Meaning and Definition Accounting

"Accounting is the language that business enterprise uses to communicate with others, about its working, result and progress. Basic purpose of accounting is to maintain profit or loss of business and also to know the financial position of business."

In the other words of Smith and Ashburne, "An accounting is the means of measuring and reporting results of economic activities."

According to American Institute of Certified Public Accountants (AICPA), "Accounting is an art of recording, classifying, and summarizing in a significant manner and in terms of money, the transactions and the events which are important, at least of a financial character and interpreting the results there off."

Characteristics of Accounting

<1> Accounting is an art of recording financial transactions.
<2> It helps in asserting financial results.
<3> Accounting communicates various information's to management and helps in decision making.
<4> Accounting helps in measuring business events in terms of money only.
<5> It helps in interpreting the results of business.
<6> Accounting is science as well as an art.

Functions of Accounting

Recording: - It is not only ensuring all business transactions of the financial character are in fact recorded but also that they are recorded in an orderly manner. For Example: Recording is done in the books of journal.

Classification: - Classification is concerned with the systematic analysis of recorded data with a view to group transaction or entries of one nature at one place.

Summarizing: - This involves presenting, the classified data in a manner which is understandable and useful to the internal as well as external users.

Dealing with Financial Transactions: - Accounting records only those transactions and events in terms of money which are of financial character.

Analyzing and interpreting: - This is financial function of accounting. The recorded financial is analyzed and interpreted in a manner that end user can make a meaningful judgment about the organization.

Communicating: - The accounting information, after being meaningfully analyzed and interpreted has to be communicating in a proper firm to the proper person.

Features of Accounting: -

- ⇨ Accounting is an *art of recording financial transaction*.
- ⇨ It helps in *Ascertaining financial results.*
- ⇨ Accounting *communicates various information* to management and helps in decision making.
- ⇨ Accounting helps in *measuring business events* in terms of money.
- ⇨ It helps in *interpretation the results* of business.
- ⇨ Accounting is *a science as well as art.*

Advantages of Accounting (Objectives/Importance)

- ✓**To Keep Systematic Records: -** Accounting is done to keep systematic records of financial transaction.
- ✓**To protect business property: -** Accounting provides protection to business property from unjustified users.
- ✓**To Ascertain the operational profit or loss: -** Accounting helps in ascertaining the net profit or loss through trading account profit or loss account and that should be prepared at the end of accounting period.
- ✓**To proof in a court: -** If there is any business problem occurs, books of accounts can be produced as a proof (evidence).
- ✓**Helpful in comparative study: -** If proper books of account are maintained on regular basis, it helps in making comparative study of the results of previous year with current year.
- ✓**Helpful in transaction:** - Properly maintained books of accounts are very helpful in assessment of the income from the business. A businessman can easily estimate tax authority can easily determine tax liabilities.
- ✓**Helpful in raising loans:** - If a businessman needs to borrow money for his business, he may do so easily on the basis of his books of accounts.
- ✓**Helpful in valuation of business:** - If a businessman wants to sell his business or to amalgamate with any other business books of account helps in determining the true value of his business.
- ✓**Helpful in insolvency:** - if the financial position of the businessman get so week that he find himself unable in paying off his liabilities and he want to get rid of his liabilities, he can do by producing his books of accounts in appropriate court and getting himself declared insolvent.
- ✓**Helpful in taxation: -** Properly maintained books of accounts are very helpful in assessment of income from the business. A businessman can easily estimate and tax authority can easily determine tax liability.
- ✓**Helpful in valuation of good will:** - Valuation of good will becomes necessary at the time of admission, retirement and death of partner.

✓**Helpful in gathering business information: -** A businessman can easily collect information such as:

a) Purchase, Sales, Stocks, Repairs, Receipts and Payment.
b) Expense, Income, Profit or Loss.
c) Assets and Liabilities
d) Debtor and Creditor
e) Cash Balance and Bank Balance
f) Capital Information

Book Keeping

It is the art of recording in the books of accounts the monetary aspects of commercial of financial transaction in a regular and systematic manner.

Book Keeping and Accounting

Points of Difference	**Book Keeping**	**Accounting**
Objective	The objective of book keeping is to prepare original books of accounts. It is restricted to journal, subsidiary books and ledger account.	The objective of accounting is to record, analyze, and interpret the business transaction.
Scope	It has limited scope and it is concerned with the recording of business transactions.	It has wider scope as compared to book keeping.
Level of Work	It is restricted to low level of work. Clerical work is involved in it.	It is concerned with low level, middle level and even top level management. Low level clerk prepared accounts; medium level reports and top level interpret it.
Mutual Dependence	It is only an art of recording the transaction. So it has to depend upon accounting which makes it more meaningful and powerful.	It is based upon book keeping which is its initial part.
Results of Business	It doesn't show the net result of financial position of business.	It shows the net result of the business.
Principles of Accounting	In book keeping accounting concept and convention are followed.	The method of reporting and interpretation may vary firm to firm.

Limitations of Accounting

- **Ignores qualitative aspects: -** In accounting only those transactions are recorded which are expressed in terms of money. Qualitative aspects such as stills of manager, consumers taste or preference, change in government policy, change the state of competition etc. are not recorded in accounts.
- **Possibility of manipulation:** - In accounting results may be based on personal buyers of accounts by charging more depreciation, creating excess provision etc. it may be manipulated to show more favorable position or even less income.
- **Showing valueless Assets:** - In accounting certain valueless assets such as discount on issue of shares and debentures preliminary expenses, differed revenue expenditure etc. are shown in balance sheet.
- **Based on historical costs:** - Accounts is based on historical cost. Accounts are prepared on the basis of historical cost it does not take into consideration the effect of priceless change.

Double entry system: - If the transaction is written in credit side then that transaction will also come in debit side is called a double entry system.

Single entry system: - They incomplete form of double entry system is called single entry system.

According to Kohler, "It is a system of book keeping in which as a role only the records of cash and personal account of either maintained it is always incomplete double entry."

Accounting Terminology

- **Business Transaction: -** Every business activity is not an accounting activity. Every activity of financial nature having documentary evidence capable of being presented in numeric, monetary terms causing effect on assets and liabilities, capital and revenue, is termed as business transaction.
- **Asset: -** These are the properties owned by the business. Assets are the economic resource of an enterprise, which can be expressed by the terms of money.

“Assets are the valuable resource owned by the business which were Acquired at a measurable, a money cost.”

Types of assets:

Fixed Assets: - These assets are acquired for a long term use in business. These assets increase the profit earning capacity of the business.

Expenditure on these assets is not a regular in nature. For example land, building, plant, machinery, vehicle etc.

Current Assets: - These assets are also known as circulating assets, fluctuating assets or floating assets that change their values constantly.

Tangible Assets: - Assets having physical existence which can be seen and touched are known as tangible assets.

For example land, building, plant, equipment, furniture, stock.

Intangible Assets: - These are the assets which are not normally purchased and sold in the open market such as goodwill, patents, copyright, trademark, registered etc.

Wasting Assets: - Assets those values goes on declining with passage of time are known as Wasting assets.

For example: - oil wells, mine etc.

Liquid Assets: - Liquid asset refer the assets that can be converted into cash at short notice.

For example: - Debtors, bills receivables, Cash at bank, cash in hand etc.

⇨ **Liability: -**liabilities are the obligations or debt payable by the enterprise in future in terms of money or goods. The business should have sufficient current asset to meet its current liabilities can be classified as under:

Current Liability: - Liabilities payable within a year are termed as current liability. The value of these liabilities goes on changing for example: - creditors, bills payables and outstanding expenses.

Fixed Liability: - These liabilities are paid after a long period of time. For Example loan, capital, debentures etc.

Contingent Liability: - These are not real liability. Future events can decide whether it is liability of or not, due to their uncertain behave these are termed as contingent liability.

For example: - value of bills discounted, case pending in the court of law.

⇨ **Capital: -** It is that part of wealth which is used to run the business and for further production thus capital consist of all current assets and fixed assets. Capital can be classified as follows:

Fixed Capital: - The amount invested in acquiring of fixed assets is called fixed capital.

For example: - Capital invested in purchasing of plant and machinery, vehicle, furniture and building etc.

Floating capital: - Assets purchased with the intention of sales, such as the stock that investment are termed as floating capital.

Working capital: - The part of capital available with the firm for day to day working of the business is known as working capital.

Working Capital = Current Assets – Current Liability

⇨ **Financial Statement: -** Statement prepares by an enterprise and the end of accounting year to find out the status of income is termed as financial statement.

For example: - profit or loss account, balance sheet etc.

⇨ **Accounting Equation: -**

Assets = Liabilities + Capital

Accounting moves around three basic terms. These terms are assets, liabilities and capital. The combination of these three is called accounting equation.

- **Goods: -** Articles purchased for sale and profit by the business or for use in the manufacture of certain other goods are known as goods.
- **Costs: -** Expenditure incurred in acquiring manufacturing and processing goods to make its sale worthy are termed as cost of goods.

Sales – Sales Return = Return Inward

Purchase – Purchase Return = Return Outward

- **Purchase: -** In the routine business the form has to either purchase finished goods for sale or purchase raw material for the manufacture of the article being sold by the firm.
- **Sales: -** The ultimate end of the goods purchased or manufactured by the business is their sales. It includes both cash and credit sales.
- **Purchase Return or Return Outward: -** It is that part of purchase of goods which is return to the seller. This return may be due to unnecessary, excessive and defective supply of goods.
- **Sales Return or Return Inward: -** It is that part of sales of goods which is actually returns to us by purchasers. This return may also be due to excessive, unnecessary and defective supply of goods.
- **Stock:** - the goods available with the business for sale on a particular date are termed as stock. It may be increases or decreases and goes on the opening day of the accounting year is known as opening stock. In a same manner the value goods on the closing date of the accounting year will be closing stock.
- **Revenue:** - Revenue in accounting means the amount realized or receivable from the sales of goods. In wider sense revenue is also used to mean receipts of rent, commission and discount etc. it should also be regular in nature.
- **Expense:** - The firm has to use certain goods and services to produce articles sold by it. Payment for these goods and services is called expense. Such as wages, carriage, freight and amount spent for selling and distribution of goods. Such as salary, rent, advertising insurance etc.
- **Expenditure:** - It is the amount spent for the purchase of assets. Expenditure can be made through cash or exchange of other assets or a promise to make a payment is made. Expenditure increases the profit earning capacity of the business.

- ⇨ **Losses:** - Losses may be classified as normal and abnormal. Normal is due to the inherent weakness in the raw material or too much sales return also. Abnormal is an extra ordinary loss due to earthquake, fire, flood etc.
- ⇨ **Profit:** - Excess of revenue over expense is termed as profit. In other words excess of sales purchase over cost of goods sold (cogs) is income.
- ⇨ **Income:** - Increase in net worth of the enterprise, either from business activities or other activities are termed as income.
- ⇨ **Gain:** - Change in the net worth due to change in the firm in place of goods and holding of assets for a long period weather realized or unrealized is termed as gain.
- ⇨ **Debtor:** - The term debtor represents the people who have purchase goods on credit from us and have not paid for the goods sold to them.
- ⇨ **Creditor:** - It means the person or sellers of goods on credit to the firm are known as its creditors for goods.
- ⇨ **Receivables:** - It means what business has to receive from outsider or outside parties on revenue account.
- ⇨ **Payables:** - It means what the business has to pay to outside parties.
- ⇨ **Drawings:** - The amount or goods withdrawn by the proprietor for his private or personal use is termed as drawings.

Accounting Principles

Concepts
- ⇨ Separate Entity Concept
- ⇨ Going Concern Concept
- ⇨ Money Measurement Concept
- ⇨ Dual Aspect Concept
- ⇨ Accounting Period Concept
- ⇨ Historical Cost Concept
- ⇨ Realization Concept
- ⇨ Accrual Concept

Convention
- ⇨ Convention of Conservations
- ⇨ Convention of Consistence
- ⇨ Convention of Materiality
- ⇨ Convention of Full Discloser

Accounting Concepts: - Accounting concepts are the assumptions upon which accounting is based they are called pillars of accounting it is also the rules and guidelines that govern accounting. The important accounting concepts are as follows:

- ⇨ **Separate Entity Concept: -** This concept makes distinction between business and owner. According to this concept owner is separate from its business. For Example: - Profit earned in a business becomes its liability to the owner. Interest on drawing is an income for the business whereas an expense for the owner because he has to pay it.
- ⇨ **Going Concern Concept: -** According to this concept it is assumed that business will continue for a long period of time for we can say that members may come, member may go but the organization will go on forever.
- ⇨ Money Measurement Concept: - In accounting we record only monetary transactions (that transaction which can be expressed in terms of money). Nonmonetary transactions such as labor management relationship, quality of competitor, change in policy and change in government policies do not find place in accounting
- ⇨ **Dual Aspects Concept: -** According to this concept every business transaction has dual aspects. The accounts will be effected by every transaction on the basis of this concept following accounting equation can be made.
  - 1> Assets = Liabilities + Capital
  - 2> Cost Of Goods Sold = Opening Stock + Purchase + Direct Expense + Closing Stock
  - 3> Gross Profit = Sales – Cost Of Goods Sold

- **Accounting Period Concept: -** The fact is that the results of every business are measured from time to time. Accounting period is the time interval and the end of it either business results are ascertained (calculated) every business has a fixed accounting period.
  According to income tax act it has been made compulsory for all business enterprise to adopt their financial year from 1st April to 31 March.
- **Historical Cost Concept: -** according to this concept all business transactions are shown in the books of accounts at their original cost. Assets are recorded at monetary cost. For Example A price of land on which it was purchased is Rs. 15 lacs and its market value is Rs. 27 lacs at the end of accounting year, even then it will be shown in the balance sheet at Rs. 15 lacs that is its historical cost.
- **Realization Concept: -** Revenue is the amount received or receivable by an enterprise from the sales of goods or services. Realization of revenue may be on four basis:
  - a> Production Basis
  - b> Order Received Basis
  - c> Goods Delivered Basis
  - d> Cash Received Basis
- **Accrual concept: -** According to this concept we record or find out the amount of money which is due but not received. For example:-Rent received at Rs. 1000 per month is Rs. 10000; it means that rent of Rs. 2000 is accrued (due but not receive) while calculating profit and loss of current year, rental income will be taken Rs. 12000.

Accounting Conventions: - The term convention is used to denote custom and tradition followed in the preparations of accounting statement the following conventions are:

- **Convention of Conservation: -** According to this principle the accounting information show a better position that it actually. It means this convention is “playing safe policy” in profit. For example: - provision for doubt debt, provision on discount on debtors etc.
- **Convention of Consistence: -** This convention states that some method and procedures should be followed in accounting year after year accounting principles and method should not be change frequently. For Example: - if a firm adopts different method of changing depreciation in two different accounting periods the result will not be complete.
- **Convention of Materiality: -** This convention states that financial statements should disclose all material information (they information which would have

change the business results if it has been disclosed) sometimes an information may be material form one concern and immaterial for others.

- **Convention of Full Discloser: -** This convention states that in financial statements should disclose all significant information’s number material information should be displayed.

Classification of Accounts

Account

Personal Account | Real Account | Nominal Account

- Personal Account
  - Natural Personal Account
  - Artificial Personal Account
  - Representative Personal Account

  Debit The Receiver
  Credit The Giver

- Real Account
  - Tangible Real Account
  - Intangible Real Account

  Debit What Comes In
  Credit What Goes Out

- Nominal Account
  - Debit → All Expense and Losses
  - Credit → All Profit and Gains

Personal account: - accounts of all persons and firm with whom the business dealings are made are called personal accounts. A personal account includes:

A> Natural Personal Account: - for example accounts of proprietor and partners etc. Such as Ram's account or name of any human accounts.

B> Artificial Personal Account: - for example bank account, club account, institute account, companies account etc.

C> Representative Personal Account: - rent due to landlord, outstanding rent.

Real Account: - Real accounts are the accounts of tangible or intangible things. Tangible real accounts are the things which can be touched or feel such as land, building, machinery, stock, cash etc. Intangible real accounts are their accounts that cannot be touched or feel such as goodwill, trademark, copyright, registered, patent.

Nominal Account: - These Accounts don’t really exist but are opened in the books to simply explain the nature of transaction. For Example: - Cash is paid as salary, rent or commission or any other expense.

Cash which goes out is a real account but salary, rent, where it goes don’t exist.

S. No.	Transactions	Account Involved	Nature of Account	Debit/Credit
1.	Rent Paid	Rent A/C Cash A/C	Nominal Real	Dr. Cr.
2.	Salary Paid	Salary A/C Cash A/C	Nominal Real	Dr. Cr.
3.	Interest Received	Cash A/C Interest A/C	Real Nominal	Dr. Cr.
4.	Furniture Purchased	Furniture A/C Cash A/C	Real Real	Dr. Cr.
5.	Machinery Sold	Cash A/C Machinery A/C	Real Real	Dr. Cr.
6.	Paid to Suresh	Suresh A/C Cash A/C	Personal Real	Dr. Cr.
7.	Received form Mohan	Cash A/C Mohan A/C	Real Personal	Dr. Cr.

Journal: - Journal is a book which records all the day to day transactions in the order in which they occur. It contains records in well-organized manner. Journal is a book of prime records, big business along with journal prepare cash book, purchase book, sales book etc. transactions from these books are there after recorded in ledger account.

Format of Journal

Date	Particulars	L.F	Amount Dr.	Amount Cr.

The journal is divided into five sub parts (column) – Date, Particulars, Ledger Folio (LF), Amount Debit and Credit.

***Date*: -** This is the first column which records date of the transaction with its month and year the year not repeated again with the each transaction.

***Particulars*: -** This column records the detail of transaction is translation have double effects therefore these accounts which have to be debited that should be credited. After the journal entry, narration or written to explain the journal entry.

Ledger Folio: - The journal is the prime Book of record. Leger And journal are interrelated to each other. Entries are posted in ledger Based on journal.

The L.F Page number is written of the transaction for future reference and checking.

Amount Debited: - In this column amount to be debited is entered.

Amount credited: - In this column amount to be credited is entered.

Journalize the following

January

1. Paid rent Rs. 500
2. Interest received Rs. 700
5. Furniture purchased for Rs. 1000
6. Salary outstanding Rs. 1500
6. Paid to Suresh Rs. 200
7. Paid for lighting Rs. 50

Date	Particulars	L.F	Amount Dr.	Amount Cr.
Jan				
1	Rent Account Dr.		500	
	To cash account			500
	[Being rent paid]			
2	Cash Account Dr.		700	
	To interest account			700
	[Being interest received]			
5	Furniture Account Dr.		1000	
	To cash account			1000
	[Being furniture purchased]			
6	Salary Account Dr.		1500	
	To outstanding salary account			1500
	[Being salary outstanding]			
6	Suresh Dr.		200	
	To cash account			200
	[Paid to Suresh]			
7	Lighting Account Dr.		50	
	To cash account			50
	[Being expense for lighting]			

Compound journal entry: -

If there are a number of journal entries that is transactions relating to the same account on the same day, a single and journal entry can be passed; For such transaction. For example Pass the Compound journal entry for their running business was purchased by Mohan with following assets and liability: -

Cash Rs. 2,000; land Rs. 4,000; Furniture Rs. 1,000; stock Rs. 2,000; Creditor Rs. 1,000; Bank overdraft Rs. 2,000;.

Date	Particulars	L.F	Amount Dr.	Amount Cr.
Jan	Cash Account		2,000	
2k11	Land Account		4,000	
4	Furniture Account		1,000	
	Stock Account		2,000	
	To Creditor Account			1,000
	To Bank Overdraft Account			2,000
	To Capital Account			6,000

Journalize the following transaction post ledger also on January 31

1. Ram started business with the capital of Rs. 10,000.
2. He purchased goods from Mohan on credit Rs. 2,000.
3. He paid Cash to Mohan Rs. 1,000.
4. He sold goods to Suresh Rs. 2,000
5. He received cash from Suresh Rs. 3,000.
6. He further purchase Goods from Mohan Rs. 2,000.
7. He paid cash to Mohan Rs. 1,000.
8. He further sold goods to Suresh Rs. 2,000.
9. He received cash from Suresh Rs. 1,000.

Date	Particulars	L.F	Amount Dr.	Amount Cr.
Jan				
1	Cash Account Dr.		10,000	
	To Capital account			10,000
	[Being business is started]			
2	Purchase Account Dr.		2,000	
	To Mohan			2,000
	[Being goods purchased on credit]			
3	Mohan Dr.		1,000	
	To Cash account			1,000

	[Being cash paid]			
4	Suresh Dr.		2,000	
	To sales account			2,000
	[Being goods sold]			
5	Cash account Dr.		3,000	
	To Suresh			3,000
	[Being received from Suresh]			
6	Purchase Account Dr.		2,000	
	To Mohan			2,000
	[Being goods purchased]			
7	Mohan Account Dr.		1,000	
	To Cash account			1,000
	[Being cash paid]			
8	Suresh Dr.		2,000	
	To sales account			2,000
	[Being goods sold]			
9	Cash account Dr.		1,000	
	To Suresh			1,000
	[Being received from Suresh]			

Ledger Accounts

Dr. **Cash Account** **Cr.**

Date	Particulars	Amount	Date	Particulars	Amount
1-Jan	To Capital	10,000	3-Jan	By Mohan	1,000
5-Jan	To Suresh	3,000			1,000
9-Jan	To Suresh	1,000			
			31-Jan	By Balance C/D	12,000
		14,000			14,000
1-Feb	To Balance B/D	12,000			

Dr. **Capital Account** **Cr.**

Date	Particulars	Amount	Date	Particulars	Amount
31-Jan	To Balance C/D	10,000	1-Jan	By Cash Account	10,000
		10,000			10,000
			1-Feb	By Balance B/D	12,000

Dr. Purchase Account Cr.

Date	Particulars	Amount	Date	Particulars	Amount
2-Jan	To Mohan	2,000	31-Jan	By Balance C/D	4,000
6-Jan	To Mohan	2,000			
		4,000			4,000
1-Feb	To Balance B/D	4,000			

Dr. Mohan's Account Cr.

Date	Particulars	Amount	Date	Particulars	Amount
3-Jan	To Cash	1,000	2-Jan	By Purchase	2,000
7-Jan	To Cash	1,000	6-Jan	By Purchase	2,000
31-Jan	To Balance C/D	2,000			
		4,000			4,000
			1-Feb	By Balance B/D	4,000

Dr. Sales Account Cr.

Date	Particulars	Amount	Date	Particulars	Amount
31-Jan	To Balance C/D	4,000	4-Jan	By Suresh	2,000
			8-Jan	By Suresh	2,000
		4,000			4,000
			1-Feb	By Balance B/D	4,000

Dr. Suresh's Account Cr.

Date	Particulars	Amount	Date	Particulars	Amount
4-Jan	To Sales Account	2,000	5-Jan	By Cash Account	3,000
8-Jan	To Sales Account	2,000	9-Jan	By Cash Account	1,000
		4,000			4,000

Trial Balance (Balance Method)

Particulars	L.F	Amount Dr.	Amount Cr.
Cash Account		12,000	-
Capital Account		-	10,000
Purchase Account		4,000	-
Mohan's Account		-	2,000
Sales Account		-	4,000
		16,000	16,000

Trial Balance (Total Method)

Particulars	L.F	Amount Dr.	Amount Cr.
Cash Account		14,000	2,000
Capital Account		-	10,000
Purchase Account		4,000	-
Mohan's Account		2,000	4,000
Sales Account		-	4,000
Suresh's Account		4,000	4,000
		24,000	24,000

Example: - Discount Entry

Jan 1 Bought goods from Prasad Rs. 2,700

Jan 29 Paid Prasad by cheque Rs. 2,650

Jan 13 Sales made to Zaheer Rs. 2,400

Jan 134 Received from Zaheer in full settlement Rs. 2,350

Date	Particulars		L.F	Amount Dr.	Amount Cr.
Jan 1	Purchase Account	Dr.		2,700	
	To Prasad				2,700
	[Being goods purchased]				
Jan 29	Prasad	Dr.		2,700	
	To Bank Account				2,650
	To Discount Account				50
	[Being Paid by Cheque]				
Jan 13	Zaheer	Dr.		2,400	
	To Sales Account				2,400
	[Being sold to Zaheer]				
Jan 14	Cash Account	Dr.		2,350	
	Discount Account	Dr.		50	
	To Zaheer				2,400
	[Being Cash Received]				

Ledger Accounts

Dr. Cash Account Cr.

Date	Particulars	Amount	Date	Particulars	Amount
14 Jan	To Zaheer	2,350	31Jan	By Balance C/D	2,350
		2,350			2,350
1 Feb	To Balance B/D	2,350			

Dr. Purchase Account Cr.

Date	Particulars	Amount	Date	Particulars	Amount
1 Jan	To Prasad	2,700	31 Jan	By Balance C/D	2,700
		2,700			2,700
1 Feb	By Balance B/D	2,700			

Dr. Bank Account Cr.

Date	Particulars	Amount	Date	Particulars	Amount
31 Jan	To Balance C/D	2,650	29 Jan	By Prasad	2,650
		2,650			2,650
			1 Feb	By Balance B/D	2,650

Dr. Prasad's Account Cr.

Date	Particulars	Amount	Date	Particulars	Amount
29 Jan	To Bank Account	2,650	1 Jan	By Purchase	2700
29 Jan	To Discount Acc	50			
		2,700			2,700

Dr. Sales Account Cr.

Date	Particulars	Amount	Date	Particulars	Amount
31 Jan	To Balance C/D	2,400	13 Jan	By Zaheer	2,400
		2,400			2,400
			1 Feb	By Balance B/D	2,400

Dr.		Zaheer's	Account		Cr.
Date	**Particulars**	**Amount**	**Date**	**Particulars**	**Amount**
13 Jan	To Sales Account	2,400	14 Jan	By Cash Account	2,350
			14 Jan	By Discount Acc	50
		2400			2400

Dr.		Discount	Account		Cr.
Date	**Particulars**	**Amount**	**Date**	**Particulars**	**Amount**
14 Jan	To Zaheer	50	29 Jan	By Prasad	50
		50			50

Trial Balance (Balance Method)

Particulars	L.F	Amount Dr.	Amount Cr.
Cash Account		2,350	-
Purchase Account		2,700	-
Bank Account		-	2,650
Sales Account		-	2,400
		5,050	5,050

On Jan 1 2008 the following were the balance of Rajat and co.

- Cash in hand 900
- Cash at bank 21,000
- Soni (Creditor) 3,000
- Zaheer (Debtor) 2,400
- Stock 12,000
- Prasad (Creditor) 6,000
- Sharma (Debtor) 4,500
- Mr. Lal (Creditor) 2,700

Transaction during the month are:

Jan 2 Bought goods from Prasad Rs. 2,700

Jan 3 Sold to Shrama Rs. 3,000

Jan 5 Sold to Mr. Lal goods for cash Rs. 3,000

Jan 7 Book goods for personal use Rs. 200

Jan 13 Receive from Zaheer in full settlement Rs. 2,350

Jan 22 Paid for stationery Rs. 50

Jan 29 Paid to Prasad by cheque Rs. 2,650

Jan 30 Provide interest on capital 100 Rs.

Jan 30 Rent due to land lord 200 Rs.

Date	Particulars		L.F	Amt Dr.	Amt Cr.
Jan 1	Cash in hand			900	
	Cash at bank			21,000	
	Zaheer			2,400	
	Stock Account			12,000	
	Sharma			4,500	
	To Soni				3,000
	To Prasad				6,000
	To Mr. Lal				2,700
	To Capital account				29,100
	[Being various assets and liabilities are brought forward]				
2	Purchase Account	Dr.		2,700	
	To Prasad				2,700
	[Being goods bought]				
3	Sharma	Dr.		3,000	
	To Sales Account				3,000
	[Being sold to Sharma]				
5	Cash Account	Dr.		3,000	
	To Sales Account				3,000
	[Being Goods sold for cash Mr. Lal]				
7	Drawing Account	Dr.		000	
	To Purchase account				200
	[Being goods booked for personal use]				
13	Cash Account	Dr.		2,350	
	Discount Account	Dr.		50	
	To Zaheer				2,400

	[Being cash received full settlement]			
22	Purchase Account Dr.		50	
	To Cash Account			50
	[Being cash paid for stationery]			
29	Prasad Dr.		2,700	
	To Bank Account			2,650
	To Discount Account			50
	[Being paid to Prasad by cheque]			
30	Interest Account Dr.		100	
	To Capital Account			100
	[Being goods sold]			
30	Rent Account Dr.		200	
	To Outstanding Rent			200
	[Being Rent paid]			

Journalize the following transactions

2011

Jan 1 Started business with cash Rs. 50,000

Jan 2 Deposited into the bank Rs. 30,000

Jan 3 Purchase machinery and paid by cheque 10,000

Jan 3 Purchase furniture and paid by cheque 5,000

Jan 3 Purchase typewriter and paid by cheque 5,000

Jan 4 Paid office expenses 200

Jan 5 Cash purchase 12,000

Jan 7 Cash sales 7,000

Jan 8 Purchase goods from Bharat 5,000

Jan 9 Sold to Mr. Parveen 6,000

Jan 10 Paid Rs. 4,900 to Mr. Bharat in full settlement of his account

Jan 12 Received Rs. 5,950 from Mr. Parveen in full settlement of our claim

Jan 15 Received commission Rs. 100

Journal Entry

Date	Particulars		L.F	Amount Dr.	Amount Cr.
Jan 1	Cash Account	Dr.		50,000	
	To Capital Account				50,000
	[Being business started]				
Jan 2	Bank Account	Dr.		30,000	
	To Cash Account				30,000
	[Being deposited in bank]				
Jan 3	Machinery Account	Dr.		10,000	
	Furniture Account	Dr.		5,000	
	Typewriter Account	Dr.		5,000	
	To Bank Account				20,000
	[Being paid by cheque]				
Jan 4	Expense Account	Dr.		200	
	To Cash Account				200
	[Being paid for office expenses]				
Jan 5	Purchase Account	Dr.		12,000	
	To Cash Account				12,000
	[Being purchased on cash]				
Jan 7	Cash Account	Dr.		7,000	
	To Sales Account				7,000
	[Being Sold on cash]				
Jan 8	Purchase Account	Dr.		5,000	
	To Bharat				5,000
	[Being purchased from Bharat]				
Jan 9	Parveen	Dr.		6,000	
	To Sales Account				6,000
	[Being Sold to Parveen]				
Jan 10	Bharat	Dr.		5,000	
	To Cash Account				4,900
	To Discount Account				100
	[Being Paid to Bharat]				
Jan 12	Cash Account	Dr.		5,950	
	Discount Account	Dr.		50	
	To Parveen				6,000
	[Being received from Parveen]				
Jan 15	Cash Account	Dr.		100	
	To Commission Account				100
	[Being commission received]				

Ledger Accounts

Dr. **Cash Account** **Cr.**

Date	Particulars	Amount	Date	Particulars	Amount
1 Jan	To Capital A/c	50,000	2 Jan	By Bank A/c	30,000
7 Jan	To Sales A/c	7,000	4 Jan	By Expense	200
12 Jan	To Parveen	5,950	5 Jan	By Purchase A/c	12,000
15 Jan	To Commission A/c	100	10 Jan	By Bharat	4,900
			31 Jan	By Balance C/D	15950
		63,050			63,050
1 Feb	To Balance B/D	15950			

Dr. **Capital Account** **Cr.**

Date	Particulars	Amount	Date	Particulars	Amount
31-Jan	To Balance C/D	50,000	1-Jan	By Cash A/c	50,000
		50,000			50,000
			1-Feb	By Balance B/D	50,000

Dr. **Bank Account** **Cr.**

Date	Particulars	Amount	Date	Particulars	Amount
2 Jan	To Cash A/c	30,000	3 Jan	By Machinery A/c	10,000
				By Furniture A/c	5,000
				By Typewriter A/c	5,000
			31 Jan	By Balance C/D	10,000
		30,000			30,000
1 Feb	To Balance B/D	10,000			

Dr. **Machinery Account** **Cr.**

Date	Particulars	Amount	Date	Particulars	Amount
3 Jan	To Bank A/c	10,000	31 Jan	By Balance C/D	10,000
		10,000			10,000
1 Feb	To Balance B/D	10,000			

Dr. **Furniture Account** Cr.

Date	Particulars	Amount	Date	Particulars	Amount
3 Jan	To Bank A/c	5,000	31 Jan	By Balance C/D	5,000
		5,000			5,000
1 Feb	To Balance B/D	5,000			

Dr. **Typewriter Account** Cr.

Date	Particulars	Amount	Date	Particulars	Amount
3 Jan	To Bank A./c	5,000	31 Jan	By Balance C/D	5,000
		5,000			5,000
1 Feb	To Balance B/D	5,000			

Dr. **Expense Account** Cr.

Date	Particulars	Amount	Date	Particulars	Amount
14 Jan	To Cash A/c	200	31 Jan	By Balance C/D	200
		200			200
1 Feb	To Balance B/D	200			

Dr. **Purchase Account** Cr.

Date	Particulars	Amount	Date	Particulars	Amount
5 Jan	To Cash A/c	12,000	31 Jan	By Balance C/D	17,000
8 Jan	To Bharat	5,000			
		17,000			17,000
1 Feb	To Balance B/D	17,000			

Dr. **Sales Account** Cr.

Date	Particulars	Amount	Date	Particulars	Amount
31-Jan	To Balance C/D	13,000	7 Jan	By Cash A/c	7,000
			9 Jan	By Parveen	6,000
		13,000			13,000
			1-Feb	By Balance B/D	13,000

Dr. **Bharat's Account** Cr.

Date	Particulars	Amount	Date	Particulars	Amount
13 Jan	To Cash A/c	4,900	8 Jan	By Purchase A/c	5,000
	To Discount A/c	100			
		5,000			5,000

Dr. **Parveen's Account** **Cr.**

Date	Particulars	Amount	Date	Particulars	Amount
9 Jan	To Sales A/c	6,000	12 Jan	By Cash A/c	5,950
				By Discount A/c	50
		6,000			6,000

Dr. **Discount Account** **Cr.**

Date	Particulars	Amount	Date	Particulars	Amount
12 Jan	To Parveen	50	10 Jan	By Bharat	100
31 Jan	To Balance C/D	50			
		100			100
			1 Feb	By Balance B/D	50

Dr. **Commission Account** **Cr.**

Date	Particulars	Amount	Date	Particulars	Amount
31-Jan	To Balance C/D	100	14 Jan	By Cash A/c	100
		100			100
			1-Feb	By Balance B/D	100

Trial Balance (Balance Method)

Particulars	L.F	Amount Dr.	Amount Cr.
Cash Account		15,950	-
Capital Account		-	50,000
Bank Account		10,000	-
Machinery Account		10,000	-
Furniture Account		5,000	-
Typewriter Account		5,000	-
Expense Account		200	-
Purchase Account		17,000	-
Sales Account		-	13,000
Discount Account		-	50
Commission Account		-	100
		63,150	63,150

Trial Balance (Total Method)

Particulars	L.F	Amount Dr.	Amount Cr.
Cash Account		63,050	47,100
Capital Account		-	50,000
Bank Account		30,000	20,000
Machinery Account		10,000	-
Furniture Account		5,000	-
Typewriter Account		5,000	-
Expense Account		200	-
Purchase Account		17,000	-
Sales Account		-	13,000
Bharat's Account		5,000	5,000
Parveen's Account		6,000	6,000
Discount Account		50	100
Commission Account		-	100
		1,41,300	1,41,300

On 1 Jan 2008 Mahaveer Prasad started business and introduced Rs. 40,000 in cash and machinery worth Rs. 20,000 following transaction took place in his business during Jan.

Date	Narration	Amount
2 Jan	Open an account in SBI	25,000
3 Jan	Purchase goods at 5% trade discount	6,000
5 Jan	Purchase goods at 4% trade discount and 2% cash discount	5,000
8 Jan	Goods sold to Naveen	3,000
10 Jan	Stationery purchased	400
15 Jan	Goods purchased and paid by check to get 4% cash discount.	3,000
20 Jan	Payment received from Naveen by check.	3,000
24 Jan	Furniture purchased and paid by check	4,000
31 Jan	Salary paid by check	3,500
31 Jan	Rent paid by check	1,500

Journal Entry of Mr. Mahaveer Prasad

Date	Particulars		L.F	Amount Dr.	Amount Cr.
Jan 1	Cash Account	Dr.		40,000	
	Machinery Account	Dr.		20,000	
	To Capital Account				60,000
	[Being business started]				
Jan 2	Bank Account	Dr.		25,000	
	To Cash Account				25,000
	[Being Account opened in SBI]				
Jan 3	Purchase Account	Dr.		5,700	
	To Cash Account				5,700
	[Being purchased with 5% trade discount]				
Jan 5	Purchase Account	Dr.		4,800	
	To Cash Account				4,704
	To Discount Account				96
	[Being purchased with 4% trade discount and 2% cash discount]				
Jan 8	Naveen	Dr.		3,000	
	To Sales Account				3,000
	[Being sold to Naveen]				
Jan 10	Purchase Account	Dr.		400	
	To Cash Account				400
	[Being Stationery purchased]				
Jan 15	Purchase Account	Dr.		3,000	
	To Bank Account				2,880
	To Discount Account				120
	[Being goods purchased & paid by check]				
Jan 20	Bank Account	Dr.		3,000	
	To Naveen				3,000
	[Being Received from Naveen by cheque]				
Jan 24	Furniture Account	Dr.		4,000	
	To Bank Account				4,000
	[Being paid by cheque]				
Jan 31	Salary Account	Dr.		3,500	
	Rent Account	Dr.		1,500	
	To Bank Account				5,000
	[Being paid by cheque]				

Ledger Accounts

Dr. **Cash Account** **Cr.**

Date	Particulars	Amount	Date	Particulars	Amount
1 Jan	To Capital A/c	40,000	2 Jan	By Bank A/c	25,000
			3 Jan	By Purchase A/c	5,700
			5 Jan	By Purchase A/c	4,704
			10 Jan	By Purchase A/c	400
			31 Jan	By Balance C/D	4,196
		40,000			40,000
1 Feb	To Balance B/D	4,196			

Dr. **Capital Account** **Cr.**

Date	Particulars	Amount	Date	Particulars	Amount
31-Jan	To Balance C/D	60,000	1-Jan	By Cash A/c	40,000
				By Machinery A/c	20,000
		60,000			60,000
			1-Feb	By Balance B/D	60,000

Dr. **Bank Account** **Cr.**

Date	Particulars	Amount	Date	Particulars	Amount
2 Jan	To Cash A/c	25,000	15 Jan	By Purchase A/c	2,880
20 Jan	To Naveen	3,000	24 Jan	By Furniture A/c	4,000
			31 Jan	By Salary A/c	3,500
				By Rent A/c	1,500
			31 Jan	By Balance C/D	16,120
		28,000			28,000
1 Feb	To Balance B/D	16,120			

Dr. **Machinery Account** **Cr.**

Date	Particulars	Amount	Date	Particulars	Amount
3 Jan	To Capital A/c	20,000	31 Jan	By Balance C/D	20,000
		20,000			20,000
1 Feb	To Balance B/D	20,000			

Dr. **Sales Account** **Cr.**

Date	Particulars	Amount	Date	Particulars	Amount
31-Jan	To Balance C/D	3,000	8 Jan	By Naveen	3,000
		3,000			3,000
			1-Feb	By Balance B/D	3,000

Dr. **Purchase Account** **Cr.**

Date	Particulars	Amount	Date	Particulars	Amount
3 Jan	To Cash A/c	5,700	31 Jan	By Balance C/D	13,900
5 Jan	To Cash A/c	4,704			
	To Discount A/c	96			
10 Jan	To Cash A/c	400			
15 Jan	To Bank A/c	2,880			
	To Discount A/c	120			
		13,900			13,900
1 Feb	To Balance B/D	13,900			

Dr. **Furniture Account** **Cr.**

Date	Particulars	Amount	Date	Particulars	Amount
24 Jan	To Bank A/c	4,000	31 Jan	By Balance C/D	4,000
		4,000			4,000
1 Feb	To Balance B/D	4,000			

Dr. **Salary Account** **Cr.**

Date	Particulars	Amount	Date	Particulars	Amount
31 Jan	To Bank A/c	3,500	31 Jan	By Balance C/D	3,500
		3,500			3,500
1 Feb	To Balance B/D	3,500			

Dr. **Rent Account** **Cr.**

Date	Particulars	Amount	Date	Particulars	Amount
31 Jan	To Bank A/c	1,500	31 Jan	By Balance C/D	1,500
		1,500			1,500
1 Feb	To Balance B/D	1,500			

Dr. **Naveen's Account** **Cr.**

Date	Particulars	Amount	Date	Particulars	Amount
9 Jan	To Sales A/c	3,000	12 Jan	By Bank A/c	3,000
		3,000			3,000

Dr. **Discount Account** **Cr.**

Date	Particulars	Amount	Date	Particulars	Amount
31 Jan	To Balance C/D	216	5 Jan	By Purchase A/c	96
			15 Jan	By Purchase A/c	120
		216			216
			1 Feb	By Balance B/D	216

Trial Balance (Balance Method)

Particulars	L.F	Amount Dr.	Amount Cr.
Cash Account		4,196	-
Capital Account		-	60,000
Bank Account		16,120	-
Machinery Account		20,000	-
Purchase Account		13,900	-
Sales Account		-	3,000
Furniture Account		4,000	-
Salary Account		3,500	-
Rent Account		1,500	-
Naveen's Account		-	-
Discount Account		-	216
		63,216	63,216

Trial Balance (Total Method)

Particulars	L.F	Amount Dr.	Amount Cr.
Cash Account		40,000	35,804
Capital Account		-	60,000
Bank Account		28,000	11,880
Machinery Account		20,000	-
Purchase Account		13,900	-
Sales Account		-	3,000
Furniture Account		4,000	-
Salary Account		3,500	-
Rent Account		1,500	-
Naveen's Account		3,000	3,000
Discount Account		-	216
		1,13,900	1,13,900

Journalize the following transaction, prepare ledger and trial balance.

Date	Narration	Amount
1 April	Business Started.	50,000
2 April	Goods Purchased for cash.	6,000
3 April	Goods Purchased from Ashok.	5,000
8 April	Deposited into bank.	15,000
10 April	Goods sold to Anil.	7,500
12 April	Cash withdrawn for personal use.	2,000
15 April	Goods withdrawn for personal use.	1,000
20 April	Goods sold at 5% trade discount and 4% cash discount.	8,000
25 April	Paid to Ashok by cheque.	4,800
25 April	Discount received from him.	200
30 April	Salary paid by cheque.	5,000

Journal Entry

Date	Particulars		L.F	Amount Dr.	Amount Cr.
April 1	Cash Account	Dr.		50,000	
	To Capital Account				50,000
	[Being business started]				
April 2	Purchase Account	Dr.		6,000	
	To Cash Account				6,000
	[Being purchased for cash]				
April 3	Purchase Account	Dr.		5,000	
	To Ashok				5,000
	[Being purchased from Ashok]				
April 8	Bank Account	Dr.		15,000	
	To Cash Account				15,000
	[Being deposited in bank]				
April 10	Anil	Dr.		7,500	
	To Sales Account				7,500
	[Being sold to Anil]				
April 12	Drawings Account	Dr.		2,000	
	To Cash Account				2,000
	[Being cash withdrawal]				
April 15	Drawings Account	Dr.		1,000	
	To Goods Account				1,000
	[Being goods withdrawal for personal use]				
April 20	Cash Account	Dr.		7,296	
	Discount Account	Dr.		304	
	To Sales Account				7,600
	[Being sold with 4% cash discount]				
April 25	Ashok	Dr.		5,000	
	To Bank Account				4,800
	To Discount Account				200
	[Being paid by cheque]				
April 30	Salary Account	Dr.		5,000	
	To Bank Account				5,000
	[Being paid by cheque]				

Ledger Accounts

Dr. **Cash Account** **Cr.**

Date	Particulars	Amount	Date	Particulars	Amount
1 Apr	To Capital A/c	50,000	2 Apr	By Purchase A/c	6,000
20 Apr	To Sales A/c	7,296	8 Apr	By Bank A/c	15,000
			12 Apr	By Drawings A/c	2,000
			31 Apr	By Balance C/D	34,296
		57,296			57,296
1 May	To Balance B/D	34,296			

Dr. **Capital Account** **Cr.**

Date	Particulars	Amount	Date	Particulars	Amount
31-Apr	To Balance C/D	50,000	1-Apr	By Cash A/c	50,000
		50,000			50,000
			1-May	By Balance B/D	50,000

Dr. **Bank Account** **Cr.**

Date	Particulars	Amount	Date	Particulars	Amount
8 Apr	To Cash A/c	15,000	25 Apr	By Ashok	4,800
			30 Apr	By Salary A/c	5,000
			31 Apr	By Balance C/D	5,200
		15,000			15,000
1 May	To Balance B/D	5,200			

Dr. **Sales Account** **Cr.**

Date	Particulars	Amount	Date	Particulars	Amount
31-Apr	To Balance C/D	15,100	8 Apr	By Anil	7,500
			20 Apr	By Cash A/c	7,296
				By Discount A/c	304
		15,100			15,100
			1-May	By Balance B/D	15,100

Dr. **Purchase Account** **Cr.**

Date	Particulars	Amount	Date	Particulars	Amount
2 Apr	To Cash A/c	6,000	31 Apr	By Balance C/D	11,000
3 Apr	To Ashok	5,000			
		11,000			11,000
1 May	To Balance B/D	11,000			

Dr. **Drawings Account** **Cr.**

Date	Particulars	Amount	Date	Particulars	Amount
12 Apr	To Cash A/c	2,000	31 Apr	By Balance C/D	3,000
15 Apr	To Goods A/c	1,000			
		3,000			3,000
1 May	To Balance B/D	3,000			

Dr. **Salary Account** **Cr.**

Date	Particulars	Amount	Date	Particulars	Amount
30 Apr	To Bank A/c	5,000	31 Apr	By Balance C/D	5,000
		5,000			5,000
1 May	To Balance B/D	5,000			

Dr. **Goods Account** **Cr.**

Date	Particulars	Amount	Date	Particulars	Amount
31 Apr	To Balance C/D	1,000	15 Apr	By Drawings A/c	1,000
		1,000			1,000
			1 May	By Balance B/D	1,000

Dr. **Anil's Account** **Cr.**

Date	Particulars	Amount	Date	Particulars	Amount
8 Apr	To Sales A/c	7,500	31 Apr	By Balance C/D	7,500
		7,500			7,500
1 May	To Balance B/D	7,500			

Dr. **Ashok's Account** **Cr.**

Date	Particulars	Amount	Date	Particulars	Amount
25 Apr	To Bank A/c	4,800	3 Apr	By Purchase A/c	5,000
	To Discount A/c	200			
		5,000			5,000

Dr. **Discount Account** **Cr.**

Date	Particulars	Amount	Date	Particulars	Amount
31 Apr	To Sales A/c	304	5 Apr	By Ashok	200
			31 Apr	By Balance C/D	104
		304			304
1 May	To Balance B/D	104			

Trial Balance (Balance Method)

Particulars	L.F	Amount Dr.	Amount Cr.
Cash Account		34,296	-
Capital Account		-	50,000
Bank Account		5,200	-
Sales Account		-	15,100
Purchase Account		11,000	-
Drawings Account		3,000	-
Salary Account		5,000	-
Goods Account		-	1,000
Anil’s Account		7,500	-
Ashok’s Account		-	-
Discount Account		104	-
		66,100	66,100

Trial Balance (Total Method)

Particulars	L.F	Amount Dr.	Amount Cr.
Cash Account		57,296	23,000
Capital Account		-	50,000
Bank Account		15,000	9,800
Sales Account		-	15,100
Purchase Account		11,000	-
Drawings Account		3,000	-
Salary Account		5,000	-
Goods Account		-	1,000
Anil’s Account		7,500	-
Ashok’s Account		5,000	5,000
Discount Account		304	200
		1,04,100	1,04,100

Ledger: - All business transaction is first of all recorded in journal and the n posted to ledger. A ledger is a set of various accounts. It contains a classified summary of the entire transactions recorded journal.

An account is a statement containing all the information during a particular time of a person, property, expenses and gains. The format of ledger is as follows.

Dr. **Salary Account** **Cr.**

Date	**Particulars**	**J.F**	**Amt**	**Date**	**Particulars**	**J.F**	**Amt**

Every account is divided into two equal parts. Left hand side is called Debit side and right hand side is called credit side, on each side there are four columns: - Date, Particulars, Journal Folio and Amount.

Trial Balance: - Fundamental principle of double entry book keeping is that, for every debit there must be credit and for every credit there must be debit and so total debit must be equal to total credit.

The trial balance is the statement of all the balance, debit or credit appearing in the books of accounts on a given date. Agreement of trial balance proves the arithmetical accuracy of journal entry and ledger posting. Format of trial balance: -

Particulars	**L.F**	**Amount Dr.**	**Amount Cr.**

Methods of preparing trial balance

There are two methods of preparing trial balance.

- ⇨ **Total Method: -** In this method the totals of debit and credit sides of ledger accounts excluding the closing balance are shown in the trial balance.
- ⇨ **Balance Method: -** Only the closing balances of the ledger accounts are shown in trial balance.