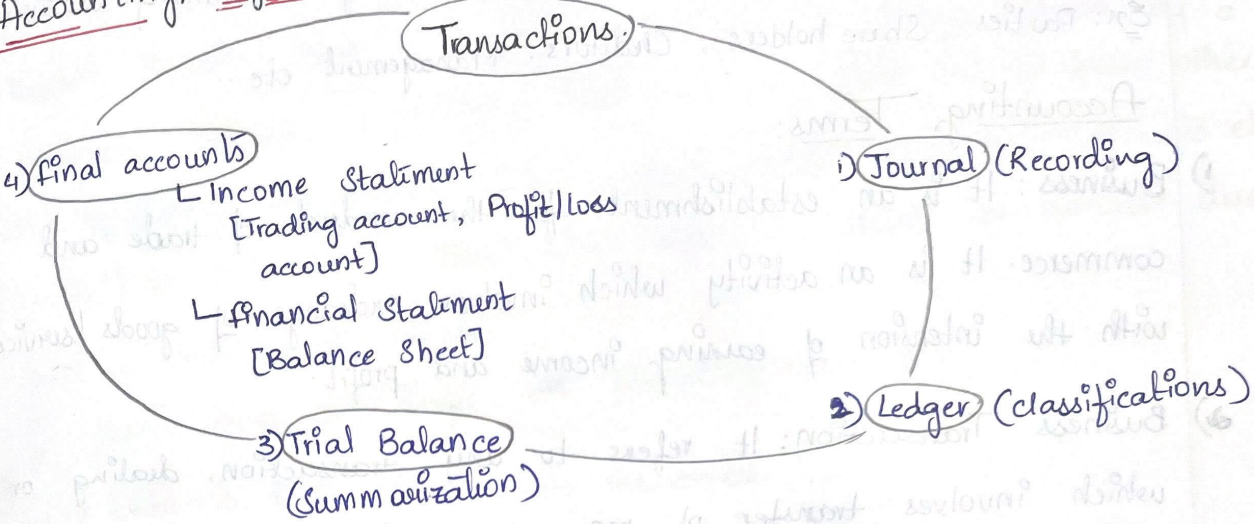
7/2/25

* Accounting Cycle [2M]



Debit bal	Credit bal
×	×
×	×
×	×

Indian financial System: Managed, Maintained by RBI

1. financial Institution
2. financial Market
3. financial Instrument
4. financial Services.

* What is Book-Keeping Accounting? or financial Accounting? [2M]

- Book Keeping is the art of recording business transactions in regular and systamatic manner.

8/2/25

According to 'Carter' book-keeping is the art and science of correctly recording in books of accounts all those business transactions that result in transfer of money or money's worth.

- Accounting is the art of recording, classifing and summerizing in a significant manner and in terms of money, transactions and events which are, in part atleast, of a financial charactor and interpriting the results thereof.

- Accounting is regarded as 'language of business'. It means that it communicates with parties concerned through accounting statements.

Ex: Parties: Share holders; Creditors, Management etc...

Accounting Terms:

1) **Business**: It is an establishment for the conduct of trade and commerce. It is an activity which involves exchange of goods / services with the intension of earning income and profit.

2) Business Transaction: It refers to any transaction, dealing or event which involves transfer of money or money's worth.

3) Cash Transaction: When payment for business activity is made immediatly it is called cash Transaction.

4) Credit Transaction: When the payment is postponed to a future day, it is called credit transaction.

5) Non-Cash Transaction: is a bussiness transaction where there is no payment or receipt of cash immediatly or at a future day.

Ex: → Depreciation on fixed assets → Bad debts written off.

6) Propriptor: The owner of business is called propriptor

7) Capital: The initial investment made by the owner at the start of the business is known as capital.

$\boxed{\text{Assets} - \text{Liabilities} = \text{Capital.}}$

- Capital may come from; savings, short term loan, long term loan, Issue of shares, Issue of debentures, Issue of bonds, Collateral securities by mortgaging assets.

8) Drawings: It is a value of cash or goods with drawn from the business by the owner for his personal use.

9) Debtor: a debtor is a person who owes money to the business

always results in receiving of some benefit of
someother benefit of equal value.
from sham for 50,000/- by cash.
ccounting is done on the assumption that the
life and it will continue to exist until it
reason that fixed assets are recorded

at original cost and are depriciated on the basis of their expected life rather than on the basis of market value. It is not proper to show fixed assets in the balance sheet at the market value.

4) Cost Concept: According to this concept, an assets is recorded at its cost in the books of account. In other words, an asset is recorded in the books at the price paid to aquire it and this cost is the basis for all subsequent accounting for the asset. Assets are not recorded at market values because these values keep on changing from time to time and place to place.

5) Money Measurement Concept: It signifies that in accounting a record is made only of those transactions or events which can be expressed in terms of money. Any happening or fact which cannot be expressed in terms of money cannot be recorded in accounting books. Non-monetory events such as retirement of manager, helth condition of worker etc... cannot be recorded in accounting books. [Non-monetory events hold humanitarian value].

6) Accounting Period Concept: Even though it is assumed that business will continue to exist for a long period, it is necessary to keep accounts in such a way that the results are known at frequent intervals [Quaterly]. Accountents generally adopt a 12 month period for measuring the income of a concern. This time interval is called accounting period.

Ex: April 1'st to March 31'st [or] Jan 1'st to Dec 31'st [or] Diwali to Diwali.

2m-1
3m-3

Accounting Conventions

1. Convention of Consistency: It signifies that the accounting practices and methods should remain consistent [unchanged]. from one accounting year to another. In other words, accounting practices should remain the same for one year to another. Comparision of results for one period to another is possible only when same accounting rules are followed. for example, if a concern adoptes reducing installment methods of depreciation in another year then it will be difficult to make comparision between the result of accounting periods.

1) Straight line method / fixed instalments / original cost method of depreciation.

P/m cost 50,000/-
life 5 years
dep @ 10%.

	50,000
I dep —	5,000
	45,000
II —	5,000
	40,000
III —	5,000
	35,000
IV —	5,000
	30,000
V —	5,000
	25,000
VI —	⋮

2) Diminishing balance method / Decreming / Reducing.

	50,000
I —	5,000
	45,000
II —	4,500
	40,500
III —	4,050
	36,450
IV —	3,645
	32,805
V —	3,285
	29,520
VI —	⋮

2. Convention of Disclosure: Disclosure means that all the material facts must be disclosed in the financial statment. for example in case of sundry Debtors, not only the total amount of sundry debtors should be disclosed, but also the amount of good and secured debtors, the amount of good, but unsecured debtors and amount of doubtful debts should be stated.

3. Convention of Materiality: According to this convention, a detailed record is made only of those business transactions which are material. [i.e, significant]. Accounts must not be over burdened with unnecessary

minute details. Only material facts should be disclosed.
- An information provided should be material if there is reason to believe that knowledge of it would influence the decision of investors.

4. Convention of Conservatism: [~~According to this concept~~, an asset].
This convention is based on the policy of 'playing safe'. According to this convention all possible or expected loses should be provided forth. but unearned or unrealised profit should be leftout. Another application of this convention are valuing of stock in trade at market prize or cost ~~prize~~ prize.

2M Rules or Principles of Accounting

1) Personal Account: Debit the 'Receiver'.
Credit the 'Giver'.
- 1) Natural Person's Ex: Ram, sham etc...
- 2) Artifical Person's Ex: Bank, ABC Co. Ltd
- 3) Representative Person's Ex:

2) Real Account: Debit 'what comes in'
Credit 'what goes out'.
- All assets will come & go including cash deposited & withdrawn from bank. [Ex [↓]]

3) Nominal Account: Debit 'All Expenses and losses'.
Credit 'All Incomes and gaines'.
- Outstanding Express.
  1) Rent out standing (due)
  2) salary "
  3) wages "
- Rent Paid
- Salary "
- wages "
- commission "
- Instant "
- Discount allocated.
- Rent received
- Commission "
- Intect "
- Discount ".

19/2/25

② Real Account Ex:

1) fixed or Immovable Assets: Ex: Plant of Machinary
land & building.

2) Movable Assets: Ex: Motor vehicle cars

3) Tangible Assets: Ex: furniture, artecrafts, Antique Pieces etc...

4) Intengible Assets: Ex: Good will
Patent of Trade Mark.

⇒ $\underbrace{\text{Personal Account ; Real Account ; Nominal Account}}_{\text{Double Entry System of Accounting.}}$

⇒ Single Entry System is followed by Non-trading Concern.

UNIT-1

What is Journal?

- Journal means a day book or daily record. It is the book wherein all the transactions are first recorded in chronological order [i.e, as and when they take place]. It is a book of prime, original or first entry, as all business transactions are first recorded in the journal. from Journal the posting are made in the ledger. Journal is only subsidery book i.e., a book which is subordinate to the ledger. Which is the principal book of accounts.
- The process of recording transactions in journal is termed as 'Journalising'.

Journal format:

Date	Particulars	Ledger Folio. No.	Debit (Rs)	Credit (Rs).
xx	Name of the A/c (to be debited)..... Dr		xx	—
	To. Name of the A/c (to be Credited)		—	xx
	(Narration or Explanation).			
2024 Mar 1	Machinery..... Dr		50,000	—
	To Cash A/c		—	50,000
Journalising	(being Machinery Purchased by Cash)			
2024 Mar 2	.....			

02/2/25 02/2/25

Write Journal entries for the following Transactions.

1st Jan 2024, Gopal started a business with a capital of 50,000/-

2nd Jan, Deposited in bank - 40,000/-

3rd Jan, withdrawn cash from bank - 10,000/- 100,00/-

4th Jan, purchased goods from Mohan - 5,000/-

5th Jan, purchased goods from Rahul by cash - 3,000/-

6th Jan, sold goods to Vivek - 10,000/-

7th Jan, sold goods to Vinod by cash - 5,000/-

goods withdrawn for personal use - goods.

Purchased goods - Purchases
sold goods - sales.

Journal Entries in the books of Gopal.

Date	Particulars.	L.F. No.	Debit (Rs)	Credit (Rs).
2024 Jan 1	Cash a/c ..... Dr To Capital a/c (being Capital brought in)		50,000 —	— 50,000.
Jan 2	Bank a/c ..... Dr To Cash a/c (being Cash deposited in bank)		40,000 —	— 40,000
Jan 3	Cash a/c ..... Dr To Bank a/c. (being Cash withdrawn from Bank).		10,000 —	— 10,000.
Jan 4	Purchase a/c ..... Dr To Mohan a/c. (being goods purchased from Mohan).		5000 —	— 5,000.
Jan 5	Purchase a/c ..... Dr To cash a/c (being goods Purchased by cash from Rahul)		3,000 —	— 3,000.
Jan 6	Vivek a/c ..... Dr To sales a/c (being goods sold to vivek)		10,000 —	— 10,000
Jan 7	Cash a/c ..... Dr To sales a/c (being goods sold to vinod by cash)		5000 —	— 5000
			1,23,000	123,000

To Cash a/c
(being cash withdrawn from office for personal use).

Drawing's a/c ..... Dr
To goods a/c
(beings goods withdrawn for Personal use)

Journal Entries.

Date	Particulars	L.F No.	Debit (Rs)	Credit (Rs)
2024 Mar 12	Purchase a/c ---------- Dr		5,000	—
	To Prakash a/c		—	5,000
	(being goods purchased from Prakash)			
Mar 13	Sunil a/c ---------- Dr		10,000	—
	To Sales a/c		—	10,000
	(being goods sold to Sunil).			
Mar 14	Prakash a/c ---------- Dr		1,000	—
	To Purchase Returns a/c		—	1,000
	(being goods Returned to Prakash)			
Mar 15	Sales Return a/c ---------- Dr		2,000	—
	To Sunil a/c		—	2,000.
	(being goods Returned by Sunil).			

22/2/25

Write general entries for the following transactions

2023

Aug 1 Paid tuition by cash 1,30,000/- to MVSR engineering college.

Aug 2 Paid External examination fees by cheque 3,000/-

Aug 3 Rent received by cash 10,000/-

Aug 4 Interest received by cheque 5,000/-

Aug 5 Purchased machinary from ABC Comp. ltd. 20,000/-, payment made by cheque.

Journal Entries

Date	Particulars.	L.F. No	Debit (Rs)	Credit (Rs).
2023 Aug 1	Tuition fees a/c ..... Dr		1,30,000	—
	To Cash a/c		—	1,30,000.
	(being tuition fees paid to MVSR Engg. college).			
Aug 2.	External Examination fees a/c ..... Dr		3,000	—
	To Bank a/c.		—	3,000.
	(being external exam fees paid by cheque)			
Aug 3.	Cash a/c ..... Dr		10,000	—
	To Rent Received a/c.		—	10,000.
	(being rent received by cash)			
Aug 4.	Bank a/c ..... Dr		5,000	—
	To Interest Received a/c.		—	5,000
	(being Interest received by cheque)			
Aug 5.	Machinery a/c ..... Dr		20,000	—
	To Bank a/c		—	20,000
	(being machinery purchased from ABC co ltd by cheque).			
			1,68,000	1,68,000.

ASSIGNMENT - 1

Record the following Transactions in the Journal.

2017

Jun 1 Started business with cash 10,000/-

Jun 3 Purchased goods from Madhu for cash 2,000/-

Jun 6 Sold goods to Gopinath 5,000/-

Jun 12 Received cash from Gopinath 3,000/-

Jun 19 Paid to Raheem Cash 500/-

Jun 21 Sales to Satish 1500/-

Jun 30 wages paid 100/-

Jun 22 Received Commission 500/-

Jun 24 Advertisement expences 100/-

Jun 27 Paid to landlord rent 140/-

2m

Compound Entry: Whenever two or more transactions of the same nature [that is transactions where either the account to be debited or the account to be credited is common.] Take place on the same day a composite or compound or combined journal entry can be passed for them, instead of passing a seperate journal entry for each of them.

Ex: Suppose on 31st March, 2020 - 2,000/- is paid for rent, 3,000/- for salaries and 1,000/- for wages, then a compound general entry may be passed for all the transactions as follows.

Journal Entries.

Date	Particulars	L.F No.	Debit (Rs)	Credit (Rs).
2020 Mar 31.	Rent a/c ..... Dr		2,000	
	Salary a/c ..... Dr		3,000	
	wages a/c ..... Dr		1,000	
	To Cash a/c.			6,000.
	(being rent, salary, wages paid in cash).			
	Cash a/c ..... Dr		17,000	
	To Rent Received			10,000
	To Commission Received			5,000
	To Interest Received			2,000.
	(being rent, commission, Interest received in cash)			

2m

Opening Entry: With the beginning of a new accounting year, every business man has to write and keep a new set of books of accounts. The accounts not closed in the previous accounting period are recorded in a new set of books with an entry called 'opening entry'. All the assets accounts are debited and liability accounts are credited. The difference between the assets and liabilities is to be credited to the capital account

Ex: Pass the necessary Opening Entry on 1st March, 2005. in books of John & Co.

Cash in hand 660/- ; Cash at bank 12,100/- ; Stock in trade 24,400/- ~~Cash~~ furniture and fitting 13,200/- ; Sundry debtors 29,040/- ; Sundry Creditors 22,800/- ; Bills payable 6,600/-.

Journal Entries.

Date	Particulars.	L.F. No	Debit (Rs)	Credit (Rs).
2005 Mar 1.	Cash a/c ---------- Dr		660	
	Bank a/c ---------- Dr		12,100	
	Stock-in Trade a/c ---------- Dr		24,400	
	furniture & fittings a/c ---------- Dr		13,200	
	Sundry Debtors a/c ---------- Dr		29,040	
	To Sundry Creditors a/c			22,800
	To Bills payable a/c.			6600
	To Capital a/c.			50,000.
	(being the assets & liabilities and capital (balancing figure) bought from last year).			

Assets - 79,400
Liabilities - 29,400
Capital - 50,000

Assets - Liabilities = Capital.

28/2/25

2m What is a ledger?

* Ledger is a book where the various accounts pertaining to a particular person, thing, or surroundings are grouped together in one place, in the form of an account.

- It contains accts for all the persons with when the business deals, for all the expenses incurred and income earned by the business
- Ledger can be defined as a book which contains records of all transactions permanently in a summarised and classified form.
- It is a book of final entry all business transactions are first recorded in the journal and finally recorded in the ledger.
- The process of transferring the transaction from journal to the ledger is called 'posting'.
- Ledger is the main or principle or most important book of the business and hence called 'King of books of accounts'.

Name of the Account.

Dr. | Cr.

Date	Particulars	J.F No.	Amount Rs.	Date	Particulars.	J.F No.	Amount Rs.
xx	To. (Name of the account Credited in Journal).		xx	xx	By. (Name of the account debited in Journal).		xx

Write Journal entries for the following transactions and necessary ledger accounts.

2024
Nov
1st Deposited in bank Rs 50,000/-

2nd Cash Purchases Rs 20,000/-

3rd Cash sales Rs 1,00,000/-

4th Cash withdrawn from bank Rs 10,000/-

Journal Entries.

Date	Particulars.	L.F No.	Debit (Rs)	Credit (Rs).
2024 Nov 1	Bank a/c — (1) ---------- Dr		50,000	—
	To Cash a/c. — (2)		—	50,000
	(being cash deposited in bank)			
Nov 2.	Purchase a/c — (3) ---- Dr		20,000	—
	To Cash a/c.		—	20,000.
	(being goods purchased by cash).			
Nov 3.	Cash a/c ---------- Dr		1,00,000	—
	To sales a/c. — (4).		—	1,00,000
	(being goods sold by cash)			
Nov 4.	Cash a/c ---------- Dr		10,000	—
	To Bank a/c.		—	10,000.
	(being cash withdrawn from bank).			

1) Bank
2) Cash
3) Purchased
4) Sales.

ions and

(e)	Credit (Rs).
—	
50,000.	
—	
20,000.	
—	
1,00,000	
—	
10,000.	

Bank Account

Dr | Cr

Date	Particulars.	J.F No.	Amount Rs.	Date	Particulars	J.F No.	Amount Rs.
2024 Nov 1	To Cash a/c.	10 ↑ (Pg. No) (Assumed)	50,000	2024 Nov 4	By Cash a/c.		10,000.
				Nov 30	By Balance c/d →		40,000.
			50,000.				50,000.
Dec 1	To Balance B/d → (brought down)		40,000				

Cash Account

Dr | Cr

Date	Particulars	J.F No	Amount Rs.	Date	Particulars.	J.F No.	Amount Rs.
2024 Nov 3.	To Sales a/c.	10	1,00,000.	2024 Nov 1	By Bank a/c.		50,000
Nov 4.	To Bank a/c.		10,000.	Nov 2.	By Purchase a/c.		20,000.
				Nov 30	By Balance c/d.		40,000.
			1,10,000.				1,10,000
Dec 1	To Balance B/d →		40,000.				

Purchase Account

Dr | Cr

Date	Particulars.	J.F No	Amount Rs.	Date	Particulars	J.F No.	Amount Rs.
2024 Nov 2.	To cash a/c.	10	20,000.	2024 Nov 30	By Balance c/d.		20,000.
							20,000
Dec 1	To Balance B/d.		20,000.				

Sales Account

Dr | Cr

Date	Particulars.	J.F. No	Amount Rs.	Date	Particulars.	J.F No.	Amount Rs.
2024 Nov 30.	To Balance c/d.	10	1,00,000.	2024 Nov 3.	By Cash.		1,00,000.
			1,00,000	Dec 1	By Balance b/d.		1,00,000.

Bank a/c.

Dr – 50,000
Cr – 10,000
40,000.

Cash

Dr – 1,10,000
Cr – 70,000
40,000.

Trial Bal.

Dr Bal	Cr Bal
⋮	⋮

1/3/25

Prepare Ramesh Account from the following particulars.

1st Jan 2002 : Amount due to Ramesh 4500/-.

5th Jan : Cash purchases from Ramesh 1000/-

10th Jan : Goods brought from Ramesh 2000/-

15th Jan : Goods returned to Ramesh 200/-.

21st Jan : Cash paid to Ramesh 2000/-.

25th Jan : Purchase goods for cash from Ramesh 2000/-.

28th Jan : brought goods from Ramesh on credit 1000/-

31st Jan : Settle Ramesh account by cash?.

When a person ledger account is prepared no cash transaction of purchase and sales are taken or ignored.

→ Jan 5 & 25 Transaction Ignored because Cash Purchases.

Ramesh Journal Entries.

Date	Particulars	L.F No	Debit (Rs)	Credit (Rs)
2002 Jan 10.	Purchace a/c ---------- Dr To Ramesh a/c ---		2,000 —	— 2,000
Jan 15	Ramesh a/c ---------- Dr To Purchase Return a/c. (being goods returned to Ramesh).		200 —	— 200
Jan 21	Ramesh a/c ---------- Dr To cash a/c.		2,000 —	— 2,000.
Jan 28	Purchase a/c ---------- Dr To Ramesh a/c.		1,000 —	— 1,000
Jan 31	Ramesh a/c ---------- Dr To Bank a/c.		? [5,300] —	— 5,300.

Dr — Ramesh's Account. — Cr

Date	Particulars.	J.F No.	Amount Rs.	Date	Particulars.	J.F No.	Amount Rs.
2002. Jan 15	To Purchase Return a/c.		200.	2002. Jan 1.	By balance B/d.		4,500
Jan 21	To Cash a/c.		2,000	Jan 10	By Purchase a/c		2,000
Jan 31.	To Bank a/c. (Settled by Cheque)		5,300.	Jan 28	By Purchase a/c		1,000.
			7,500				7,500.

Amount due to Ramesh – By Balance B/d.

Amount due from – To Balance B/d.

Dr – 2,200.
Cr – 7,500
5,300.

ASSIGNMENT – II.

Prepare Ram's account and Sham's Account from the following particulars.

2007
1st Jan : Balance due from Ram 5000/-.
Balance due to sham 4000/-.

4th Jan : goods sold to Ram on Credit 6000/-.

6th Jan : goods purchased from sham on credit 5000/-.

5th Jan : Cash received from Ram 3000/-

10th Jan : Cash paid to sham 2500/-

17th Jan : goods returned by Ram 1000/-

19th Jan : ~~Cash sales to Ram~~ goods returned to sham 500/-

21st Jan : Cash sales to Ram 6000/-

24th Jan : Cash purchases from Sham 8000/-

21st & 24th are ignored as they are cash purchases.

Subsidiary books.

2m
** What is subsidiary book?

When business transactions are very few there is only one Journal, wherein all transactions are recorded.

In big businesses concerns or organisations, recording of all transactions in one journal and then posting them in ledger will be very inconvenient and will involve a lot of clerical work.

Moreover, transactions are usually repeative nature.

To overcome this difficulty, big business organisations have introduced the system of subsidiary books.

The following are subsidiary books.

1. Cash book: to record receipts and payments of cash including cash deposits and withdrawn from bank.
2. Purchase book: to record credit purchases of goods.
3. Purchase return book: to record all purchase returns that is all goods return by the traded to his suppliers.
4. Sales book: to record all credit sales of goods.
5. Sales return book: to record all sales of returnes i.e., all goods return by the customer to the trader.
6. Bills receivable book: to record all bills due from debtors.
7. Bills payable: to record all payments due to creditors.
8. Journal proper: to record all those transactions that cannot be recorded in any of the above books.

Ex: Opening entries, closing entries, adjustment entries, etc...

one Journal,

transactions

j inconveint

ntroduced

g cash

all goods

return

recorded

5/3/25 Two Column Cash book (with Discount of Cash).

Prepare a two column cash book ~~of with~~ from the following particulars.

2006

July 1st balance of cash in hand 5000/-

July 2nd dposited in bank 3000/-

July 6th Cash sales 4000/-

July 7th Paid to Srikanth 925/- in full settlement of his account of 1000/-

July 9th With drawn cash for office use 1000/-

July 10th Paid wages 900/-

July 15th Paid to Ravindranath 680/- discount received 20/-

July 21st Received from Venkat 1900/- discount allowed 100/-

July 25th Paid to Ravi Shankar 2000/-

July 29th Commission received 100/-

July 30th 31st Paid salaries 1500/-, Paid wages 700/-

2nd	Bank a/c To Cash a/c	3000	
6th	Cash a/c To sales a/c	4000	
7th	Srikanth a/c... Dr To Cash a/c To Discount Received a/c	1,000	925 75
9th	Cash a/c... Dr To Bank a/c.	1000	
10th	Wages a/c... Dr To Cash a/c.	900	900
15th	Ravindranath a/c.. Dr To cash a/c. To Discount Received a/c.	700	680 20
21st	Cash a/c... Dr Discount Received... Dr To Venkat a/c	1900 100	2000
25th	Ravishankar a/c... Dr To Cash a/c.	2000	2000
29th	Cash a/c... Dr To Commission a/c.	100	100
30th	Salaries a/c... Dr To Cash a/c.	1500	1500
31st	wages a/c.. To Cash a/c.	700	700

Two Column Cash book (with Discount & Cash)

Dr Date	Particulars	J.F No.	Discount Rs.	Cash Rs.	Date	Particulars	J.F No.	Discount Rs.	Cr Cash Rs.
2006 July 1	To Balance B/d		–	5000	2006 July 2	By Bank a/c		–	3000
6	To Sales a/c		–	4000	7	By Srikanth a/c		75	925
9	To Bank a/c		–	1000	10	By wages a/c		–	900
21	To Venkat a/c		100	1900	15	By Ravindranath a/c		20	680
29	To Commission-Received a/c		–	100.	25	By Ravishankar a/c		–	2000
					31	By Salaries a/c		–	1500
					31	By wages a/c.		–	700.
					31	By Balance c/d →			2,295
			100	12000				95	12,000.
Aug 1st	To Balance B/d →			2,295					

Dr – 12,000
Cr – 9,705
2,295

Cash Book

Debit	Credit
1) Receipts & Income.	1) Payments & expenses paid.
2) Cash Sales	2) Cash Purchases
3) withdrawn from Bank	3) Deposited in Bank
4)	4) Drawings

Prepare a three column cash book from the following particulars

2005
July 1st Balance of cash 500/-, Balance of bank 2,500/-
July 3rd Sold goods for cash 1640/-
July 7th Received cash from Gopal and Company 980/-, Discount allowed by him 20/-
July 12th Received cash from Mamatha & Co. 2,760/-, allowed him discount 40/-
July 15th Paid into Bank 3000/-
July 21st Paid to Reddy & Co. by cheque. 1500/-, discount allowed by him 20/-
July 25th Withdrawn for personal use by cheque 500/-
July 31st Paid rent to landlord by cheque 1000/-;
Paid salaries to office staff 2000/-.

Discount Rs.	Cr Cash Rs.
–	3000
75	925
–	900
20	680
–	2000
–	1500
–	700.
→	2,295
75	12,000.

3) Cash a/c Dr 1640
To sales a/c 1640

5) Purchase a/c 720
To Cash a/c 720

7) Cash a/c ---- Dr 980
Discount allowed a/c-Dr 20
To Gopal & Co 1000

12) Same as above 2760 + 40 = 2800

15) Bank a/c 3000
To Cash a/c 3000

21) Reddy & Co a/c--Dr 1520
To Bank a/c 1500
To Discount Received a/c 20

25) Drawings a/c 1000
To Bank a/c 1000

31) Rent a/c 1000
To Bank a/c 1000

31) Salary a/c. 2000
To Cash a/c. 2000.

...count 40/-
by him 20/-

Dr

Three Column Cash Book (with discount, Cash & Bank).

Cr.

Date	Particulars	L.F No	Discount Rs.	Cash Rs	Bank Rs.	Date	Particulars	L.F No.	Discount Rs.	Cash Rs.	Bank Rs.
2005 July 1	To Balance B/d		—	500	2500	2005 July 5	By Purchase a/c		—	720	—
July 3	To Sales a/c.			1640	—	July 15	By Bank a/c	'c'	—	3000	—
July 7	To Gopal & Co a/c.		20	980	—	July 21	By Reddy & Co a/c		20	—	1500
July 12	To Mamta & Co a/c.		40	2760	—	July 25	By Drawing's a/c.		—	—	500
July 15	To Cash a/c	'c'		—	3000	July 31	By Rent a/c		—	—	1000
						July 31	By Salary a/c		—	2000	—
						July 31	By Balance c/d			160	2500.
			60	5880	5500				20	5,880	5500
Aug 1	To Balance B/d			160	2500.						
	To Bank a/c	'c'	—	xx	—		By Cash	'c'	—	—	xx

Cash

Dr — 5880
Cr — 5720
160

Bank

Dr — 5500
Cr — 3000
2,500.

Contra
If cash
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202
Dec

Contra Entries.

2m

If cash is deposited in the bank, it should be entered in the bank column on the debit side as 'To Cash' and again on the credit as 'By Bank'. If Cash is withdrawn from bank for office use, it should be entered in cash column on the debit side as 'To Bank' and again of the credit side in the bank column as 'By Bank'.

- These transactions are not posted in the ledger as both the accounts (cash and bank) are in the cash book itself
- for such entries letter 'C' is written in ledger folio column on each side to indicate that contra effect of this transaction is recorded on the opposite sides. Such entries are called "contra entries".

ASSIGNMENT

Record the following transactions in a column cash book of Mr. Chandra.

2022

Dec 1st — Mr. Chandra received cash from Mr. Bharath 4950/- and gave a discount of 50/-

Dec 2nd — Paid 3800/- in full settlement of 4000/- to Mr. Sunil. [discount - 200/-]

Dec 3rd — Received 8500/- from Deepak and gave a discount of 100/-

Dec 4th — Received 6400/- from Elizabeth and allowed a discount of 100/-

Dec 5th — Paid 8900/- to Kiran and availed a discount 100/-

Dec 6th — Received 8000/- from Kusha and allowed a cash discount of 80/-

Dec 7th — Paid 5000/- to Krishna and received a discount of 500/-

Dec 8th — Paid 3000/- for wages

Dec 9th — Received 2000/- towards commission.

Dec 10th — Paid rent 5000/-

Bank Reconciliation Statement. (BRS)

2m *

What is BRS?

The Bank Reconciliation statement is prepared by the customer and not by the bank. It is prepared periodically, usually at the end of every month. It enable the customer to check the accuracy of the entries made in Cash book and pass book.

- It helps the customer to keep a track of cheques sent to bank for collection (depocited). but not cleared as cheque issued but not precented for payment for unreasonably long period.

12/3/25

Debit (Receipts)	Cash book.	Credit (Payments).
1) Received cheques from customers & Traders entered in cash book and sent to bank for collection (Deposited) but not collected and credited before closing date.		2) Cheques issued but not presented for payment before closing date.
3) Received cheques entered in cash book but omitted to depoit in bank.		

Debit (Payments)	Passbook	Credit (Recipts)
1) Bankers debit the passbook for dishonour of cheques		2) Bankers credit the pass book for Incomes received Ex: Dividends on shares Interest on fixed deposits Interest on Investment
3) Bankers debit the pass book for payments. Ex: Bank charges Electricity bill water bill Property tax Insurance Premium Interest on overdraft.		4) Bankers credit the passbook for payment received directly cash or cheques.

Formula: Same side less (balance given side) opposite side add.

1) If Cashbook balance given find out passbook balance and vice - versa.

2) If cash book overdraft balance given find out pass book overdraft balance and vice varsa.

a) Cashbook balance
Show debit balance

Cash book	
XX	

b) Passbook balance
show credit balance

	Passbook
	XX

c) Cashbook overdraft balance
show debit balance

Cash book	
	XX

d) Passbook overdraft balance
show debit balance

Pass book.	
XX	

Q. Prepare a bank reconciliation statement as on 31st Dec, 2006.

a) balance as per cashbook 25,000/-

b) Cheques issued but not cashed before 31st dec, 2006 - 4000/-

c) cheques paid into bank, but not cleared and credited in passbook, before 31st dec, 2006 - 4,600/-

d) Interest on investment collected by the bankers and credited in passbook - 500/- but not recorded in cashbook.

e) bank charges debited in passbook 25/-, not recorded in cashbook.

− CB +	
a) 25000	b) 4000
c) 4,600	

− PB +	
e) 25	d) 500

	25,000
+ (4000+500)	4,500
	29,500
− (4600+25)	4,625
Bank bal as Per P.B	24,875

Bank Reconciliation statiment as on 31-12-2006.

Particulars	Rs	Rs.
Bank balance as Per Cash book.		25,000
Add: cheques issued but not presented for payment before 31-12-2006	4000	
Add: Interest on Investment Collected by bank and credited in pass book.	500	4,500
		29,500
Less: cheques paid into bank but not chared and credited in pass book.	4600	
Less: Bank charges debited in pass book	25	4,625
Bank Balance as per passbook →		24,875

+ CB −	
c)	b)

+ PB −	
e)	a) 25,000
	d)

15/3/25

ASSIGNMENT

Prepare bank reconciliation statement as on 31st dec, 2006,

a) Bank balance as per pass book. 12,000/-

b) Cheques deposited but not collected. by the bank 5,000/-

c) Cheques issued but not presented for payment 8,000/-.

d) dividents collected by bank and credited in pass book, not entered in cash book 450/-

e) Insurance premium paid by bank and debited in pass book, not recorded in cash book 50/-

+ CB	−
b) 5000.	c) 8000

+ PB	−
	a) 12,000.
e) 50.	d) 450.

	12,000.
+(5000 + 50)	5,050
	17,050
−(8000 + 450)	−8,450
C.B. Bal.	8,600

CBOD

+ CB −	
2)	1)
	3)

+ PB −	
5)	4)

PBOD

− CB +	
2) 5000	3) 8000.

− PB +	
1) 12000	
5) 50	4) 450

UNIT - IV

2m

CAPITAL BUDGETING.

Explain / define / what is capital budgeting.

The term capital budgeing refers to longterm planning for proposed capital outlays (investment) and their financing thus, it includes both raising of long term funds as well as their utilization. The objective of financial management is to maximize the wealth of its share holders.

The finance manager has to take various decisions towards meeting this objective

Capital budgeting is a method of evaluating or evaluation of capital incurred decisions. Capital budgeting is also known as investment budgeting decisions.

Capital budgeting is of 2 types

Capital Budgeting

(1) Traditional / non-discounted Cashflow.

a) Payback period (PBP)

b) Annual Rate of return (ARR)
or
Average Rate of return
or
Accounting Rate of return.

(2) Time adjustment / Discounted Cashflows.

a) Net Present value (NPV)

b) Profitability Index (P.I)

c) Internal Rate of return (IRR)

2m

1) Pay back Period (PBP):

Business units make necessary investment in capital assets. The investment in capital assets is generally recovered from the future cash in flow. (profit). The period of recovery of investment in capital assets is known as payback period.

There are 2 methods.

1) In Case cash inflows are equal, payback period can be calculated directly from the following formula.

$$\therefore \text{Pay back Period} = \frac{\text{Cost of Investment}}{\text{Annual cash inflow.}}$$

Cash inflow = Profit after tax + Depreciation.
(CFAT) (PAT).
Cash flow after tax

PAT = Profit before Depreciation and Tax − Depreciation − Tax
(PBDT)

NOTE:

1) To know PAT, depreciation has to be deducted from PBDT. but depreciation is a non-cash item. To know the cash inflow or cash receipt, the depreciation should be added to PAT.

2) Cost of investment is also known as cost of proposal or present value cash outflow or cash outflow or cash outlay.

2) In Case cash inflow are unequal, payback period can be calculated usually on the basis of cumulating the values.

$$\therefore \text{Payback Period} = \text{Preceeding year} + \frac{\text{Investment balance}}{\text{Succeeding year Cash inflow.}}$$

Investment balance = Cost of investment − preceeding year cumulative cash inflow.

① Cost of investment 1,00,000/- , Project is for 5 years. Calculate payback period and cash inflow for 5 years is as follows:

year	Cash inflow (Rs)
1	30,000/-
2	30,000/-
3	30,000/-
4	30,000/-
5	30,000/-

$$\text{Payback Period} = \frac{\text{Cost of investment}}{\text{Annual cash inflow}}$$

$$= \frac{1,00,000}{30,000} = 3.33$$

∴ Payback Period = 3.33 years.

② Cost of investment 50,000/- , Project is for 5 years. Calculate payback period and cash inflow for 5 years is as follows:

year	Cash inflow (Rs)	Cumulative Cash inflow
1	10,000/-	10,000/-
2	12,000/-	22,000/-
3	14,000/-	36,000/-
4	16,000/-	52,000/-
5	20,000/-	72,000/-

4th year is the year where the investments are returns.

preceeding year = 3.

$$\text{Payback Period} = \text{Preceeding year} + \frac{\text{Investment balance}}{\text{Succeeding year cash inflow}}$$

$$= 3^{rd} + \frac{14,000}{16,000}$$

Investment balance = Cost of investment − Preceeding year cumulative cash inflow

= 50000 − 36,000

= 14,000/-

$$\Rightarrow \text{PBP} = 3^{rd} + \frac{14,000}{16,000}$$

= 3.875

∴ Payback period = 3.875 years.

Year	Cash inflow (Rs)
1	35,000/-
2	130,000/-
3	130,000/-
4	130,000/-
5	130,000/-

26/3/25

Annual rate of return (ARR)

2) What is ARR or define ARR.

is also known as accounting rate or return method. It is the estimated rate of profit on the cost of capital assets. It can calculated by the followings steps:

a) Calculate the profit after Tax

PAT = PBDT − Dep − Tax

b) Calculate the average profit or PAT

$$\text{Average profit or PAT} = \frac{\text{Sum of profit or PAT}}{\text{no. of years.}}$$

c) Calculate the average cost of Investment

1) If Scrap value not given

$$\text{Average cost of Investment} = \frac{\text{Cost of Investment}}{2}$$

2) If Scrap value is given

$$\text{Average cost of Investment} = \frac{1}{2}(\text{cost of Investment} - \text{scrap value}) + \text{scrap value.}$$

NOTE:

In order to know the actual investment the scrap value should be duplicated but it should be added.

d) formula: $$ARR = \frac{\text{Average profit or PAT}}{\text{Average cost of Investment}} \times 100.$$

Decision Rule:

Manageler decision is based on ARR and the standard rate of return.

The standard rate of return is the general rule of return of an industry. If ARR is more than the standard rate of return, the proposal can be recommended or accepted. other wise the proposal has to be rejected.

NOTE: Standard rate of return is given in the problem if not given, 10% is assumed as rate of return.

1Q). Calculate the average rate of return for the following particulars.

Cost of Investment = 2,50,000/-

Rate of return = 12%

CFAT and dept

year	Rs.
1	90,000/-
2	1,60,000/-
3	1,20,000/-
4	70,000/-

formula ARR = $\frac{\text{Average profit or PAT}}{\text{Average cost of Investment}} \times 100$

PAT = $\frac{90,000 + 1,60,000 + 1,20,000 + 70,000}{4}$

$= \frac{4,40,000}{4} = 1,10,000$

Average cost of Investment = $\frac{\text{cost of Investment}}{2}$

$= \frac{2,50,000}{2} = 1,25,000.$

ARR = $\frac{1,10,000}{1,25,000} \times 100$

= 88%.

Decision: Since ARR is more than the standard rate of return the proposal is accepted.

2) Cost of investment is 25,000/- . Calculate ARR, rate of return = 10%. scrap value 5000/-. Depreciation = ?.

Tax value = 50% and profit before depreciation and tax for 5 years is as follows.

Particulars.	1 (Rs)	2 (Rs)	3 (Rs)	4 (Rs)	5 (Rs).
Profit before depreciation and Tax (PBDT)	5,000	6,000	7,000	8,000	10,000
(-) Depreciation.	4,000	4,000	4,000	4,000	4,000
Profit before Tax (PBT)	1,000	2,000	3,000	4,000	6,000.
~~Profit~~ (-) Tax 50% profit	500	1,000	1,500	2,000	3,000
Profit after tax (PAT).	500	1,000	1,500	2,000	3,000.

Working note:

When rate of depreciation is not given then it is to be calculated by the following method.

Calculation of preciation:

Cost of Investment = 25,000

(-) Scrap value 5,000

20,000 — Life Depreciation.

$$\therefore \text{Depreciation} = \frac{\text{Life Depreciation}}{\text{No. of year}} = \frac{20,000}{5} = 4,000.$$

$$PAT = \frac{\text{Sum of profit}}{\text{No. of years}} = \frac{500 + 1000 + 1500 + 2000 + 3000}{5}$$

$$= \frac{8000}{5} = 1600/-$$

$$\text{Average cost of Investment} = \frac{1}{2}(\text{cost of Investment} - \text{scrap value}) + \text{scrap value}.$$

$$= \frac{1}{2}(25,000 - 5,000) + 5,000$$

$$= \frac{1}{2}(20,000) + 5,000$$

$$= 10,000 + 5,000$$

$$= 15,000/-$$

formula $ARR = \frac{\text{Average profit or PAT}}{\text{Average cost of investment}} \times 100$

$= \frac{1600}{15000} \times 100$

$= 10.67\%$

$\therefore ARR = 10.67\%$.

2m

3) Net Present Value (NPV).

The net present value of a proposal is the sum of present values of all cash inflows related to a proposal. Thus, NPV is the sum of the discounted values of all cash flows pertaining to a proposal. It can be calculated by the following steps:

a) Calculate the cash inflow:

Cash inflow = PAT + Depreciation.

PAT = PBDT − Dept − Tax.

b) Calculate the present value factor (P.V. factor)

$P.V. factor = \frac{1}{(1+r)^n}$ r = rate of Interest, n = no. of years.

c) Calculate the present value cash inflow (PV cash inflow)

PV cash inflow = cash inflow × P.V factor.

d) Apply the formula

NPV = Total PV cash inflow − Cost of Investment

Decision:

If NVP is positive value the proposal is accepted or recommended. If it is negative value the proposal is rejected.

2m

4) Profitability Index (P.I)

What is Profitability Index?

The PI is a varient of the NPV method. While, NPV states whether a proposal is viable, the PI expresses cost / benefit relationship between initial cash outlay and the NPV of the proposal. This approach is very helpful when

one is faced with a choice involving several alternative investment of different size.

- The PI is an attempt to find as to how much present value benefits are being created for each rupee of net investment.

$$P.I = \frac{\text{Total PV Cash inflow}}{\text{Cost of Investment}}$$

Decision:

If PI is more than 1 the proposal is accepted or recommended. If it is less than 1 the proposal is rejected.

2m

5) Internal Rate of Return (IRR)

IRR is that trade at which the sum of discounted cash inflows equals the sum of discounted cash outflows. In other words, it is the rate which discounts the cash flows to '0'. It can be stated in the form of a ratio as $\frac{\text{Cash inflows}}{\text{Cash outflows}} = 1$

7m Define capital budjects & its methods [Def & these 5 method].

$$IRR = r_1\% + \frac{\text{Total PV Cash inflow at } r_1 - \text{Total PV Cashoutflow}}{\text{Total PV Cash inflow at } r_1 - \text{Total PV Cash inflow at } r_2} \times (r_2 - r_1).$$

year	Cash inflow (Rs)	PV factor at r_1 @ 10%	PV cash inflow of r_1 (Rs)	PV cash inflow at r_2 ?	PV cash inflow of r_2 (Rs).
1	90,000	0.909	81,810 (90,000 × 0.909)	0.893	80,370 (90,000 × 0.893)
2	90,000	0.826	74,340	0.797	71,730
3	80,000	0.751	60,080	0.711	56,880
4.	80,000	0.682	54,560	0.635	50,800
5.	60,000.	0.621	37,260	0.567	34,020
			3,08,050		293,800

Cost of investment 2,00000/-

Rate of return = 10%

Calculate NPV, PI and IRR and cash inflows as follows.

$$\text{PV factor} = \frac{1}{(1+r)^n}$$

$$\Rightarrow \frac{1}{\left(1+\frac{10}{100}\right)^1} = \frac{1}{1.1} = 0.909 \quad \text{— I}$$

$$\Rightarrow \frac{1}{\left(1+\frac{10}{100}\right)^2} = 0.826 \quad \text{— II}$$

$$\Rightarrow \frac{1}{\left(1+\frac{10}{100}\right)^3} = 0.751 \quad \text{— III}$$

$$\Rightarrow \frac{1}{\left(1+\frac{10}{100}\right)^4} = 0.682 \quad \text{— IV}$$

$$\Rightarrow \frac{1}{\left(1+\frac{10}{100}\right)^5} = 0.621 \quad \text{— V.}$$

r_1 values.

NPV = Total PV Cash inflow − Cost of Investment

= 3,08,050 − 2,00,000 = 1,08,050/-

Decision: Since NPV is +ve value, the NPV is accepted.

$$P.I = \frac{\text{Total PV Cashinflow}}{\text{Cost of Investment}} = \frac{3,08,050}{2,00,000} = 1.5402.$$

Decision:

Since PI is more than 1 the decision is accepted. ~~or~~ recommended.

when r_2 isn't given then the r_2 % is taken more than ~~2~~ of r_1

$\therefore$ r_1 is 10 % ; r_2 is taken at 12 %.

$$\text{PV factor} = \frac{1}{\left(1+\frac{12}{100}\right)^1} = \frac{1}{1.12} = 0.893$$

$$\Rightarrow \frac{1}{\left(1+\frac{12}{100}\right)^2} = 0.797$$

$$\Rightarrow \frac{1}{\left(1+\frac{12}{100}\right)^3} = 0.711$$

$$\Rightarrow \frac{1}{\left(1+\frac{12}{100}\right)^4} = 0.635$$

$$\Rightarrow \frac{1}{\left(1+\frac{12}{100}\right)^5} = 0.567$$

r_2 values.

NOTE:

The PV cash inflow of r_1 should be greater than PV cash inflow of r_2

$$IRR = r_1\% \times \frac{\text{Total PV Cashinflow at } r_1 - \text{Total PV Cashoutflow}}{\text{Total PV Cash inflow at } r_1 - \text{Total PV Cash inflow at } r_2} \times (r_2 - r_1)$$

$$= 10 \times \frac{3,08,050 - 2,00,000}{3,08,050 - 2,93,800} \times (12-10)$$

$$= 10 + \frac{1,08,050}{14,250} \times 2$$

$$= 10 + \frac{2,16,100}{14,250}$$

$$= 10 + 15.16$$

$$= 25.16\%$$

29/3/25

Q

Cost of Investment = 1,00,000

Rate of return = 10%.

29/3/25

Q Venu industries has a project with the following projected cash flows.

Cost of investment 10,00,000/-

Scrap values 40,000/- after 5 years. It is expected to yeild profit after dupreciation & taxes during the 5 years ammounting to

1st year 80,000/-

2nd year 1,20,000/-

3rd year 1,40,000/-

4th year 1,00,000/-

5th year 40,000/-

Calculate

The average rate of return on the investment

rate of return = 10% (r1).

UNIT - II [16 marks]

2 - Theory.
7 - problem x 2

2/4/25

Final Accounts:

2m What is final accounts?

The trading, profit & loss account balance sheet prepared by the business man prepared at the end of trading period is called [trading] final accounts. They are called final accounts due to the following reasons:

- They are prepared finally, i.e., after all the books of accounts are closed and trial balance is extracted.
- They are prepared at the end of trading period.
- They show the final results of a business.

2m What is Trading account?

Trading account is prepared mainly to know the profitability of the goods bought and sold by the business man. It shows the result of trading, i.e., buying and selling of goods called gross profit or gross loss.

The difference between the sales and cost of goods sold is gross profit or gross loss.

Cost of the goods sold is ascertained by adding opening stock + purchases + expenses for purchase of goods - closing stock.

or

direct expenses

Trading Account

Cr.

Dr

Particulars		Rs.	Particulars.		Rs.
To opening stock		xx	By sales	xx	
" Purchases	xx		(-) sales return	xx	xx
(-) Purchase Returns	xx	xx	OR		
OR			Return Inwards or		
Return outwards OR			Return from customers		
Return to trades			By Closing stock		xx
To Carriage Inwards			By gross loss (if any)		
(Carriage on purchases)			transferred to profit/loss		xx
To Freight, Duty and			account		
Clearing charges					
To Excise (liquer) duty and					
octroi (tax name)					
" Direct a manufacturing					
or producing wages.					
" factory rent and Insurance					
" factory lighting					
" factory expences					
" Coal gas and water					
" Motive power					
" Gross profit tranferred					
to profit/loss account.					

Gross Profit = Excess of credit side total − Debit side total

Gross loss = Excess of debit side total − Credit side total.

Prepare tradit account from the following particulars.

Opening stock	25,000/-	Dr
Sales	1,80,000/-	Cr
Carriage inwards	3,500/-	Dr
Carriage outwards	4,500/-	Dr
Return inwards	2,400/-	Cr
Return outwards	1600/-	Dr
Purchases	1,20,800/-	Dr
Freight, duty & clearing charges	8,400/-	Dr
Manufacturing wages	15,600/-	Dr
closing stock	42,800/-	Cr

& Salaries

Trading Account

Dr. Cr

Particulars.	Rs.	Particulars	Rs.
To Opening stock	25,000	By sales 1,80,000	
To Purchaes 1,20,800		(-) Return Inwards 2,400	1,77,600
(-) Return outwards 1,600	1,19,200.	By closing stock	42,800
To Carriage Inwards	3,500		
To freight, duty & clearing charges	8,400		
To Manufacturing wages	15,600		
To Gross profit transferred to P/L a/c.	48,700		2,20,400
	220,400		

Cr - 2,20,400
Dr - 1,71,700

48,700. → Profit

What is profit and loss account?

- The profit and loss account is an account which show's the net profit or net loss of a business for a particular period.
- All indirect expences such as administrative or management expences, selling and distribution expences, financial expences and other item's such as depriciation, provisions etc... are taken on the ~~bedi~~ debit side.
- Gross profit and other items of income such as interest received, discount received etc., are taken on the credit side.
- The differences b/w two sides is either net profit or net loss which is to be transferred to capital account (balance sheet).

Dr Profit & Loss Account. Cr.

Particulars	Rs.	Particulars	Rs.
To Gross loss B/d		By Gross profit B/d.	
" Salaries		" Rent received	
" Rent, Rates & taxes		" Interest received	
" Printing & stationary		" Commission received.	
" Postage & Telegram.		" Discount received.	
" Telephone charges		" Income or Investment	
" Insurance OR office Insurance		" Apprentice premium received	
" Audit fees		" Interest on Drawings	
" legal charges		" Net loans (if any) transferred to capital a/c.	
" General or Trade expenses			
" Repairs & Renewals			
" Depreciation			
" Advertisement			
" Traveller's salaries & Commission			
" Commission paid.			
" Packing charges			
" Carriage outwards (Carriage on sales)			
" To Bad debts			
" Provision for Bad debts			
" Interest on Capital			
" Interest on loan			
" Discount allowed			
" Net profit traferred to capital a/c.			

Net profit = Excess of Credit side total - Debit side total.

Net less = Excess of debit side total - Credit side total.

Prepare profit & loss account from the following particulars.

Rent, rates & taxes	5,000/-	Dr
Audit fees	500/-	Dr
Postage & Telegrams	200/-	Dr
legal exprenses	400/-	Dr
Bad debts	1,200/-	Dr
Repairs & renewals	450/-	Dr
discount allowed	125/-	Dr
discount received	75/-	Cr
Interest on loan	1,000/-	Dr
gross profit	20,500/-	Cr

Dr Profit & loss Account Cr

Particulars	Rs.	Particulars	Rs.
To Rent, rates & Taxes	5,000	By Gross profit B/d	20,500
" Postage & Telegram	200	" Discount received.	75
" Audit fees	500		
" legal Expenses	400		
" Repairs & renewals	450		
" Bad debts	1,200		
" Discount allowed	125		
" Interest on loan	1,000		
" Net Profit tranferred to capital a/c.	11,700		
	20,575		20,575

Cr 20,575
Dr. 8,875
11,700. => Profit

find out Net profit

Gross profit	50,800/-	Cr
Salaries	12,300/-	Dr
rent & taxes	4,800/-	Dr
Depreciation on machinary	1,300/-	Dr
Commission received	550/-	Cr
Printing & stationary	250/-	Dr
Advertising	4,100/-	Dr
Discount allowed	200/-	Dr

Dr	Cr
12,300	50,800.
4,800	
1,300.	550
250	
1,100	
200	
→ 31400	
51,350.	51,350.

51350
19950 Total of Dr
31,400 ⇒ Profit transferred to Capital account.

1/4/25

Balance Sheet:

Balance sheet is prepared to know the financial position of a business on a particular date. It is a statement which shows the assets and liabilities of a business as on a particular date.

- It shows what a business owns and what it owes.
- This statement is prepared from real and personal account.
- The nominal accounts are transfered to trading and profit & loss acco
- Balance sheet is a 'statement' and not an 'account'. It does not have debit and credit sides. It is divided into 2 sides i.e., left hand side is called liabilities side and right hand side is called assets side.

Balance Sheet

Liabilities.		Rs.	Assets	Rs.
Sundry or Trade Creditors			Cash in hand	
Bills payable			Cash at bank	
Bank overdraft			Bills Receivable	
loan taken or mortgage loan			Sundry debtors.	
outstanding expenses			Investment	
Income received in advance.			loan given	
Reserves			closing stock	
Capital	xx		prepaid expenses	
(+) Net profit	xx		outstanding Income.	
(+) Interest on capital	xx		Plant & machinery.	
	xx		land & buildings	
(-) Drawings	xx		furniture / fixtures / fittings	
(-) Interest on drawings	xx		freehold / leasehold / property	
(-) Net loss (if any)	xx	xx	loose tools	
			Patent & Trade marks	
			Good will	
		xx		

Q. Prepare a balance sheet according to the following:

Cash in hand	500/-
Cash at bank	20,600/-
Bill receivable	2,400/-
Bills payable	2,500/-
Bank overdraft	5,800/-
Sundry debtors	15,300/-
Closing stock	20,800/-
Plant & machinery	20,000/-
furniture & fixtures	5,200/-
Capital	50,000/-
Net profit	32,500/-
drawings	6,000/-

Balance Sheet.

Liabilities.		Rs.	Assets	Rs.
Bills payable		2,500	Cash in hand	500
Bank overdraft		5,800	Cash at bank	20,600
Capital	50,000		Bills receivable	2,400
(+) Net profit	32,500		Sundry debtors	15,300
	82,500		Closing stock	20,800
(-) Drawings	6,000.	76,500.	Plant & machinery	20,000
			furniture / fixtures	5,200.
		84,800.		84,800.

from the following particulars prepare balance sheet of Raghavan as on 31st march, 2024

Capital	3,20,000/-
drawings	10,000/-
Sundry debtors	45,000/-
Sundry creditors	33,000/-
mortgege loan	1,00,000/-
Net profit	80,000/-
Buildings	2,50,000/-
Bills receivable	10,000/-
~~granted~~ plant & machinary	1,50,000/-
bills payable	27,000/-
closing stock	60,000/-
Investments	15,000/-
Cash in hand	2,000/-

Cash at bank 18,000/-

Balance Sheet of Raghavan as on 31-03-2024

Liabilities		Rs.	Assets	Rs.
Sundry creditors.		33,000	Cash in hand	2,000
Bills payable		27,000	Cash in bank	18,000
mortgage loan		1,00,000	Bills receivable	10,000.
Capital	3,20,000		Sundry debtors	45,000.
(+) Net profit	80,000		Investments	15,000
	4,00,000		Closing stock	60,000
(-) drawings	10,000	3,90,000	Plant & machinery	1,50,000
			Buildings.	2,50,000
		5,50,000.		5,50,000

19/4/25 from the following balances of Gupta; prepare the trading & profit & loss account as on 31st march, 2024.

Particulars (Rs)	
Opening stock	20,000/-
Salaries	25,000/-
General expences	2,000/-
Rent & taxes	3,000/-
Purchases	90,000/-
freight inward	2,500/-
Advertising	1500/-
Sales	1,85,000/-
Discount allowed	1,800/-
Discount received	1,000/-

Adjustments :

Closing stock 18,000/-

Trading, profit & loss account of Mr. Gupta as on 31-3-2024.

Dr

Particulars.		Rs	Particulars		Rs.
To opening stock		20,000	By Sales	1,85,000	
To Purchases	90,000		(-) sales returnes	—	1,85,000
(-) Purchase Returnes	—	90,000	By closing stock		18,000
To freight Inward		2,500			
To Gross profit transfered to P/L a/c.		90,500.			
		2,03,000			2,03,000
To Salaries		25,000	By Gross profit B/d		90,500
To Rent & Taxes		3,000	" Discount Received.		1,000.
" General Expenses		2,000			
" Advertising		1,500			
" Discount allowed		1,800			
" Net profit transfered to capital a/c.		58,200			
		91,500			91,500.

2,03,000	91,500
12,500	33,300
90,500	58,200.

Prepare final accounts of Mr. Ram from the following trail balance as on 31st dec. 2023.

Debit	Rs.		Credit	Rs.	
Opening stock	20,000/-	T	Bank overdraft	50,000/-	B
fixed assets	1,00,000/-	B	Sales	2,60,000/-	T
Rent	16,000/-	P	Creditors	50,000/-	B
Carriage	20,000/-	T	Capital	40,000/-	B
Purchases	1,80,000/-	T			
Salaries	40,000/-	P	Total.	4,00,000/-	
Debtors	24,000/-	B			
Total	4,00,000/-				

T - Trading
P - Profit/Loss
B - Balance sheet.

Adjustment:

Closing Stock 30,000/- T/B

Debtor

Closing stock

fixed asset

Prepare trading account, profit & loss account and balance sheet from the following details.

Opening stock	20,000/-
Purchases	50,000/-
sales	90,000/-
wages	10,000/-
office expenses	2,500/-
Stationary	500/-
Selling expenses	2,000/-
furniture	15,000/-
Capital	50,000/-
Creditor	20,000/-
Cash in hand	30,000/-
Cash at bank	30,000/-

<u>Adjustment</u>:

Closing stock	25,000/-

Final Account adjustments.

How you treat the following adjustments in final accounts?

1) Closing stock.

a) first it appears / shown in trading account, credit side

b) Again it appears / shown in balance sheet, assets side

2) outstanding expenses (outstanding salaries):

a. Add to the respective expenditure trading account & profit loss account.

b. only outstanding expenses given in adjustment is shown in balance sheet Liability side.

3) Income received inadvance (Interest)

a. subtract income received inadvance from the respective income in profit / Loss account in credit side.

b. Income received inadvance given in adjustment is shown on the liability on the balance sheet.

4) Depreciation.

a. Calculated Depreciation (or) total value is shown in Debit side of P/L account.

b. Calculated Depreciation (or) total value is subtracted from respective assest in balance sheet.

5) bad debts

a. bad debts is shown on debit side of P/L account given in adjustment percentage or value.

b. bad debts detected from sundry debtors in balance sheet assest side.

6) Prepair expenses / unexpired expences. (Insurance, Rent & taxes)

a. It is to be subtracted from the respective expenditure in profit & loss account.

b. only adjustment amount of prepaid expences is shown on assets side in balance sheet.

7) Interest on Capital

a. Calculated Interest is shown on the debit side of profit & loss account.

b. Calculated interest is added to capital in balance sheet liabilities side

8) Interest on drawings:

a. Calculated interest on drawings is shown on the credit side of profit & loss account

b. Calculated interest is subtracted from capital after subtracting drawings amount.

23/4/25:

From the following bank trial balance of Vikas poultry works, prepare trading, profit & loss, balance sheet as on 31st march 2015.

Debit bal	Rs.		Credit bal	Rs.
Electricity.	14,000/-		Interest discount	16,000/-
Land	1,40,000/-	Assets	sales returns	6,000/- Cr P/L
Interest	16,000/-	Both (Cr & Dr)	Sundry creditors	8,00,000/-
wages	50,000/-		Capital	10,000/- Purchas (Cr). return
opening stock	20,000/-	Trading	bills payable	60,000/-
rent	24,000/-	P & L	Total.	3,20,000/-
Purchases	3,00,000/-	Tr		15,000/-
office expenses	30,000/-	P & L		12,09,000/-
building	4,00,000/-			
Salaries	90,000/-	P & L *		
power, gass & water	30,000/-	T (Dr)		
returns	20,000/-	Both (Dr & Cr). sales returns		
furniture	15,000/-	Assets *		
Sundry debtors	60,000/-			
Total	12,09,000/-			

Liability

Adjustments

- Closing stock 80,000/-
- Outstanding salaries 10,000/-
- Interest received in advance 2,000/-
- depreciate building at the rate of 10% per anum. *
- write off bad bedts 10,000/-

working Note:

1) Closing stock : a) Tr a/c credit side
b) B/S asset side

2) Salaries :
(+) O/S sal

90,000		
10,000	–	B/S liability side
1,00,000		P/L a/c Debit side.

3) Interest :
(-) received in adv

16,000		
2,000	–	B/S liability side.
14,000.		P/L a/c credit side.

4) Building Depr 10%.

$4,00,000 \times \frac{10}{100} = 40,000$ P/L a/c debit side.

5) Bad bebts

10,000 P/L a/c. debit side. – dep

4,00,000	
40,000	
3,60,000	Assets

S. Debtors 60,000
(-) Bad bebtors 10,000
50,000 Assets side.

8,60,000
4,04,000
4,56,000

4,76,000
2,20,000
2,56,000

Trading, profit & loss of vikas foundry works.
as on 31-3-2015

Dr

Particulars.		Rs.	Particulars.		Rs.
To opening stock		20,000	By sales	8,00,000	
" Purchases	3,00,000		(-) Returns	20,000	7,80,000
(-) returns	10,000	2,90,000	By closing stock (1)		80,000
To wages		50,000			
" Electricity		14,000			
" Power, gas & water		30,000			
" Gross profit transfered to P/L a/c.		4,56,000			8,60,000
		8,60,000	By Gross profit B/d		4,56,000
To salaries	90,000		" Interest	16,000	
(+) Outstanding salaries (2)	10,000	1,00,000	(-) received in advance (3)	2000	14,000
To rent		24,000	By Discount		6,000
" Office Expences		30,000			
" Interest		16,000			
" Depreciation on Building (4) @ 10%		40,000			
" Bad debts (5)		10,000			
" Net profit transfered to capital a/c.		2,56,000			
		4,76,000			4,76,000

Balance Sheet of vikas foundry works
as on 31-3-2015

Liabilities		Rs	Assets		Rs.
Sundry creditors.		60,000	Sundry debtors	60,000	
Bills payable		15,000.	(-) Bad debts (5)	10,000	50,000
Outstanding salaries (2)		10,000.	Closing stock (1)		80,000.
Interest Received in advance (3)		2,000.	furniture		15,000
			Land		1,40,000
Capital	3,20,000		Building	4,00,000	
(+) Net profit	2,56,000.	5,76,000.	(-) Depreciation @ 10% (4)	40,000	3,60,000
		6,63,000.			6,45,000.

25/4/25

Prepare trading, profit & loss, balance sheet as on 31.3.2019. from the following trial balance gopal krishna.

Debit	Rs.
Purchases	25,200/-
furniture	1600/-
wages	3500/-
machinary	20,000/-
opening stock	17,525/-
Sales return	1200/-

Question Incomplete.

Working Note:

2) Salaries 10,600.

(+) o/s sal 400 — B/S Liability side.

11,000 P/L a/c debit side.

3) Prepaid rent & Taxes.

2001

(-) prepaid. 201 — B/S assets side.

1,800 — P/L a/c debit side.

4) Bad debts reserve - 5%.

Debtors. $10,400 \times \frac{5}{100} = 520$ — P/L a/c debit side.

Assets

Debtors 10,400

(-) Bad debts 520

9,880

5) Depreciation on machinery 10%.

$20,000 \times \frac{10}{100} = 2,000$ — P/L a/c. debit side.

Assets

mach 20,000

(-) dep. 2,000

18,000

6) Interest on capital 5%.

$35,000 \times \frac{5}{100} = 1,750$ — P/L a/c debit side

Liabilities

Capital 35,000

(+) Net profit

(+) Int on capital 1,750

Trading, profit & loss account of Gopal krishna as on 31-3-2019

Dr Cr

Particulars.		Rs.	Particulars.		Rs.
To opening stock		17,525	By Sales	61,604	
" Purchases	25,200		(-) Sales returns	1,200	60,404
(-) Purchase returns	222	24,978	By closing stock (1)		16,800
To freight or purchases		200			
" wages		3,500			
" gross profit transfered to P/L a/c.		31,001			
		77,204			77,204
To Sales.	10,600.		By Gross profit B/d.		31,001
(+) outstanding sal (2)	400.	11,000.			
To rent & taxes	2001				
(-) prepaid rent & taxes (3)	201	1,800.			
To Bad debts reserve (4)	5%	520			
To Depreciation on machinary @ 10% (5)		2000.			
To Interest on capital @ 5% (6)		1,750			
To Freight on sales		503			
To Net profit transferred to capital a/c.		13,428			
		31,001.			31,001

Balance sheet of Gopal krishna
as on 31-3-2019.

Liabilities.		Rs.	Assets.		Rs.
Creditors.		3,903	Cash at bank		8000.
outstanding salaries (2)		400.	Debtors	10,400.	
Capital	35,000.		(-) Bad debts reserve (4)	520	9,880
(+) Net profit	13,428				
	48,428		Closing stock (1)		16,800.
(+) Interest on capital @ 5% (6)	1,750.	50,178	furniture		1,600.
			prepaid rent & taxes (3)		201.
			machinery	20,000.	
			(-) Depreciation @ 10% (5)	2000	18,000.
		54,481			54,481

Assets
Debtors 10,400
(-) Bad debts 520
9,880.

Assets
mach 20,000
(-) dep. 2,000
18,000.

Liabilities.
tal
profit 35,000
n
al 1,750.

Cr

	Rs.
	60,404
	16,800
	77,204
	31,001

26/4/25

From the following trial Balance of Sanjay, prepare trading & profit & loss account & balance sheet for the year ending 31-12-2022.

Particulars.	Debit (Rs)	Credit (Rs).
Sanjay's capital		~~Sanjay Cap~~ 37,000/-
Cash in hand	4,000/-	
Purchases & sales	45,000/-	95,000/-
returns	500/-	600/-
wages	8,500/-	
Power & fuel	3,500/-	
Salaries	6,500/-	
Carriage inwards	1,800/-	
Opening Stock	7,200/-	
Buildings	25,000/-	
Machinery	15,000/-	
furniture	5,000/-	
Debtors & Creditors	12,000/-	9,000/-
General expences	2,600/-	
Drawings	5,000/-	
Total.	1,41,600/-	1,41,600/-

Adjustments

a) Closing stock 14,000/- Trading

b) Machinery & furniture to be depreciated by 750/- & 250/- #

c) Outstanding wages 500/-

d) write off bad debts 600/-

e) Charge 5% interest on drawings.

<u>working note</u>

a) Closing stock : a) Tr a/c credit side.
b) B/s assets side.

b) Depreciation.

machinery 15,000
- dep. - 750 — PL a/c Debit side.
14,250 B/s Assets side.

furniture. 5,000
- dep 250
4,750

c) wages 8,500
(+) o/s wages. 500 — B/L Liabilities side.
9,000. Tr a/c debit side.

d) Debtors 12,000
(-) Bad debts 600 — P/L a/c Debit side.
11,400. B/s Assets side.

e) Interest on Drawings 5%

$5000 \times \frac{5}{100} = 250$ — P/L a/c credit side.

Cr - 108,500.
Dr 65,900
42,600.

42,850
10,700
32,150.

2 250/- #

niture. dep. 5,000. 250 4,750

a - 1,08,500. Dr 65,900 42,600.

42,850 10,700 32,150.

Trading, Profit & loss account of Mr. Sanjay's as on 31-12-2022.

Dr | Cr.

Particulars.		Rs.	Particulars.		Rs.
To opening stock		7,200	By Sales	95,000.	
" Purchases	45,000.		(-) returns	500	94,500
(-) returns	600.	44,400.	By closing stock		14,000.
To Carriage inwards		1,800.			
" wages	8,500.				
(+) outstanding wages (c)	500.	9,000.			
To power & fuel		3,500.			
To Gross profit transfered to P/L at c.		42,600			
		1,08,500.			1,08,500.
← 2 lines →					
To Salaries		6,500.	By Gross profit B/d		42,600
" General Expenses		2,600.	" Interest on drawings @ 5%.		250.
" Depreciation on machinery		750			
furniture &c.		250			
" Bad debts (d)		600.			
" Net profit transfered to Capital a/c.		32,150.			
		42,850.			42,850.

Balance sheet of Mr. Sanjay as on 31-12-2022.

Liabilities.		Rs.	Assets		Rs.
Creditors.		9,000.	Cash in hand.		4,000.
Outstanding wages (c)		500.	Debtors	12,000.	
Capital	37,000.		(-) Bad debts (d)	600	11,400.
(+) Net profit	32,150		Closing stock (a)		14,000.
	69,150.		Buildings		25,000.
(-) Interest on drawings (e) 5%.	250.	63,900.	machinery	15,000	
			(+) Depreciation (b)	750	14,250.
			furniture	5,000	
			(-) Depreciation (b)	250.	4,750
		73,400.			73,400.

30/4/25

UNIT-3

RATIO ANALYSIS.

What is ratio analysis?

Define ratio analysis?

The ratio analysis is the most important and powerful technique of management for decision making. The word ratio refers to the expression of relationship between two related figures

It can be defined as the determination of mathematical relationship between 2 related variables. for example., ratio of gross profit to sales, net profit to sales, current assets to current liabilities.

The ratios can be classified into the following:

1) liquidity ratios.
2) Profitability ratios.
3) Activity or turnover or efficiency ratios.
4) Solvency ratios.

1) Liquidity Ratios:

Business organisations generally pay the liabilities from the business assets. The liability should be paid by the business on or before a particular date. to maintain the good will of the firm. In order to know the business ability to pay the liability on the notified due date, the following important liquidity ratios are calculated.

a) Current Ratio: It is the ratio of current assets & current liabilities. current assets hold by the business for a temporary period. They are converted into cash within a period of one year. It includes; cash balance bank balance, bills receivable, debtors, stock, prepaid expenses, outstanding income, Investment (short period), marketable securities (shares & debentures).

Similarly, the liabilities are payable by the firm within a period of 1 year are known as current liabilities. It includes; creditors, bills payable, bank overdraft, outstanding expenses, income received in advance, provision for tax, unclaimed dividents.

Current Ratio = Current Assets The standard Ratio is 2:1

b) Liquid Ratio or Quick Ratio or Acid Test Ratio: It is also known as quick ratior or acid test ratio. The ratio of liquid assets and current liabilities is known as liquid Ratio. The word liquid assets include all the current assets except stock & prepaid expenses.

liquid assets ; cash, bank, Bills receivable, debtors, outstanding income, Investment, marketable securities.

liquid assets = All current assets except stock & prepaid expenses

$$\therefore \text{Liquid Ratio} = \frac{\text{Liquid assets}}{\text{Current Liabilities}}$$

The ideal ratio is 1:1

c) Absolute Liquid Ratio: It is the ratio of absolute liquid assets and current liabilities. absolute liquid assets include; cash, bank, marketable securities.

$$\therefore \text{Absolute liquid ratio} = \frac{\text{Absolute liquid assets}}{\text{Current liabilities}}$$

absolute liquid assets = Cash + Bank + Marketable securities.

Standard ratio is 0.5 : 1 or 1 : 2.

from the following particulars, calculate

a) Current Ratio b) Liquid ratio c) absolute liquid ratio,

liquidity ratios.

Cash in hand	3,000/-
Cash at bank	65,000/-
Bills receivable	10,000/-
Stock	1,20,000/-
Debtors	80,000/-
Prepaid expenses	2,000/-
Sundry creditors	1,20,000/-
Bills payable	20,000/-

a)

Current assets ⇒ 3000 + 65000 + 10,000 + 80,000 + 1,20,000 + 2,000

= 2,80,000.

Current liabilities ⇒ 1,20,000 + 20,000

= 1,40,000.

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

$$= \frac{2,80,000}{1,40,000} = 1\tfrac{1}{2} : 1.$$

b) liquid assets ⇒ 3,000 + 65,000 + 10,000 + 80,000

= 1,58,000.

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

= $\frac{1,58,000}{1,40,000}$ ⇒ 1.13.

liquid Assets = All current assets Except stock & prepaid expenses.

c) absolute liquid assets ⇒ 3000 + 65,000

= 68,000.

Absolute liquid ratio = $\frac{\text{Absolute liquid assets}}{\text{Current liabilities}}$.

= $\frac{68,000}{1,40,000}$.

[Absolute liquid assets = Cash + Bank + Marketable securities.]

4/6/25

Q. from the following particulars calculate ~~[liquidity ratios]~~.

a) Current ratio. b) Quick ratio. ~~c) Absolute liquid ratio.~~

~~Cash~~ Liabilities	Rs.
Sundry creditors	10,000.
Bills payable	7,500
Tax payable	9,000
outstanding expenses	16,000
Debentures	75,000. N.CL

Assets	Rs.
Stock	30,000 N.LA
Sundry Debtors	35,000
Cash Bal	10,000.
Bills receivable	15,000.
prepaid exp	5,000. N.LA
Land & building	1,00,000
Good will	50,000.

Current liabilities = 38,500.

liquid assets = S.D (35,000) + Cash (10,000) + B/R (15,000)

= 60,000.

Current assets = 30,000 + 35,000, 10,000 + 15,000, 5,000.

= 95,000.

Current Ratio = $\frac{\text{Current assets}}{\text{Current liabilities}}$ = $\frac{95,000}{42,500}$.

Quick ratio = $\frac{\text{liquid assets}}{\text{Current liabilities}}$ = $\frac{60,000}{42,500}$.

Q. The working capital of a firm is 80,000/- and its current ratio is 5 : 1 what are the current assets & current liabilities.

They are genrally calculated on the basis of 2 mathematical equations.

Ans Working capital: The difference between current assets and current liabilities under management accounting is known as working capital.

$\therefore$ working capital = Current assets − Current liabilities.

$\Rightarrow$ $80,000 = CA - CL.$

$CA - CL = 80,000$ —— ①

Current ratio $= \frac{CA}{CL}$

$\frac{5}{1} = \frac{CA}{CL}.$

$1(CA) = 5(CL)$

$CA - 5CL = 0$ —— ②

$CA - CL = 80,000.$

$\cancel{CA} - 5CL = 0$

$4CL = 80,000.$

$CL = \frac{80,000}{4} = 20,000.$

$CA - CL = 80,000.$

$CA - 20,000 = 80,000$

$CA = 80,000 + 20,000 = 1,00,000.$

$\therefore CA = 1,00,000/-$

$CL = 20,000/-.$

Assignment

Given Current ratio is 1.75, liquidity ratio 1.25, working capital 1,50,000/-. Calculate i) Current assets ii) Current liabilities. iii) Liquid asset iv) Stock.

6/6/25

2) Profitability Ratios:

- The basic object of all types of business organizations is to maximize the profit and to create the wealth for the proprietor and share holders.
- The profit is essential for all the types of business unit for survival, expansion and modernization. It indicates the efficiency or inefficiency of the management. In other words, the efficiency of management can be judged on the basis of profitability ratios.
- They are classified into the following.

1) General profitability ratios: The ratios based on net assets are generally known as general profitability ratios. They are the following.

a) Gross Profit ratio: It is the ratio of the G.P to the sales. It gives the percentage of gross profit on the net sales.

$$\therefore \text{G.P ratio} = \frac{\text{G.P}}{\text{Sales}} \times 100$$

G.P = Sales - cost of goods sold.

b) Net Profit ratio: The ratio of net profit based on the sales is called net profit ratio. It also gives the percentage of net profit on the sales

$$\therefore \text{N.P ratio} = \frac{\text{N.P}}{\text{Sales}} \times 100$$

NP = Gross profit - Operating expenses - Non operating expenses.

c) Operating ratio: It is the percentage of operating cost based on the sales.

$$\therefore \text{operating ratio} = \frac{\text{Operating cost}}{\text{sales}} \times 100$$

Operating cost = cost of goods sold + operating expenses.

cost of goods sold = sales - gross profit.

Operating expenses = Administrative expenses + selling & distribution expenses.

d) Operating profit ratio: operating profit is the profit made by the business on trading activities. It does not include non operating incomes, expenses and losses.

$$\therefore \text{Operating Profit ratio} = \frac{\text{Operating profit}}{\text{sales}} \times 100$$

operating profit = gross profit - operating expenses.

Q. Calculate gross profit ratio, net profit ratio, operating ratio & operating profit ratio.

FM

Sales	5,00,000/-
Cost of goods sold	3,00,000/-
Operating expenses	1,00,000/-
Non-operating expenses	20,000/-

i) Gross profit = Sales − cost of goods sold

$\Rightarrow 5,00,000 - 3,00,000$

$= 2,00,000/-$

Gross profit ratio $= \frac{GP}{Sales} \times 100$

$\Rightarrow \frac{2,00,000}{5,00,000} \times 100$. $\therefore$ G.P ratio = 40%.

$= 40\%$

ii) Net profit = gross profit − operating expenses − nonoperating expenses

$= 2,00,000 - 1,00,000 - 20,000$

$= 80,000/-$

Net profit ratio $= \frac{80,000}{5,00,000} \times 100$. $\left[\frac{NP}{Sales} \times 100\right]$

$= 16\%$.

$\therefore$ Net profit ratio = 16%.

iii) Operating ratio:

Operating cost = cost of goods sold + operating expenses

$\Rightarrow 3,00,000 + 1,00,000$.

$= 4,00,000/-$

Operating ratio $= \frac{\text{Operating cost}}{\text{sales}} \times 100$

$\Rightarrow \frac{4,00,000}{5,00,000} \times 100$.

$= 80\%$.

$\therefore$ operating ratio = 80%.

iv) operating profit = gross profit − operating expenses.

$\Rightarrow 2,00,000 - 1,00,000$

$= 1,00,000/-$

operating profit ratio = $\frac{\text{operating profit}}{\text{sales}} \times 100$.

$= \frac{1,00,000}{5,00,000} \times 100$

$= 20\%$

∴ operating profit ratio = 20%.

from the following information, calculate
a) gross profit ratio b) net profit ratio.

Net sales	2,50,000/-
Cost of goods sold	1,75,000/-
Selling expenses	6,000/-
Administrative expenses	4,000/-
Income on interest	2,500/-
loss on the sale of old machine	6,000/-

a) Gross profit ratio:

gross profit = sales − cost of goods sold

$= 2,50,000 - 1,75,000.$

$\Rightarrow 75,000/-$

gross profit ratio = $\frac{G.P}{\text{sales}} \times 100$

$= \frac{75,000}{2,50,000} \times 100$

$= 30\%$

∴ G.P ratio = 30%.

b) Net profit ratio:

NP = gross profit − operating expenses − nonoperating expenses

$\Rightarrow 75,000 - 10,000 - 0 = 65,000.$

Operating expenses = administrative expeses + selling & distribution expe

$= 4,000 + 6,000 \Rightarrow 10,000/-$

$\left[\frac{NP}{\text{sales}} \times 100\right]$ NP ratio = $\frac{65,000}{2,50,000} \times 100 = 26\%$ ∴ NP ratio = 26%.

Q. Trading P/L a/c.

	Rs.			Rs.
To opening stock	5,00,000.	By sales.		
" Purchases	11,00,000	Cash	3,00,000	
" wages	3,00,000	credit	17,00,000.	20,00,000.
" factory overheads	2,00,000.	By closing stock		6,00,000.
" gross profit c/d.	5,00,000			
	26,00,000.			26,00,000.
To Administrative expenses	75,000.	By gross profit B/d		5,00,000.
" selling & distribution sales	50,000.	" dividend on shares		10,000.
" debentures Interest	20,000	" profit on sale of furniture.		20,000.
" depreciation	60,000			
" loss on sales of car	5,000			
" net profit c/d	3,20,000			
	5,30,000.			5,30,000.

Calculate

i) G.P ratio ii) N.P ratio iii) operating ratio iv) operating profit ratio.

10/6/25

Overall Profitability Ratios.

Profitability ratios can be

The word investment refers to the following.

a. Equity shareholder fund invested

b. Shareholder investment

c.

The word return / profit refers to the following

for Ex:

		Rs
Profit before interest and tax (PBIT)	=	50,000
(-) Interest on loan	=	5,000
profit before Tax (PBT)		45,000.
(-) Income Tax @ 40% $(45,000 \times \frac{40}{100})$	=	18,000
(Profit after tax)(PAT)		27,000.
(-) Preference share dividend @ 10% on Preference share capital of Rs $60,000 \times \frac{10}{100}$	=	6,000.
Profit available to equity shareholder		21,000.

	21,000.
(-) Equity share dividend @ 15% equity share capital of ₹5,000/- ($₹5,000 \times \frac{15}{100}$)	= 11,250
	9,750.

Balance of profit carried over to Balance sheet as Reserves.

3) Activity or Turnover or Efficiency ratio

- Companies and other business [organisations associations] collect the necessary funds from the shareholders as a capital, from the public as debentures & bank loans from financial institutions
- The funds are usually invested in the fixed assets and current assets. Success of the business to a greater extent depends on the utilisation of funds in various assets. In order to know the accuracy of fund utilisation the following activity ratios are calculated.

i) Inventory Turnover Ratio (ITR) or Stock turnover Ratio (STR).

It is the ratio of cost of goods sold & average stock. It gives the no. of times the stock is converted into sales.

$$\therefore \text{ITR or STR} = \frac{\text{Cost of goods sold}}{\text{Average stock}}$$

Cost of goods sold = Sales − Gross Profit.

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

ITR or STR can be expressed in the form of period or inventory conversion period. It gives the no. of days or months for conversion of stock into sales.

$$\therefore \text{Inventory Conversion period} = \frac{\text{365 days (or) 12 months}}{\text{ITR (or) STR}}$$

ii) Debtors Turnover Ratio: (DTR)

The basic object of sales department is to maximize the sales. The credit sales is the most important technique to promote the sales. In order to know the efficiency of credit sales policy, the DTR is calculated. It gives the no. of times the debtors are turned over during a particular period.

∴ Credit sales = Total sales − Cash sales.

$$\text{Average Debtors} = \frac{\text{opening debtors} + \text{opening Bills receivable} + \text{closing debtors} + \text{closing bills receivable}}{2}$$

$$\text{Debtors collection period} = \frac{\text{365 days or 12 months}}{\text{DTR}}$$

iii) Creditors Turnover Ratio.

Traders and manufactures purchase the materials and products from the suppliers on credit. To know the efficiency of credit ~~sales~~ purchase policy, the CTR is calculated. It also gives the no. of times creditors are turned over for a particular period.

$$\text{CTR} = \frac{\text{Credit Purchase}}{\text{Average creditors}}$$

Credit purchase = Total Purchase − Cash Purchase.

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

$$\text{Creditors payment period} = \frac{\text{365 days or 12 months}}{\text{CTR}}$$

Q. from the following particulars, calculate

a) Debtors turnover for both the years.

b) Average collection period for bothe the years.

	Mar 31st 2021 Rs.	Mar 31st 2022. Rs.
Net sales	8,00,000	7,50,000.
Debtors of the beginning	1,66,000	1,60,000.
Debtors of the end	2,94,000	1,72,000.

Note: Net sales is assumed as credit sales.

Mar 31st 2021.

$$\text{Avg debtors} = \frac{\text{opening debtors} + \text{closing debtors}}{2}$$

$$= \frac{1,66,000 + 2,94,000}{2}$$

$$= \frac{4,60,000}{2} = 2,30,000.$$

Mar' 2022

$$= \frac{1,60,000 + 1,72,000}{2}$$

$$= \frac{3,32,000}{2}$$

$$= 1,66,000.$$

$$DTR = \frac{\text{Credit sales}}{\text{Avg debitors}}$$

2021 $\frac{8,00,000}{2,30,000} = 3.47$

$\therefore$ DTR = 3.47 times.

2022 $\frac{7,50,000}{1,66,000} = 4.51$

$\therefore$ DTR = 4.51 times.

2021 DTR Collection Period $= \frac{12}{3.47} = 3.45$ months.

2022 $= \frac{12}{4.51} = 2.6$ months.

4) Solvency Ratio:

a) Proprietary Ratio:

The shareholders fund is known a proprietary fund. the ratio of net worth and total assets employed in the business is known as proprietary ratio.

$$\therefore \text{Proprietary ratio} = \frac{\text{Net worth}}{\text{Total assets}}$$

or

$$\frac{\text{Proprietary fund}}{\text{Total assets}}$$

b) Debt Equity Ratio:

The term debt is defined as long term loans. the ratio of long term debts and net worth is called debt equity ratio.

$$\therefore \text{debt Equity ratio} = \frac{\text{long term loans}}{\text{net worth}}$$

long term loans = Bank loans + Debentures + other long term loans.

c) Capital Gearing Ratio:

It is the ratio of long-term external fund or outsiders fund & equity share holder fund

$$\therefore \text{Capital Gearing} = \frac{\text{long term outsiders fund or external fund}}{\text{Equity shareholder fund.}}$$

Outsiders fund = Bank loan + Debentures + other long term loans + Preference share capital.

Calculation of Equity shareholder fund, net worth & capital Employed.

		Rs.
Equity share capital	=	xx
(+) Reserves & surplus	=	xx
(+) P/L a/c balance (Net profit)	=	xx
		xx
(−) Miscellaneous expenses OR (Preliminary expenses)		xx
(−) Discount on shares, P/L a/c balance (Net loss)		xx
		xx → Equity shareholder fund.
(+) Preference share capital		xx
		xx → Net worth.
(+) Bank loan, Debentures & other long term loans		xx
		xx → Capital Employed.

Balance Sheet

Liabilities	Rs.	Assets	Rs.
Equity share capital	2,00,000	fixed assets	17,50,000.
9% Preference share capital	1,00,000	Current assets	2,00,000
Reserves & surplus	8,00,000	miscellaneous expenditure	75,000.
12% Debentures	8,00,000		
Current liabilities	81,000		
Provisions	44,000		
	20,25,000.		20,25,000.

Calculate : 1) Proprietery ratio, 2) Debt Equity Ratio.
3) Capital Ratio, 4) Current Ratio.

Calculation of eq. shareholder fund, net worth, Capital Employed.

Eq. sh. Capital	2,00,000.
(+) Reserves & supplies.	8,00,000
	10,00,000
(-) miscellaneous exp.	75,000
	9,25,000
(-) Discount on shares etc.	—
a) Eq. shareholder fund →	9,25,000.
(+) Preference share capital	1,00,000
b) Net worth →	10,25,000.
(+) Bank loan, debentures etc.	8,00,000
c) Capital employed →	18,25,000.

① Proprietary Ratio = $\frac{\text{Net worth}}{\text{Total assets}}$

$\Rightarrow \frac{10,25,000}{19,50,000.}$

Total assets = F.A + C.A ⇒ 17,50,000 + 2,00,000 = 19,50,000.

② Debt Equity Ratio = $\frac{\text{long term loans}}{\text{Net worth}} = \frac{8,00,000}{10,25,000.}$

long term loans = Debentures ⇒ 8,00,000.

③ Capital Gearing Ratio = $\frac{\text{long term outstandin fund}}{\text{Equity shareholder fund}}$

$\Rightarrow \frac{9,00,000}{9,25,000.}$

long term outstanding fund = Bankloan + Deb + other long term loans + P.S Capital

⇒ 8,00,000 + 1,00,000

= 9,00,000.

④ Current ratio = $\frac{\text{Current Assets}}{\text{Current liabilities}}$

$= \frac{2,00,000}{81,000}$

18/6/25

UNIT-V

FINANCIAL SYSTEM AND MARKETS.

2M What is financial system?

financial system comprises a set of sub systems of

i) Cash
ii) financial Institutions
iii) financial markets
iv) financial Instruments
v) financial Services

which help in the formation of capital. a well-knit financial system indicates the economic growth and development of any country.

- It means by which the savings are transformed into investment by mobilizing the surplus funds and utilizing them effectively for productive purpose.

Savings → Based on employment & Income.

Loans

short term — Investors — long term.

2M what are the components/ constituents of financial system?

7M functions of financial System:

i) Mobilization of savings: The financial system chanelises the savings of the individuals and make it available to the borrowers. viz, companies for production of goods & services. Thus, establishing a link between the savers and investors. This will result in an optimum alocation of financial resources in an economy. which inturn increase the overall growth of the economy.

ii) Payment System: It provides a channel for payment whenever and wherever the payer wants ~~what~~ with the help of cheques, credit card, debit card, RTGS, Demand draft, etc.,. Thus, reducing the risk of carrying ~~co~~ cash facilitating quick and easy transaction.

iii) Management Risk: It also provides an individuals various options to protect against various risks viz, accident, ~~bad~~ health related and income risk through various life insurance options.

iv) Liquidity : It is the ability to convert of investment into cash. It provides the opurtunity to the investors to liquidate their instruments like shares, debentures, bonds, etc.,

v) Creation of credit: Bank accepts deposits from customers and create claims (Liabilities) against themselves and create asset when they provide loans to clients.

vi) Capital formation: funds are made available to the business houses through banks, house holds and different financial institutions who mobilize savings which leads to capital formation.

vii) Information Provider: financial market provides information relating to the market and various financial assests. enabling the investors to choose the best investment options and portfolio alocation of their wealth.

20/6/25

Explain about financial institutions?

Financial Institutions are broadly classified into banking and non-banking institutions.

The indian banking institutions are sub divided into organized and unorganized sector. It is the apex institution viz, [R.B.I] which organizes and runs, supervisers, regulates and develops the monitory system and the financial system of the country.

1969 ⇒ 14 banks were Nationalized

Banking

Organised sector	Unorganised sector.
1) Commercial banks	1) Indigenous banks.
a) Public Sector banks	2) Money lenders.
b) Private sector banks (Indian)	3) Seths and sahukars
c) foreign private sector banks.	
2) Co-operative banks.	
3) Regional Rural banks.	

- Non banking financial institutions can be classified into: organised and unorganised sectors.

Non - Banking

Organised Sector

a) Development financial Institutions like

i) IDBI - Industrial development bank of India

ii) ICICI - Industrial credit and investment corporation of India.

iii) IFCI - Industrial finance corporation of India

iv) IIBI - Industrial investment bank of India.

v) IRDP - Integrated rural development program.

vi) SFC's - state financial corporations

vii) SIFC's - state industrial finance corporations.

b) Agricultural Development financial Institutions. viz,

NABARD - National Bank for agricultural rural development

b) Investment institutions like,

i) LIC - Life insurance corporation

ii) GIC - general insurance corporation

iii) UTI - unit trust of India.

iv) Mutual funds.

Unorganised sector.

1) Hire purchase and consumer finance.

2) Leasing companies.

3) Merchant Bankers.

Financial Markets

2m Define or explain financial market:

financial market may be described as any market place where buyers and sellers participate in the trade of financial assets such as equities. [equity shares & perference shares] bonds, currencies and derivats. It fecilitates lending and borrowing of capital. It brings the lenders & borrowers together.

Lenders: i) Individuals ii) Companies.

Borrowers: i) Individuals ii) Companies iii) Central govt municipality iv) Public corporation etc.

Financial Markets

- Primary market (New issue of shares)
- Secondary market (Stock exchange)
- 1) Money market
- 2) Capital market

2m What is Primary meket?

Newly formed (issued) securities are brought or sold, in the primary markets, securities are offered to public for subscription for purpose of raising capital.

What is Secondary market?

is a market where securities are traded after being initially offered to the public in the primary market and/or listed on the stocke exchange.

What is money market?

It is a market for debt securies that pay off in short turm usually less than 1 year. This market encomparses the traiding and issuence of short term non-equity debt instruments like:

1) Treasuringy bills } Control Govt
2) Commercial papers } Control Govt
3) Bankers acceptance. } Banks
4) Certificate of Deposits etc.. } Banks

Explain capital market.

It is a market for long term debt and equity shares. In this market the capital fund comprising of both equity (equity shares, preference shares, convertable preference shares and non-convertable preference shares etc.,) and debts (debentures, zero-coupon bonds and deep discount bonds etc.,) are traded and issued.

Explain about RBI and its functions.

The reserve bank of india was established on april 1st, 1935. In an accordance with the provisions of the R.B.I act, 1934.

It is the central bank, which control, the monitary pocity of the indian rupee. It was nationalized in 1949., the RBI as an apex institution, has been guiding, mentoring, regulating, supervising, controlling and promoting the banking and financial system. in Indic

functions:

1) To maintain monetary stability: so that business and economic can deliver well fair gains of a properly functioning of mixed economy.

Mixed Economy

Agriculture & Industrial
1) oil seeds - oil Industry
2) Sugar cane - Sugar Industries
3) Cotton - Textile Industries.

21/6/25

2) To maintain financial stability and ensure sound financial institutions so that monitary stability can be safely pursued and economic units can conduct their business with confidence.

3) To maintain stable payments system so that financial transactions can be safely and efficiently executed.

4) To promote the development of financial infrastructure of markets and system

25/6/25 SEBI – Securities and Exchange Board of India.

Explain about SEBI and its functions

SEBI was brought into existance by the securities and exchange board of india act, 1992. Which came into effect on January, 30, 1992.

- The preamble to the act describes the purpose of the act in broad terms "an act to provide for the establishment of a board to protect the interest of investors in securities. and to promote the development of, and to regulate the securities market and for matters connected therewith or incidental thereto.

functions of SEBI.

SEBI is an apex institution for investment in india.

The function of SEBI is catigorized into 3.

① Protective functions:

a) To protect the intest of investors and security of their investment.

a) Prohibiting fraudulent and unfair trade practices relating to securities market

b) Prohibiting insider trading in securities.

② Developmental functions:

a) Promoting and regulating self-regulatory organization. [stock-brokers, sub-brokers, Dalal's etc.,]

b) Promoting investor's education and training of Intermediares securities market.

③ Regulatory functions

a) Regulating the business in stock exchange and any other securities market

b) Registering and regulating the working of
1) Stock-brokers
2) Sub-brokers
3) Transfer Agents
4) Bankers to an Issue.
5) Merchant Banker's
6) Underwritten
7) Investment advisers and

such other Intermediaries who are associated with securities markets.

c) Registering and regulating the working of
1) Depositories
2) Custodians of securities.
3) foreign Institutional Investors and anyother etc..

d) Registering

e) Regulating companies.

IRDA – Insur

Explain about

- IRDA being the insurance
- Insurance in built up
- Since then,
- Each organi rules and
- It made insurance.
- It was e
- The primo holders the coun

d) Registering and regulating the working of 1) Joint venture capital
2) Collective investment scheme including mutual funds.

e) Regulating substantial acquisition of shares and take over companies.

IRDA – Insurance Regulatory Development Authority.

Explain about IRDA and its functions.

- IRDA being an autonomous, apex, statutory Body, regulates and develops the insurance sector in India.
- Insurance in India dates back to 1850. with the general insurance organization built up in Calcutta
- Since then, here emerged various players in this market.
- Each organization rehearsed business on its own. rate of premium and rules and regulations.
- It made clients unreliable, which brought into question the validity of insurance.
- It was established by the IRDA act, 1999.
- The primary purpose of IRDA is to safe guard the interest of the policy holders and also to ensure the growth of insurance companies in the country.