

# Accountancy

## Financial Accounting

Part II

*Textbook for Class XI*



11112



एन सी ई आर टी  
NCERT

राष्ट्रीय शैक्षिक अनुसंधान और प्रशिक्षण परिषद्  
NATIONAL COUNCIL OF EDUCATIONAL RESEARCH AND TRAINING

**11112 – ACCOUNTANCY**

Financial Accounting Part-II

Textbook for Class XI

**ISBN 81-7450-507-5 (Part I)****ISBN 81-7450-532-6 (Part II)****First Edition**

February 2006 Phalgun 1927

**Reprinted**

October 2006, October 2007

March 2009, January 2010

January 2011, January 2012

March 2013, December 2013

March 2015, December 2015

October 2016, January 2018

March 2019, September 2019

and January 2021

**Revised Edition**

July 2022 Shrawana 1943

PD ???T HK

© **National Council of Educational  
Research and Training, 2006, 2022**₹ **110.00**Printed on 80 GSM paper with NCERT  
watermarkPublished at the Publication Division  
by the Secretary, National Council of  
Educational Research and Training,  
Sri Aurobindo Marg New Delhi 110 016  
and printed at -----  
-----  
-----**ALL RIGHTS RESERVED**

- No part of this publication may be reproduced, stored in a retrieval system or transmitted, in any form or by any means, electronic, mechanical, photocopying, recording or otherwise without the prior permission of the publisher.
- This book is sold subject to the condition that it shall not, by way of trade, be lent, re-sold, hired out or otherwise disposed of without the publisher's consent, in any form of binding or cover other than that in which it is published.
- The correct price of this publication is the price printed on this page. Any revised price indicated by a rubber stamp or by a sticker or by any other means is incorrect and should be unacceptable.

**OFFICES OF THE PUBLICATION****DIVISION, NCERT**NCERT Campus  
Sri Aurobindo Marg  
New Delhi 110 016

Phone : 011-26562708

108, 100 Feet Road  
Hosdakere Halli Extension  
Banashankari III Stage  
Bengaluru 560 085

Phone : 080-26725740

Navjivan Trust Building  
P.O. Navjivan  
Ahmedabad 380 014

Phone : 079-27541446

CWC Campus  
Opp. Dhankal Bus Stop  
Panihati  
Kolkata 700 114

Phone : 033-25530454

CWC Complex  
Maligaon  
Guwahati 781 021

Phone : 0361-2674869

**Publication Team**

Head, Publication Division : Anup Kumar Rajput

Chief Production Officer : Arun Chitkara

Chief Business Manager : Vipin Dewan

Chief Editor (In charge) : Bijnan Sutar

Assistant Editor : Gobind Ram

Production Assistant : ....

**Cover**

Shweta Rao

## FOREWORD

The National Curriculum Framework (NCF), 2005, recommends that children's life at school must be linked to their life outside the school. This principle marks a departure from the legacy of bookish learning which continues to shape our system and causes a gap between the school, home and community. The syllabi and textbooks developed on the basis of NCF signify an attempt to implement this basic idea. They also attempt to discourage rote learning and the maintenance of sharp boundaries between different subject areas. We hope these measures will take us significantly further in the direction of a child-centred system of education outlined in the *National Policy on Education 1986*.

The success of this effort depends on the steps that school principals and teachers will take to encourage children to reflect on their own learning and to pursue imaginative activities and questions. We must recognise that, given space, time and freedom, children generate new knowledge by engaging with the information passed on to them by adults. Treating the prescribed textbook as the sole basis of examination is one of the key reasons why other resources and sites of learning are ignored. Inculcating creativity and initiative is possible if we perceive and treat children as participants in learning, not as receivers of a fixed body of knowledge.

These aims imply considerable change in school routines and mode of functioning. Flexibility in the daily time-table is as necessary as rigour in implementing the annual calendar so that the required number of teaching days are actually devoted to teaching. The methods used for teaching and evaluation will also determine how effective this textbook proves for making children's life at school a happy experience, rather than a source of stress or boredom. Syllabus designers have tried to address the problem of curricular burden by restructuring and reorienting knowledge at different stages with greater consideration for child psychology and the time available for teaching. The textbook attempts to enhance this endeavour by giving higher priority and space to opportunities for contemplation and wondering, discussion in small groups, and activities requiring hands-on experience.

The National Council of Educational Research and Training (NCERT) appreciates the hard work done by the textbook development committee

responsible for this book. We wish to thank the Chairperson of the advisory group in Social Sciences Professor Hari Vasudevan and the Chief Advisor for this book, Professor R.K. Grover, (Retd.) Director, School of Management Studies (IGNOU), New Delhi for guiding the work of this committee. Several teachers contributed to the development of this textbook; we are grateful to their principals for making this possible. We are indebted to the institutions and organisations which have generously permitted us to draw upon their resources, material and personnel. We are especially grateful to the members of the National Monitoring Committee, appointed by the Department of Secondary and Higher Education, Ministry of Human Resource Development under the Chairpersonship of Professor Mrinal Miri and Professor G.P. Deshpande, for their valuable time and contribution. As an organisation committed to the systemic reform and continuous improvement in the quality of its products, NCERT welcomes comments and suggestions which will enable us to undertake further revision and refinement.

New Delhi  
20 December 2005

*Director*  
National Council of Educational  
Research and Training

## **RATIONALISATION OF CONTENT IN THE TEXTBOOKS**

In view of the COVID-19 pandemic, it is imperative to reduce content load on students. The National Education Policy 2020, also emphasises reducing the content load and providing opportunities for experiential learning with creative mindset. In this background, the NCERT has undertaken the exercise to rationalise the textbooks across all classes. Learning Outcomes already developed by the NCERT across classes have been taken into consideration in this exercise.

**Contents of the textbooks have been rationalised in view of the following:**

- Overlapping with similar content included in other subject areas in the same class
- Similar content included in the lower or higher class in the same subject
- Difficulty level
- Content, which is easily accessible to students without much interventions from teachers and can be learned by children through self-learning or peer-learning
- Content, which is irrelevant in the present context

**This present edition, is a reformatted version after carrying out the changes given above.**

© NCERT  
not to be republished

## TEXTBOOK DEVELOPMENT COMMITTEE

### CHAIRPERSON, ADVISORY COMMITTEE FOR TEXTBOOKS IN SOCIAL SCIENCES AT UPPER PRIMARY LEVEL

Hari Vasudevan, *Professor*, Department of History, University of Calcutta, Kolkata

### CHIEF ADVISOR

R. K. Grover, *Professor, (Retd.)*, School of Management Studies, IGNOU, New Delhi.

### MEMBERS

A.K. Bansal, *Reader*, PGDAV College, Nehru Nagar, New Delhi.

Amit Singhal, *Lecturer*, Ramjas College, Delhi University, Delhi.

Ashwini Kumar Kala, *PGT Commerce*, Hiralal Jain Senior Secondary School, Sadar Bazar, Delhi.

D.K Vaid, *Professor*, Department of Education in Social Sciences and Humanities, NCERT, New Delhi.

Deepak Sehgal, *Reader*, Deen Dayal Upadhaya College, Delhi University, Delhi.

H.V. Jhamb, *Reader*, Khalsa College, Delhi University, Delhi.

Ishwar Chand, *PGT Commerce*, Government Sarvodaya Bal Vidyalaya, West Patel Nagar, New Delhi.

K. Sambasiva Rao, *Professor*, Department of Commerce, Andhra University, Visakhapatnam.

M. Srinivas, *Professor*, Department of Commerce, College for Women, Osmania University, Hyderabad.

P.K. Gupta, *Reader*, Department of Management Studies, Jamia Millia Islamia, New Delhi.

Rajesh Bansal, *PGT Commerce*, Rohtagi A.V. Senior Secondary School, Nai Sarak, Delhi.

S.K. Sharma, *Reader*, Khalsa College, Delhi University, Delhi.

S.S. Sehrawat, *Assistant Commissioner*, Kendriya Vidyalaya Sangathan, Chandigarh.

Savita Shangari, *PGT Commerce*, Gyan Bharati School, Saket, New Delhi.

Shiv Juneja, *PGT Commerce*, Nirankari Boys Senior Secondary School, Paharganj, Delhi.

Sushil Kumar, *PGT Commerce*, Government Sarvodaya Bal Vidyalaya, Kailash Puri, Delhi.

Vanita Tripathi, *Lecturer*, Department of Commerce, Delhi School of Economics, Delhi University, Delhi.

**MEMBER-COORDINATOR**

Shipra Vaidya, *Professor of Commerce*, Department of Education in Social Sciences, NCERT, New Delhi.

© NCERT  
not to be republished



## ACKNOWLEDGEMENTS

The National Council of Educational Research and Training acknowledges the valuable contributions of the Textbook Development Committee which took considerable pains in the development and review of manuscript as well.

Special thanks are due to Savita Sinha, *Professor* and *Head*, Department of Education in Social Sciences, NCERT for her support, during the development of this book. We also acknowledge the contribution of all teachers of Commerce who developed the extra learning material for QR codes in the textbook.

The Council acknowledges the contribution of Anil Deswal, *Post Graduate Teacher* of Commerce at Rajkiya Pratibha Vikas Vidyalaya, Rohini, New Delhi for the review and updation of this textbook. The efforts of DESS, Administration is acknowledged for the preparation of manuscript, and Publication Division of NCERT is acknowledged for printing this textbook.

## CONTENTS OF ACCOUNTANCY – FINANCIAL ACCOUNTING PART I

<b>CHAPTER 1</b>	<b>INTRODUCTION TO ACCOUNTING</b>	<b>1</b>
<b>CHAPTER 2</b>	<b>THEORY BASE OF ACCOUNTING</b>	<b>23</b>
<b>CHAPTER 3</b>	<b>RECORDING OF TRANSACTIONS - I</b>	<b>46</b>
<b>CHAPTER 4</b>	<b>RECORDING OF TRANSACTIONS - II</b>	<b>99</b>
<b>CHAPTER 5</b>	<b>BANK RECONCILIATION STATEMENT</b>	<b>160</b>
<b>CHAPTER 6</b>	<b>TRIAL BALANCE AND RECTIFICATION OF ERRORS</b>	<b>191</b>
<b>CHAPTER 7</b>	<b>DEPRECIATION, PROVISIONS AND RESERVES</b>	<b>237</b>

## CONTENTS

	FOREWORD	iii
<b>Chapter 8</b>	<b>Financial Statements - I</b>	<b>277</b>
8.1	Stakeholders and their Information Requirements	277
8.2	Distinction between Capital and Revenue	279
8.3	Financial Statements	281
8.4	Trading and Profit and Loss Account	283
8.5	Operating Profit (EBIT)	297
8.6	Balance Sheet	299
8.7	Opening Entry	308
<b>Chapter 9</b>	<b>Financial Statements - II</b>	<b>318</b>
9.1	Need for Adjustments	318
9.2	Closing Stock	320
9.3	Outstanding Expenses	322
9.4	Prepaid Expenses	323
9.5	Accrued Income	325
9.6	Income Received in Advance	327
9.7	Depreciation	328
9.8	Bad Debts	329
9.9	Provision for Bad and Doubtful Debts	330
9.10	Provision for Discount on Debtors	333
9.11	Manager's Commission	335
9.12	Interest on Capital	338
<b>Appendix</b>		<b>383</b>

# THE CONSTITUTION OF INDIA

## PREAMBLE

**WE, THE PEOPLE OF INDIA**, having solemnly resolved to constitute India into a <sup>1</sup>**[SOVEREIGN SOCIALIST SECULAR DEMOCRATIC REPUBLIC]** and to secure to all its citizens :

**JUSTICE**, social, economic and political;

**LIBERTY** of thought, expression, belief, faith and worship;

**EQUALITY** of status and of opportunity and to promote among them all;

**FRATERNITY** assuring the dignity of the individual and the <sup>2</sup>[unity and integrity of the Nation];

**IN OUR CONSTITUENT ASSEMBLY** this twenty-sixth day of November, 1949 do **HEREBY ADOPT, ENACT AND GIVE TO OURSELVES THIS CONSTITUTION.**

1. Subs. by the Constitution (Forty-second Amendment) Act, 1976, Sec.2, for "Sovereign Democratic Republic" (w.e.f. 3.1.1977)
2. Subs. by the Constitution (Forty-second Amendment) Act, 1976, Sec.2, for "Unity of the Nation" (w.e.f. 3.1.1977)