

# Accounting: *A Primer*

BM40002: IFM

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# Accounting Concepts

- Business entity concept: *owners and business are separate entities.*
- Going concern concept: *business will continue forever.*
- Dual aspect concept: *for every debit, there must be a credit.*
- Cost concept: *assets recorded in books of account at purchase value.*
- Money measurement concept: *what can be measured in monetary terms must be recorded.*
- Realization concept: *revenue recognition at accrual and substantially realization.*
- Matching concept: *costs be matched with revenues.*
- Periodicity concept: *in the long run, we're all dead.*

# Accounting Conventions

- Convention of Conservatism
- Convention of Consistency
- Convention of Material Disclosure

# Accounting Equation

$$\text{Assets} = \text{Liabilities} + \text{Equity}$$

- Revenue
- Expenses
- Owner's drawings, if any

$$\text{Assets} = \text{Liabilities} + [\text{Equity} + (\text{Revenue} - \text{Expenses} = \text{Net Income}) - \text{Owner's drawings/dividends}]$$

# The Golden Rule

Recording of business transactions:

- **Personal accounts:** *Debit* the receiver, *Credit* the giver.
- **Real accounts:** *Debit* what comes in, *Credit* what goes out.
- **Nominal accounts:** *Debit* all losses and expenses, *Credit* all incomes and gains.

# Rule of Debit and Credit

## Debit:

- Increase in assets ↑
- Increase in expenses ↑
- Decrease in liabilities ↓
- Decrease in owner's equity ↓
- Decrease in revenue ↓

## Credit:

- Increase in liabilities ↑
- Increase in owner's equity ↑
- Increase in revenue ↑
- Decrease in assets ↓
- Decrease in expenses ↓

## Identify the following:

1. Cash
2. Accounts receivable
3. Interest receivable
4. Inventory/stock
5. Prepaid insurance
6. Prepaid rent
7. Notes payable
8. Accounts payable
9. Salaries and wages
10. Common stock
11. Preferred stock
12. Retained earnings
13. Dividend
14. Dividend payable
15. Bad debts
16. Cost of goods sold
17. Taxes overdue/outstanding
18. Sales on credit

# Assets & Liabilities: Current & Fixed

- Liabilities:
  - *Short-term*: trade credit, expenses due/outstanding, etc.
  - *Long-term*: Bank loans, bonds, etc.
- Assets:
  - *Short-term*: Debtors, cash, bank balance, etc.
  - *Long-term*: Plant, building, land, machine, etc.



# Financial Statements

- Day book
- Journal
- Ledger (accounts)
- Trail balance
- **Income statement/P&L Account:** *period of time; during...*
- **Cash flow statement**
- **Balance Sheet:** *point of time; as on...*
- Statement of changes in equity capital

# Opening Entries

- To activate accounting process
- To know the status of the firm in the beginning of the year
- $\text{Assets} = \text{Liabilities} + \text{Equity}$ 
  - Assets: opening (debit) balance
  - Liabilities: opening (credit) balance
  - Equity: opening (credit) balance

<i>Date</i>	<i>Particulars</i>	₹ (Dr.)	₹ (Cr.)
	Bank A/c ... Dr	—	—
	Machine A/c ... Dr	—	—
	Building A/c ... Dr	—	—
	Other assets A/c ... Dr	—	—
	To Capital A/c	—	—
	To Any liabilities A/c	—	—

## Accounting Process: Illustration 1

Prepare journal entries, ledger accounts, trial balance, trading and profit & loss accounts, and balance sheet for Mr. eGuy for year ending 31-Mar.-2023:

2017	Particular
Apr. 1	Mr. eGuy started his business with cash ₹ 100,000.
Apr. 10	He opened an account in Bank with cash ₹ 30,000.
May 10	He procured goods from Mohan on credit ₹ 40,000 and also paid freight charges of ₹ 2,000.
May 20	Goods worth ₹ 20,000 sold to Mohit.
May 25	Due to some quality defects, goods of ₹ 10,000 returned to Mohan.
Jun. 15	Goods worth ₹ 70,000 sold to Ayesha.
Jun. 30	Rent paid ₹ 10,000.
Aug. 31	Furniture purchased for ₹ 8,000.
Sept. 10	Advertising exp. paid by cheque of ₹ 5,000.
Oct. 5	₹ 6,000 withdrawn from bank for <i>personal use</i> .
Nov. 30	Received ₹ 65,000 from Ayesha in settlement of full account.
Dec. 12	Goods worth ₹ 1,000 donated to JVM.
Dec. 31	Salaries paid to employees ₹ 15,000.
2023	
Jan. 15	Interest received from bank ₹ 2,000
Feb. 10	eGuy became insolvent; ₹ 0.80 in a rupee on debt of Rs. 20,000 was recovered as a compensation.
Mar. 31	Inventory of goods ₹ 32,000.

## Accounting Process: Illustration 2

On January 1, 20XX, Manohar started QualPhoto Co. Ltd. The following transactions took place during the first month:

<i>Date</i>	<i>Particulars</i>
Jan. 1	Manohar invested ₹ 30,000 cash in the company's share capital.
Jan. 2	Bought supplied of photographic materials on credit, ₹ 9,000.
Jan. 5	Bought photographic equipment for cash, ₹ 12,000.
Jan. 7	Received fees for photographic services, ₹ 15,000.
Jan. 13	Paid to creditors for supplies, ₹ 5,000.
Jan. 18	Manohar invested further ₹ 12,000 cash in the company's share capital.
Jan. 22	Billed customers for services, ₹ 19,000.
Jan. 27	Paid office rent, ₹ 2,500, and electricity charges, ₹ 1,200.
Jan. 31	Paid dividends, ₹ 4,000.

- Analyze the effect of these transactions on the accounting equation.
- Prepare a statement of P&L, a statement of retained earnings, and a balance sheet.

### Accounting Process: Illustration 3

Analyze the effect of the transactions on the accounting equation. First enter the beginning balances.

On September 1, 20XX, Meera Kumar started Instaprogram Co. Ltd. to provide computer programming services. On Sep. 30, the company had the following balances: *Cash*: ₹ 10,000; *Trade receivables*: ₹ 5,000; *Computer supplies*: ₹ 1,000; *Office equipment*: ₹ 35,000; *Trade payables*: ₹ 13,300; *Share capital*: ₹ 24,500; *Retained earnings*: ₹ 13,200. The following transactions took place in October 20XX:

- Bought computer supplies for cash ₹ 1,800.
- Billed M/s Raha & Sons for professional services, ₹ 59,900.
- Purchased office equipment for cash ₹ 3,000.
- Provided services for cash, ₹ 20,000.
- Paid suppliers, ₹ 11,000.
- Paid office rent, ₹ 1,100.
- Collected from client, billed in September, ₹ 4,000.
- Bought equipment on credit, ₹ 20,000.
- Collected from M/s Raha & Sons, billed early this month, ₹ 56,400.
- Paid programmers' salaries, ₹ 28,000.
- Paid dividends, ₹ 6,750.

Prepare the company's October 20XX statement of P&L, statement of retained earnings, and a balance sheet as on 31 Oct. 20XX.