/- and 500/- as discount.

Purchases A/C - Nominal - Dr

Cash A/C - Real - Cr

Discount A/C - Nominal - Cr

9. Sales goods worth 20,000/- and allowed discount of 10% and received Cash.

Sales A/C - Nominal - Cr

discount A/C - Nominal - Dr

Cash A/C - Real - Dr

10. Started Business with machine 10,00,000 furniture 2,00,000, buildings 20,00,000, Cash 5,00,000 & ~~Cash~~ entry 7,00,000.

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Machine A/C - Real - Dr

Furniture A/C - Real - Dr

Building A/C - Real - Dr

Cash A/C - Real - Dr

Capital A/C - Cr

Let say capital (x). Here, owner is diffrent Business is diffrent. So, Capital here is given (Cr).

⇒ All Debits must be equal to credits

∴ Credit - Debit = ~~Acc~~ Profit.

⇒ Purchase return (or) Goods return is always 'Cr'.

⇒ Sales return → 'Dr'.

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* Proforma of Journal:

Date	Particulars	LF No:	Dr amount	Cr amount

* Prepare the Journals for the following transactions in the books of ABC Ltd.

1. Business started with Cash 50,000/-, Bank 1,00,000/-, furniture 20,000/- Buildings 5,00,000/-.

2. 1st January 2019 - purchased goods 20,000/-

3. 5th January 2019 - paid electricity 3,000/-

4. 7th January 2019 - Sold goods 20,000/-

5. 8th January 2019 - purchased goods from X 25,000/- Not cash worth so, Cr

6. 10th January 2019 - Sold goods to Y 35,000/-

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7. 15th January - 2019 - Paid cash to X 19,000/- on full settlement of his account.

8. 20th January 2019 - Received cash from Y 32,000/- on full settlement basis.

9. 25th January 2019 - Deposited cash in the bank 20,000/-

10. 30th January 2019 - Paid Salaries 30,000/-, insurance 5,000/- through Cheque

(Here, we should think that salaries & insurance are paid by organizations)

Date	particulars		LF	Dr amount	Cr amount
1-Jan-19	Cash A/c	Dr		50,000	
	Bank A/c	Dr		1,00,000	
	Furniture A/c	Dr		20,000	
	Buildings A/c	Dr		5,00,000	
	To Capital A/c				6,70,000
	(Being business started)				
1-Jan-19	Purchases A/c	Dr		20,000	
	To Cash A/c				20,000
	(Being goods purchased)				

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5-Jan-19	electricity Bill A/C DR To Cash A/C CR (Being electricity bill paid)	3,000	3,000
7-Jan-19	Cash A/C DR To Sales A/C (Being goods sold)	20,000	20,000
8-Jan-19	purchases A/C DR To X A/C (Being goods purchased from X)	25,000	25,000
10-Jan-19	Y A/C DR To Sales A/C (Being goods sold to Y)	35,000	35,000
15-Jan-19	X A/C DR To Cash A/C To discount A/C (Being Cash paid to X on full settlement)	25,000	19,000 6,000
20-Jan-19	Cash A/C DR Discount A/C To Y A/C (Being Cash received from Y on full settlement)	32,000 3,000	~~22,000~~ 35,000
25-Jan-19	Bank A/C DR To Cash A/C (Being Cash deposited in bank)	20,000	20,000
30-Jan-19	Salary A/C DR Insurance A/C DR To Bank A/C	30,000 5,000	35,000

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*. Journalize the following transactions in the books of Ram & Brothers. Started

1. 1st-Apr-2019 - Started business with machinary 5,00,000/- furni 2,00,000/-, Cash 2,00,0

2. " - Purchased raw materia 50,000/-

3. 5th-Apr-19 - Purchased materials from ABC ltd worth 50,000

4. 6th-Apr-19 - Paid Commission 1,000/

5. 7th-Apr-19 - Transport expenses 3,000/

6. 10th-Apr-19 - Goods returned to ABC ltd worth 5,000/- on account of damage

7. 12th-Apr-19 - Cash deposited in the bank 20,000/-

8. 15th-Apr-19 - Cash paid to ABC ltd 25,000/- and given check of 18,000/- on full settlement

9. 30th-Apr-19 - Paid the following expenses Salaries 20,000/- rent - 5000/-.

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Wages - 30,000/-

Date	Particulars	LF	Dr amount	Cr Amount
1-Apr-19	Machinery A/c Dr		5,00,000	
	Furniture A/c Dr		3,00,000	
	Cash A/c Dr		2,00,000	
	To Capital			10,00,000
	(Being business started)			
1-Apr-19	Purchases A/c Dr		50,000	
	To Cash A/c			50,000
	(Being raw materials purchased)			
5-Apr-19	Purchases A/c Dr		50,000	
	To ABC A/c (ABC)			50,000
	(Being materials purchased from			
6-Apr-19	Commission A/c Dr		1,000	
	To Cash A/c			1,000
	(Being paid commission)			
7-Apr-19	Transport A/c Dr		3,000	
	To Cash A/c			3,000
	(Being transport expenses)			
10-Apr-19	ABC ltd A/c Dr		5,000	
	To purchase returns A/c			5,000
	(Being goods returned to ABC ltd on account of damage)			

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Date	Particulars	LF	Dr amount	Cr amount
12-Apr-19	Bank A/c Dr To Cash A/c (Being cash deposited in Bank)		20,000	20,000
15-Apr-19	ABC A/c Dr To Cash A/c To Bank A/c To Discount A/c (Being cash paid to ABC Ltd & given cheque on full settlement)		45,000	25,000 18,000 2,000
20-Apr-19	Salary A/c Dr Rent A/c Dr Wages A/c Dr To Cash A/c (Being paid Salaries & rent)		20,000 5000 30,000	55,000

Total 50,000
rebate 5000
45000
cash 25000
200000
cheque 18000
discount 2000

*. Proforma of ledgers.

Dr

Date	Particulars	LF	Amount	Date	Particulars	LF	Amount

Ex: For the following information prepare journals & ledgers

1. 1st-jan-19 : Purchased goods 10,000/-
2. 2nd-jan-19 : deposited Cash in Bank 20,000/-
3. 3rd-jan-19 : paid Cash to X 5000/-
4. 5th-jan-19 : Received Cash from X 5000/-

Journals

Date	Particulars	LF	Dr amount	Cr amount
1st-Jan-19	Purchases A/c Dr To Cash A/c (Being goods purchased)		10,000	10,000
2nd-jan-19	Bank A/c Dr To Cash A/c (Being cash deposited in Bank)		20,000	20,000
3rd-jan-19	X A/c Dr To Cash A/c (Being cash paid to X)		5,000	5000
5th-Jan-19	Cash A/c Dr To X A/c (Being cash received from X)		5,000	5,000

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DR

Purchases A/C

Date	Particulars	LF	Amount	Date	Particulars	LF	Amount
1-Jan-19	To Cash A/C		10,000	31st Jan-19	By Bal c/d		10,000
			10,000				10,000
1-feb-19	To Bal B/d		10,000				

DR

X A/C

Date	Particulars	LF	Amount	Date	Particulars	LF	Amount
3-Jan-19	To Cash A/C		5,000	5-Jan-19	~~To Cash A/C~~ By Cash A/C		5,000
			5,000				5,000

DR

Cash A/C

Date	Particulars	LF	Amount	Date	Particulars	LF	Amount
5-Jan-19	To X A/C		5,000	1-J-19	By purchase		10,000
				2-J-19	By Bank A/C		20,000
31-Jan-19	To Balance		30,000	3-J-19	By X A/C		5,000
			35,000				35,000
				1-feb-19	By Balance		30,000

DR

Bank A/C

Date	Particulars	LF	Amount	Date	Particulars	LF	Amount
2-Jan-19	To Cash A/C		20,000	31st Jan-19	By Bal c/d		20,000
			20,000				20,000
feb-19	To Bal B/d		20,000				

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* Trail Balance:

→ Trail balance is a trail to check whether all debits and credit balances of various ledgers account are same or not.

→ **Rules:**

1. **Debit rule:**
   All expenses, losses and assets.

2. **Credit rule:**
   All incomes, gains and liablities

* Proforma of Trail Balance:

1.

Dr			Cr
Particulars	Amount	Particulars	Amount

(or)

2.

Particulars	Dr amount	Cr amount

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Ex: Prepare trail balance for the following data.

(∵ Capital is always credit)

Capital, loan is liability

1. Cash A/C Dr 5,00,000/-
2. Machinery A/C Dr 3,00,000/-
3. Capital A/C Cr 15,00,000/-
4. Debtors Dr 1,00,000/-
5. Credebtors Cr 75,000/-
6. Purchases A/C Dr 2,00,000/-
7. Sales A/C Cr 3,00,000/-
8. Furniture A/C Dr 1,00,000/-
9. Bank balance Dr 3,00,000/-
10. Rent Dr 50,000/-
11. Insurance Dr 25,000/-
12. Bills receivables Dr 50,000/-
13. Bills payables Cr 40,000/-
14. Buildings Dr 3,40,000/-

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Particulars	Dr amount	Cr amount
Cash A/c	5,00,000	
machinery A/c	3,00,000	
Capital A/c		15,00,000
Debtors A/c	1,00,000	
Credebtors A/c		75,000
Purchases A/c	2,00,000	
Sales A/c		3,00,000
Furniture A/c	1,00,000	
Bank balance A/c	3,00,000	
Rent A/c	50,000	
Insurance A/c	25,000	
Bills receivables A/c	50,000	
Bills Payables		40,000
Buildings	3,40,000	
	19,65,000	19,15,000

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* Final Accounts:

→ Final accounts are prepared at the end of financial year.

→ In the recent days these were been prepared for every quarter (3 months)

⇒ Objectives. (purpose) of Final accounts:

→ To measure profits or losses of firm.

→ To know the assets & liabilities of a firm.

⇒ ~~Profit~~ Parts of Final accounts:

1. Trading Account
2. Profit & Loss A/c
3. Balance sheet A/c

* Trading A/c:

→ With the help of trading account one can measure gross profit or gross loss of a firm.

→ It includes manufacturing expenses & incomes.

→ If manufacturing ~~expenses~~ income is more than " ~~incomes~~ expense then we can get gross profit and vice-versa.

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*. Proforma of Trading Account:

Dr Particulars	Amount	Particulars	Cr Amount
To opening stock	xxx	By sales xxx	
		(-) Returns xx	xxx
To purchases xxx		By closing stock	xxx
(-) Returns xx	xxx	By Gross loss	xxx
To wages	xxx		
To Fuel & power	xxx		
To other man exp	xxx		
To Gross profit	xxx		xxx
	xxx		

⇒ Note: either gross profit or gross loss.

*. Profit & loss A/C:

→ It deals with administrative expenses, losses, incomes & gains.

→ Expenses and losses are in the debit side, incomes & gains should be written on the credit side of the profit & loss A/c.

→ Difference between total of debit & total credit will be considered as net profit or net loss.

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* Proforma of profit & loss A/c:

Cr

Dr

Particulars	Amount	Particulars	Amount
To salaries xxx		By Gross profit	xxx
xx		By Interest received	xxx
(+) o/s xxx			
(−) Pre paid xx	xxx	By Discount received	xxx
To office Rent	xxx	By other Income	xxx
To traveling charges	xxx	By Net loss	xxx
To electricity	xxx		
To Insurance	xxx		
To other Admn. exp	xxx		
To Depreciation	xxx		
To Discount allowed	xxx		
To Tax	xxx		
To Net profit	xxx		xxx
	xxx		

* Balance Sheet A/c:

→ It consists of assets & liabilities of an organization.

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*. Proforma of Balance Sheet A/C :

Liabilities	Amount	Assets	Amount
Capital xxx		Cash in hand	xxx
(+) NP xx		Bank Balance	xxx
xxx		Bills Recivable	xxx
(-) Drawing xx	xxx	Debtors xxx	
Creditors	xxx	(-) Bad debits xx	
Bills Payable	xxx	xxx	
Bank OD	xxx	(-) Provision for B.D xx	xxx
Outstanding expenses		Closing stock	xxx
other liabilities		machinery xxx	xxx
		(-) Depreciation xx	
		Prepaid exp	xxx
		other assets	xxx
	xxx		xxx

OD - over draft

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1. From the following balances prepare a trading, profit & loss account and balance sheet.

Particulars	Dr amount	Particulars	Cr amount
Carriage inwards (Pdr) (Purchases transportion)	80,000	Cash in Hand (BA)	25,000
Carriage outwards (Pdr) (Sales transport)	35,000	Bank balance (BA)	3,00,000
Manufacturing expense (Tdr)	4,20,000	Motor car (BA)	6,00,000
Advertisements Pdr	70,000	Drawings (Capital) (BL)	80,000
Freight and octroi (Tdr)	44,000	Audit fee (Pdr) (cross check with notes)	7,000
lighting (Tdr)	60,000	Plant (BA)	15,39,000
Debtors (BA)	8,00,000	Repairs (Pdr)	22,000
Bills receivable (BA)	6,10,000	Closing stock (TCr)	7,60,000
Clearing charges (Pdr)	52,000	Purchases (Pdr)	16,00,000
Postage (Pdr)	8000	Commission paid on purchases (Pdr)	20,0000
Fire insurance (Pdr) premium	36,000	Trade exp. (Pdr)	32,000
Patents (BA)	1,20,000	Investment (BA)	3,00,000
Income tax (Pdr)	2,40,000	Interest on investment (Pdr)	45,000
office expenses (Pdr)	72,000	Capital (BL)	10,00,000
		Sales (TCr)	52,00,000

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Rent (P&L)	1,20,000
Discount (P&L)	27,000
Discount on purchases (P&L)	34,000
Creditors (BL)	1,00,000

Preparation of trail Balance

Particulars	Dr amount	Cr amount
Carriage inwards	80,000	
Carriage outwards	35,000	
Manufacturing expenses	4,20,000	
Advertisements	70,000	
Freight and octroi (manufacturing exp)	44,000	
Lighting	60,000	
Debtors	6,00,000	
Bills receivable	6,10,000	
Cleaning charges	52,000	
Postage	8,000	
Fire insurance premium	36,000	
Good will / Patents (through R&D we get formula)	1,20,000	
Income tax	9,40,000	
Office expenses	72,000	

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Particulars	Dr amount	Cr amount
Cash in hand	25,000	
Bank Balance	3,00,000	
Motor Car	6,00,000	
Drawings (Personal withdrawal)	80,000	
Audit fee	27,000	
Plant	15,39,000	
Repairs	22,000	
closing stock	~~7,60,000~~	7,60,000
purchases	16,00,000	
Commission paid on purchases	20,000	
(Sales exp) Trade expenses	32,000	
Investment	3,00,000	
Interest on Investment		45,000
Capital		10,00,000
Sales		52,00,000
Rent (Rent paid)	1,20,000	
Discount	27,000	
Discount on purchases		34,000
		1,00,000
Creditors	71,39,000	~~71,39,000~~
		71,39,000
	~~70,32,000~~	~~71,39,000~~

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Trading, Profit & loss A/c of ABC Ltd for the year ended 31-3-19.

Particulars	Amount	Particulars	Amount
To opening stock	—	By Sales	52,00,000
To purchases	16,00,000	By closing stock	7,60,000
To carriage inwards	80,000		59,60,000
To manufacturing expenses	4,20,000		
To Freight & octroi	44,000		
To lighting	60,000		
To Gross profit	37,56,000		59,60,000
(Transfered to P&L A/c)		By Gross profit	37,56,000
To carriage outwards	35,000	By Interest on Investment	45,000
To Advertisement	70,000		
To clearing charges	52,000	By Discount on purchase	34,000
To Postage	8,000		
To fire insurance premium	36,000		
To Income tax	2,40,000		
To office expen	72,000		
To Audit fee	27,000		
To Repairs	29,000		
To Commission Paid on Purchase	20,000		

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To Trade expen.	32,000		
To Rent	1,20,000		
To Discount	27,000		
To Net profit (Transfer to B/S)	30,74,000		38,35,000
	38,35,000	By Net profit	30,74,000

Balance sheet as on 31st March-2019 for ABC ltd.

Liabilities		Amount	Assets	Amount
Capital	10,00,000		Cash in hand	25,000
(-) Drawings	80,000		~~Debtors~~	
	9,20,000		~~Bill recea~~	
(+) N.P	30,74,000	39,94,000	Bank balance	3,00,000
Creditors		1,00,000	Bills receivable	6,10,000
			Debtors	6,00,000
			Motor Cars	6,00,000
			Plant	15,59,000
			Investment	3,00,000
			Patents	1,20,000
		40,94,000		40,94,000

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2. Prepare trading, Profit & Loss account & Balance sheet of XYZ limited for the year ended 31-Mar-2018.

Particulars	Dr Amount	Cr Amount
Drawings (capital-) (BL)	4,000	
Discount allowed (Pdr)	1,500	500
Discount received (Pcr)		
Office expenses (Pdr)	2,000	
Manfucturing expenses (Tdr)	12,00	17,000
Bills payable - Liability Paid is (BL)		
Bills receivable (BA)	10,000	
Cash (BA)	4,800	
Cash at Bank (BA)	30,800	
Office rent (Pdr)	3,600	
capital (BL)		2,00,000
Machinery (BA)	60,000	
Opening stock (Tdr) (stock as on date)	32,000	
Wages (Tdr)	1,00,000	
Carriage inwards (Tdr)	1,000	
Salaries (Pdr)	10,000	
factory rent (Tdr)	4,800	

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Particulars	Dr Amount	Cr Amount
repairs (PdR)	800	
fuel & power (TdR)	5,000	
furniture (BA)	11,000	
Buildings (BA)	80,000	
Sundry Debtors (BA)	40,000	
Sales (TCR)		4,47,200
Purchases (TdR)	2,44,000	
Creditors (BL)		25,000
(Deduct from sales) Return inwards (Sales returns)	7,200	
Return outwards (purchase returns) (Deduct from purchase)		4,000
	6,53,700	6,53,700

→ closing stock amounted to 40,000

→ closing 1st time TCR

2nd " BA

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Trading, profit & loss of XYZ ltd for the year ended 31-3-18.

Dr | Cr

Particulars	Amount	Particulars	Amount
To opening stock	32,000	By sales 4,07,200	
To purchases 2,44,000		(-) returns 7,200	4,00,000
(-) returns 4000	2,40,000	By closing stock	40,000
To Manufacturing expenses	12,000		
To wages	1,00,000		
To carriage inwards	1,000		
To factory rent	4,800		
To fuel & power	5,000		4,40,000
To Gross profit (Transfered to P&L A/C)	4,40,000		
		By Gross profit	56,000
To Discount allowed	1,500	By Discount received	500
To Office expenses	2,000		
To Office rent	3,600		
To Salaries	10,000		
To repairs	800		

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To Net profit (Transfered to B/S)	38,600 17900		19900 56,500
		By Net profit	38,600

Balance sheet as on 31-3-18 for XYZ Ltd.

Liabilities	Amount	Assets	Amount
Capital 2,00,000		Cash	4,800
(-) Drawings 4,000		Bank	30,800
1,96,000		Bills recievable	10,000
(+) N.P 38,600	2,34,600	Machinery	60,000
Creditors	25,000	Furniture	11,000
Bills payable	17,000	Buildings	80,000
		Sundry Debtors	40,000
		Closing stock	40,000
	2,76,600		2,76,600

2,76,600

*. Treatment of additional information or adjustment for final Accounts:

1. Closing stock

1st time - TCR

2nd time - BA

2. Outstanding expenses:

1st time – Add to respective expenditure either in the debit side of trading A/c (Tdr) or P&L A/C

2nd time – Write in the BL

3. Prepaid Expense:

1st time – Deduct from respective expenditure either from Trading account or profit & loss A/C.

2nd time – write in the assets side of balance sheet.

4. Bad debts:

1st time – Write in the debit sid of P&L A/C.

2nd time – Deduct from detors from the balance sheet assets side

5. Depreciation: (decreased value of the assets)

1st time – write in the debit side of P&L A/C.

2nd time – Deduct from respective assets in the Balance sheet assets side.

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6. Drawings

1st time: Debit side of profit & loss A/c

2nd time: Deduct from Capital in the Balance sheet.

7. Income received in advance:

1st time: Deduct from respective Income in P&L A/c.

2nd time: Write in the liabilities of side of the balance sheet.

8. Reserve or provision for bad debts:

1st time: write in the debit side of P&L A/c

2nd time: Deduct from detors.

Note: provision should be valued only after deducting the bad debts from total detors.

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From the following trail balance of Vikram foundary works. Prepare trading, P&L A/C for the year ended 31-mar-2003. And also prepare balance sheet as on that date.

Debit balance	Amount	Credit balance	Amount
Electricity (Pdr)	14,000	Interest (Pcr)	16,000
Land (BA)	1,40,000	Discount (Pcr)	6,000
Interest (Pdr)	16,000	Sales (Tcr)	8,00,000
Wages (Tdr)	50,000	Returns (deduct from purchases)	20,000
Opening stock (Tdr)	20,000	Sundry creditors (BL)	70,000
Rent (Pdr)	24,000	Capital (BL)	3,29,00
Purchases (Tdr)	3,00,000	Bills payable (BL)	15,000
Office expenses (Pdr)	30,000		
Buildings (BA)	4,00,000		
Salaries (Pdr)	90,000		
Power gas & water (Tdr)	30,000		
Returns (deduct from sales)	20,000		
Furniture (BA)	15,000		
Sundry debtors (BA)	60,000		
	12,09,000		12,09,0

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⇒ Adjustments:

1. Outstanding Salaries 10,000 (Add to Salaries in P&L)
2. closing stock 80,000 (TCr, BA)
3. Depreciate buildings at 10% per annum (Pdr, BA) deduct from buildings
4. Interest received in advance 2,000 (deduct from interest received from PCr BL)
5. ~~Returns~~ Write off bad debts 10,000 [Pdr, debtors (−) BL]

⇒ Trading & Profit & loss A/c of XYZ Ltd for the year ended 31st Mar - 2023.

Dr | Cr

Particulars	Amount	Particulars	Amount
To Opening stock	20,000	By Sales 8,00,000	
		(−) returns 20,000	7,80,000
To purchases 3,00,000			
(−) Purchase returns 20,000	2,80,000	By closing stock	80,000
To wages	50,000		
To power gas & water	30,000		
To Gross profit (Transferred to P&L A/c)	4,80,000		
	8,60,000		8,60,000
		By Gross profit	4,80,000

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To electricity	14,000	By interest received 16,000	
To interest	16,000	(-) 2,000	14,000
To Rent	24,000	By discount	6,000
To office expenses	30,000		
To Salaries	~~100,000~~		
(+) O/S Salary 90,000 10,000	1,00,000		
To Depreciation on buildings 4,00,000×100/100	40,000		
To ~~Bad~~ debtors ~~60,000~~ (-) ~~10,000~~	10,000 ~~50,000~~		
To Net profit (Transfered to B/S)	2,66,000	By Net profit	2,66,000
	5,00,000		5,00,000

Balance Sheet as on 31-3-2023 for XYZ Ltd

Liabilities	Amount	Assets	Amount
Capital 3,02,000		Cash A/c	–
(+) N.P 2,66,000		Debtors 60,000	
	5,68,000	(-) BD 10,000	50,000
Bills payable	15,000	Land	1,40,000
Creditors	50,000	Builings 4,00,000 (-) Depreciation 40,000	3,60,000
outstanding salaries	10,000	Furniture	15,000
Interest	2,000	closing stock	50,000

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*. Subsidiary Books:

→ We use subsidiary books for an alternative for journals.

→ Types of Subsidiary Books:

1. Purchases book
2. Sales "
3. Purchase return book
4. Sales " "
5. Bills receivable book
6. " payable "
7. Cash book
8. Journal proper

Note: We write only credit transactions in purchases, sales, purchase returns & sales return books.

*. Proforma of Purchase book & Sales book:

Date	Particulars	L.F no.	Invoice no.	Amount

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D. Prepare necessary Subsidiary books for the following transactions.

1st-Jan-2019 : Purchased goods from X - 10,000

5th-Jan-2019 : Sold goods to Y 25,000

10th-Jan-2019 : purchased goods for cash 5,000

15th-Jan-2019 : purchased goods from ABC 12,000

20th-Jan-2019 : Sold goods to XYZ ltd 15,000

30th-Jan-19 : Sold goods for cash 7000

Purchases book

Date	Particulars	LF No.	Invoice No.	Amount
1st-Jan-2019	X A/c			10,000
15th-Jan-2019	ABC ltd A/c			12,000
	Total purchases			22,000

Sales book

Date	Particulars	LF No.	Invoice No.	Amount
5th-Jan-2019	Y A/c			25,000
20th-Jan-2019	XYZ ltd A/c			15,000
	Total Sales			40,000

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* Proforma of Purchase return book

Date	Particulars	LF No.	Debit note No.	Amount

*. Proforma of Sales return book:

Date	Particulars	LF No.	Credit note No.	Amount

* Proforma of Cash Book:

⇒ Single Column Cash Book.

Dr | Cr

Date	Particulars	LF	Amount	Date	Particulars	LF No.	Amount

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Cash book

→ 3 types of cash book:

1. Single Column Cash book (only cash item)
2. double " " " (cash & bank)
3. Triple " " " (cash & bank, discount)

⇒ Double Column Cash book:

Dr | Cr

Date	Particulars	LF	Cash	Bank	Date	Particulars	LF	Cash	Bank

⇒ Triple Column Cash book:

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UNIT-IV (Theory)

** Definition of Accounting:

** According to the American Institute of certified public Accounts (AICPA) "Accounting is an art of recording Classifying and Summarizing in a Significant manner, and in terms of money and events which are in part atleast of a financial character and interpretting the results thereof"

* GAAP (Generally accepted accounting principles): (or) Golden rules of accounts

* Significance of Accounting:

→ Maintain its own records of a business.

→ Monitor the business activites.

→ Calculates Profit or loss for a given period.

→ Fulfill legal obligations.

→ Show financial position for a given period.

→ Communicate the information to the interested parties.

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* Accounting Cycles:

1. Journals → Ledgers → Trail balance → final Accounts

** Concepts of Accounting:

1. Business Entity or seperate Entity Concept
2. Going Concern Concept.
3. Money Measurement Concept.
4. Cost Concept.
5. Realization or Accrual Concept.
6. Accounting period Concept.
7. Matching Concept.
8. Dual Aspect Concept.

* Conventions of Accounting:

1. Consistency
2. Full disclosure.
3. Materiality.
4. Conservatism

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UNIT - VI.

FINANCIAL PERFORMANCES & ANALYS

*. Ratio Analysis
2. Comparative & Common size balance sheet analysis
3. Funds flow & Cash flow analysis
4. Trend analysis

*. Ratio Analysis:

①. Liquidity Ratio:

→ The ability of the person to repay the current liabilities.

②. ~~Turn over Ratio~~:

⟹ Types:

1. Current ratio:

$$\frac{\text{current assets}}{\text{Current liabilities}} = \text{Current ratio}$$

Where CA = Cash + Bank Balance + prepaid expenses + bills receivables + debtors + closing stock + income at to received etc.

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1. current liabilities:

CL = bills payable + creditors + Bank overdraft + outstanding expenses + income received in advance + dividends payable etc.
(part of profit)

→ Ideal ratio:

Ideal ratio for current ratio is 2:1.

→ Quick Ratio (or) Acid Test Ratio (or) liquid ratio:

$$\text{quick ratio} = \frac{\text{quick assets}}{\text{current liabilities}}$$

where quick assets = current assets − (closing stock + prepaid expenses)

2. Super quick ratio:

$$\text{Super quick ratio} = \frac{\text{Super quick assets}}{\text{current liabilities}}$$

where Super quick assets = Cash + Bank balance + marketable securities

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(2). Turn over Ratio / Activity Ratio

1. Stock turn over Ratio (or) inventary turn over ratio:

$$= \frac{\text{Cost of goods sold}}{\text{Average stock / inventary}}$$

where Cost of good sold = sales − gross profit

$$\text{Average stock} = \frac{\text{opening stock} + \text{closing stock}}{2}$$

2. Inventary holding period:

$$= \frac{\text{Inventary turn over ratio}}{365}$$

3. Debtors turn over Ratio:

$$= \frac{\text{Credit Sales}}{\text{Average debtors}}$$

where credit Sales = Total sales − Cash Sales.

$$\text{Average debtors} = \frac{\text{opening debtors} + \text{Closing debtors}}{2}$$

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4. Debtors collection period:

$$= \frac{365}{\text{Debtors turn over ratio}}$$

5. Creditor turn over ratio:

$$= \frac{\text{Credit purchases}}{\text{Average creditors}}$$

where Credit purchases = Total purchases − Cash purchases.

$$\text{Average creditors} = \frac{\text{opening} + \text{closing creditors}}{2}$$

6. Creditors payment Period:

$$= \frac{365}{\text{creditors turn over ratio}}$$

③. Leverage Ratios:

1. Debt/equity ratio:

$$= \frac{\text{outsiders funds / dead funds}}{\text{Insiders funds / share holder funds}}$$

where outsider funds = Bank loan + debenture (bond) + long term loans.

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Insider funds = equity share capital + prefrential share capital + retained earnings + reserves ~~and~~ surplus etc.

⇒ Ideal ratio for debt equity ratio is 1:1

quick ratio is 1:1

2. Interest Coverage Ratio:

$$= \frac{\text{Net profit before interest \& taxes}}{\text{fixed interest charges}}$$

(B) Profitability Ratio:

1. Gross profit Ratio:

$$= \frac{\text{Gross profit}}{\text{Net sales}} \times 100$$

Net sales = Sales − sales returns

2. Net profit ratio:

$$= \frac{\text{Net profit}}{\text{Net sales}} \times 100$$

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3. Operating Ratio:

$$= \frac{\text{operating expenses}}{\text{Net Sales}} \times 100$$

4. Return on Investments (ROI)

$$= \frac{\text{Net profit after tax}}{\text{Total investment}}$$

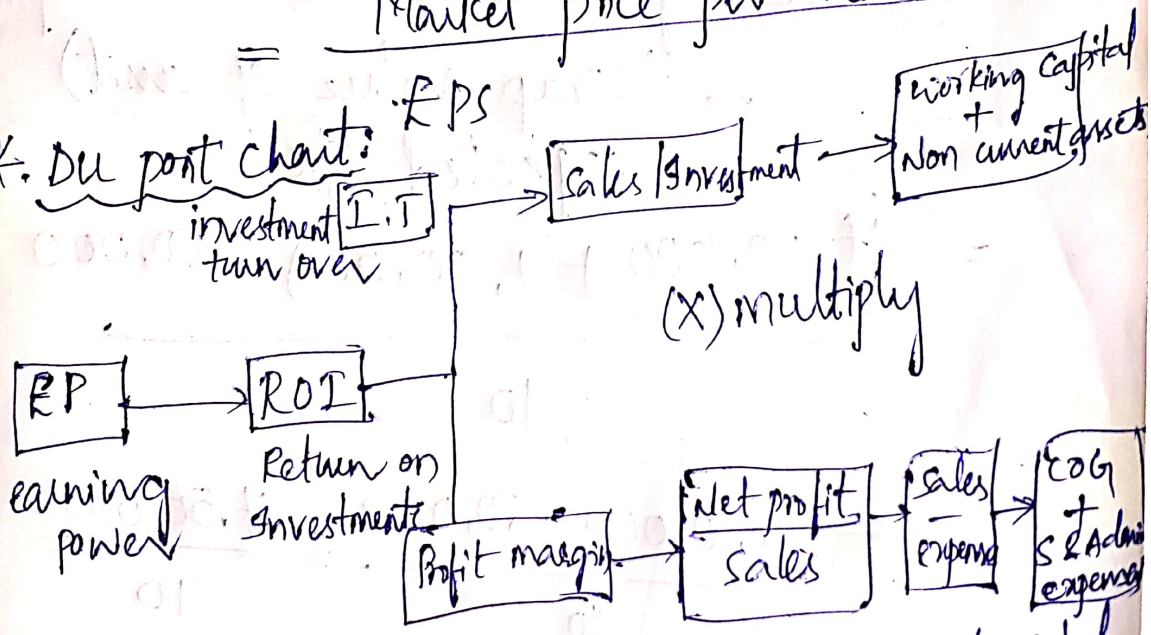
5. EPS (Earning per share):

$$= \frac{\text{Net Profit after Tax}}{\text{No. of shares outstanding}}$$

6. Price/earning Ratio (PE ratio):

$$= \frac{\text{Market price per share}}{\text{EPS}}$$

*. Du pont chart:



COG – Cost of goods sold

S&A – Selling & administrative