UNIT - IV Accounting

10/11/23

Accounting is an art of recording, classifying and summarizing in a significant manner & in terms of money transactions & events which are in part at least of a financial character & interpreting the results thereof".

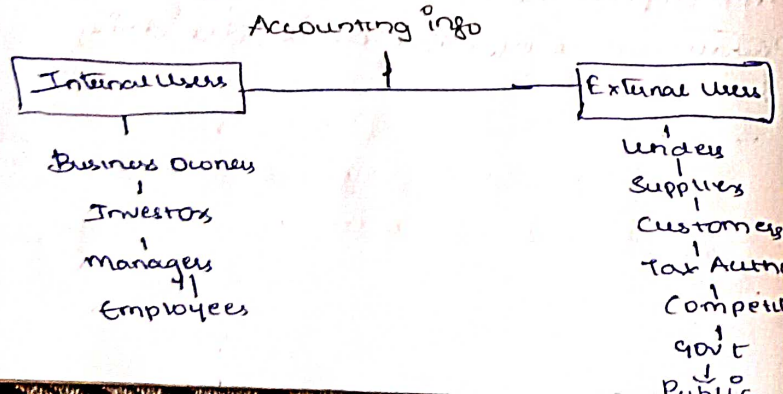
(or)

Accounting is the process of identifying, measuring & communicating economic info to permit informed judgements & decisions by users of the info.

OBJECTIVES OF ACCOUNTING :-

→ To maintain the record of business transaction
→ calculation of Profit or loss
→ Depiction of financial position
→ To make info available to various grps & users.
→ To facilita rational decision making.

Users of Accounting Information :



Internal Users :-

→ Management - they are the decision makers in the company.
→ Employees - persons in the company.

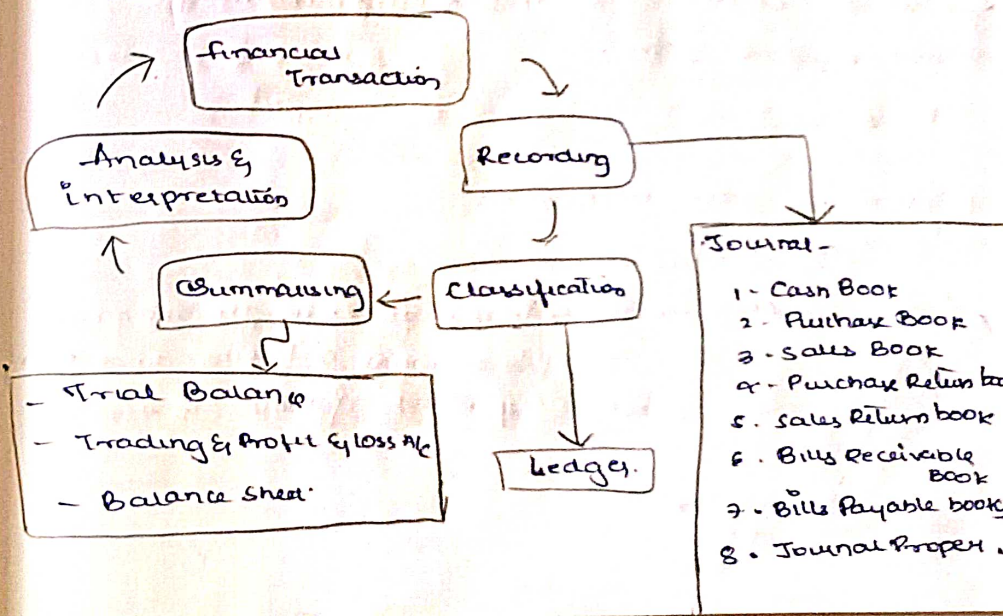
Branches of Accounting :-

1) Financial Accounting :- Ascertain the profit & financial position of the business.

2) Cost Accounting :-
Ascertains the cost of goods produced or services rendered by a business.

3) Management Accounting :-
Supplies relevant info at the appropriate time to the management to enable decision making & exercise effective control.

Accounting Cycle :-



16/4/23

Account Terminology :-

Double-entry Book-Keeping :- This is a system of book-keeping where for every debit, there is a corresponding ~~debit~~ credit.

Account :- This is a financial record in T shaped format, under double entry boo-keeping, dealing with financial transactions.

Account
Debit | Credit

Debit :- The left hand side of account

Credit :- The right hand side of account.

Accounting Period : Accounting Period refers to the period for which accounts are maintained. Normally it is a period of one year.

Transaction :-
- Credit transaction.
- cash transaction

Assets :- All such items that have value are known as assets. It refers to what a business owns, namely its plant, machinery, land, furniture & so on.

- Tangible fixed assets (can be touched & seen)
- Intangible fixed assets (cannot be seen)

Assets
- fixed
  - Tangible fixed assets
  - Intangible fixed assets
- Current (assets are expected to be realised in cash or consumment during business operations)

Examples of current assets are Cash in hand, Cash at bank, stock, Debtors, Bills receivable, prepaid expenses.

Stock / Inventory :- Stock or inventory refers to the goods in which the firm deals. A large business may have three types of stock.

raw materials
works in progress
finished goods.

*** Accounting Concepts & Conventions :-

Definition :- It refers to basic assumptions, rules & principles which work as the basis of recording of business transactions & preparing accounts.

Objective :- To maintain uniformly & consistency in accounting records.

Convention :- It refers to common practices which are universally followed in Recording & Presenting Accounting info of business.

Most important Conventions

Convention of Consistency	Convention of full Disclosure	Convention of materiality	Convention of Conservation

Accounting Principles.

Accounting Concepts.

1. Money measurement
2. Business entity
3. Going concern
4. cost concept.
5. Dual Aspect.
6. Accounting Period
7. Matching
8. Realisation
9. Objective evidence concept
10. Accrual

Accounting Convention

1. Disclosure
2. Consistency
3. Conservatism
4. Materiality

Money Measurement Concept:-

→ All transactions of the business are recorded in terms of money.

→ It provides a common unit of measurement.

→ People started valuing all goods / services in terms of a common commodity called money

Business entity :-

→ The concept implies that the affairs of a business are to be treated as ~~long~~ being quite separate from the non-business activities of its owners.

→ Personal transactions of the owner should not be included.

Going Concern :- 17/11/23

The concept states that a business firm will continue to carry on its activities for an indefinite period of time.

→ we can't when our business is gng to end up, so, assumption is that our business will survive forever.

→ this is an imp assumption of accounting, as it provides a basis for showing the value of assets in the balance sheet.

Cost Concept :-

→ The cost paid for physical asset shld be recorded.

→ Concept deals that purpose of accounting all transaction are recorded at their monetary cost of acquisition.

→ Assets are normally shown at their original cost of acquisition.

→ Any changes in the market value after the purchase are ignored.

Dual Aspect Concept :-

Another meaning of this concept is that all assets of the business are either provided from the funds of the owner or from the funds of the creditors.

This means,

$$\underbrace{\text{ASSETS} = \text{LIABILITIES} + \text{OWNER'S EQUITY}}_{\text{Basic accounting eqn.}}$$

Accounting Period Concept :-

The life of the business is divided into appropriate segment for studying the results shown by the business after each segment.

→ This is bcoz the life is considered indefinite & it is necessary to known the business situation after a appropriates interval.

Matching Concept :-

→ The aim of business is to earn profit

→ It becomes necessary to evaluate the performance periodically.

→ The revenues & costs of same period are matched.

→ Income made by the business during a period can be measured only when the revenue earned is compared with the expenditure incurred for earning that revenue.

Realization Concept :-

The sales is considered to have taken place only when either the cash is ~~invoiv~~ received or some third party becomes legally liable to pay the amount. Revenues are recognized when they are earned or realized. Realization is assumed to occur when the seller becomes cash or a claim to cash (receivable) in exchange for goods or service.

ex1:- A Sales invoice for ₹ 1 lakh
Credit Note for Rs 15000 received.

Objective Evidence Concept :-

→ Every transaction shld be supported by business documents as they act as valid proof.

→ It prevents errors & frauds.

→ It eliminates scope ~~of~~ of personal bias.

Accrual Concept :-

Accrual Concept is the most fundamental principle of accounting which requires recording revenues when they are earned & not when they are received in cash, and recording expenses when they are incurred & not when they are paid.

Accounting Conventions :-

1) Convention of Disclosure :-

→ The disclosure of all significant info to the reader.

→ "disclosure" does not imply that all info that any one could desire is to be included in accounting statements.

→ Sufficient disclosure of info which is of material is trust to the.

→ The disclosures can be in the way of foot notes. Within the body of financial statements, in the minutes of meeting of directors etc.

2) Convention of Consistency :-

→ Accounting practices should remain unchanged from one period to another.

→ Eg:- If depreciation is charged on fixed assets as per reducing balance method, it is to be followed every year.

→ This is necessary for the purpose of comparision.

→ However, consistency does not mean inflexibility.

→ It does not forbid introduction of improved accounting techniques. If a change becomes necessary, the change & its effect should be stated clearly.

3) Convention of conservation :-

→ Uncertainties & risks inherent in business transactions should be given a proper consideration

→ The possibility of loss, consider as the earliest & a prospect of profit, ignored up to the time it doesn't materialize.

→ Follow the rule "anticipate no profit but provide for all possible losses".

4) Convention of Materiality :-

According to this convention only those events or items should be recorded which have a significant bearing & insignificant things should be ignored.

There is no formula in making a distinction b/w material & immaterial events. It is a matter of judgment & it is left to the accountant for taking a decision. It should be noted that an item material for one concern for be immaterial for another.

JOURNAL

Book-Keeping :- There are two systems of book-keeping

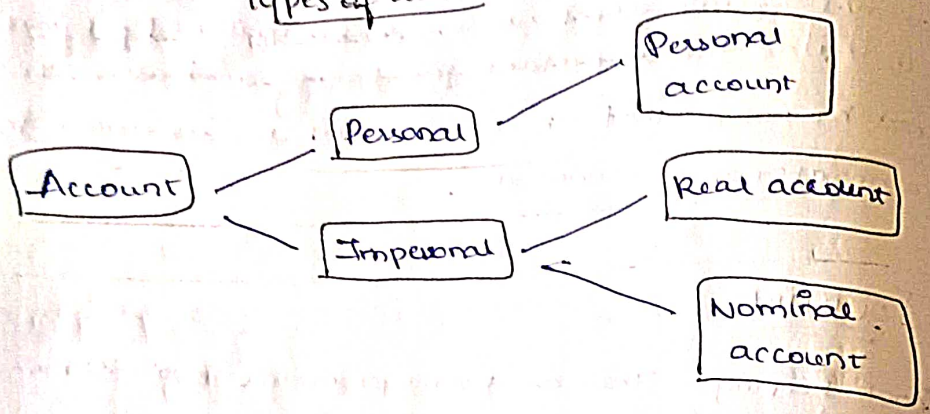
a) Single-entry book-keeping :- It is an unscientific & haphazard way of maintaining accounts. Small business units in the unorganized sector maintain their books of accounts under single-entry book-keeping

b) Double-entry Book-Keeping :- It is a scientific way of recording transactions based on the fact that for every debit, there is corresponding credit. Under this system, both debit & credit aspects of the transaction are being recorded.

Advantages of Double-entry book-keeping :-

1) Information about every Account
2) Helps to know the Receivables & Payables.
3) Arithmetic Accuracy.
4) Helps to Locate Errors
5) Helps to Ascertain Profit/loss
6) Helps to know the financial Position
7) Monitoring & Auditing made easier.

Types of account :-



Rules of Debit & Credit :

Personal Accounts	Real Accounts	Nominal Accounts
(1) Debit the receiver	(1) Debit what comes in	(1) Debit expenses & losses.
(2) Credit the giver	(2) Credit what goes out	(2) Credit incomes & gains.

What is journal ?

Journal is the primary book of keeping accounts. The book where in transactions are ~~needed~~ recorded in a chronological order of dates after determining the debit account & credit account of transactions with explanation is called journal.

The first step of accounting process is to maintain a journal of transactions.

Journal entry format :-

Journal				
Date	Particulars of Business Transactions	Folio	Debit (USD)	Credit (USD)
15-Oct-19	Furniture A/c Dr.	-	$ 100000	
	To Bank Cr			

Features of the journal :-

1) Book of primary entry.
2) Daily record book.
3) Chronological order.
4) use of dual aspects of transactions
5) use of explanation.
6) Different Columns.
7) Subsidary book :- Journalizing of transaction helps preparation of ledger conveniently. That is why the journal is called a subsidary book of the journal.

Journalize the following transactions :- 23/11/23

1) Furniture is purchased for ₹1000.
   Furniture – Real Account – Dr (Debit)
   Cash – Real Account – Credit (Cr)

Journal.				
Date	Particulars of Business Trans	Folio	Debit	Credit
1/11/23	Furniture A/c Dr.		1,000	
	Space To Cash Cr.			1,000.
	(Being furniture purchased)			
	Narration.			

2) Purchased goods for cash Rs 5000.

Purchases – Nominal Account – Dr.

Cash – Real Account – Cr.

Journal					
Date	Particulars of Business Transc		Folio	Debit	Credit
2/1/23	Purchases A/c	Dr		5,000	
	To Cash	Cr			5000
	(Being purchased goods for cash)				

3) Sold goods to Manish Bros for Rs 10,000.

Sales – Nominal Account – Cr.

Manish Bros – Personal Account – Dr.

Journal					
Date	Particulars of Business Transc		Folio	Debit	Credit
3/1/23	Manish Bros. A/c	Dr		10,000	
	To Sales	Cr			10,000
	(Being goods sold to Manish Bros)				

4) Paid salaries Rs 15,000 to employees.

Salaries – Nominal Account – Dr

Cash – Real Account – Cr.

Journal					
Date	Particulars of Business Transc		Folio	Debit	Credit
4/1/23	Salaries A/c	Dr		15,000	
	To Cash	Cr			15,000
	(Being salaries paid)				

5) Purchased goods worth Rs 1,000 from Samantha

Purchases – Nominal – Dr

Samantha – Personal – Cr.

Journal					
Date	Particulars of Business Transc		Folio	Debit	Credit
5/1/23	Purchases A/c	Dr		1000	
	To Samantha	Cr			1000
	(Being goods purchased from Samantha)				

6) Paid Rs 7,500 as rent

rent – Nominal – Dr

cash – Real – Cr.

Journal					
Date	Particulars of Business Transc		Folio	Debit	Credit
6/1/23	Rent A/c	Dr		7500	
	To Cash	Cr			7500
	(Being rent paid)				

7) Sold goods worth Rs 1,000 for cash to Rajinikanth.

Sales – Nominal (income) – Cr.

~~Rajinikanth~~ Cash – (receivers) ~~Personal~~ Real – Dr.

Journal					
Date	Particulars of Business Transc		Folio	Debit	Credit
	Cash A/c	Dr		1000	
	To Sales	Cr			1000
	(Being goods sold for cash)				

8) Entertainment expenses Rs 1,000.

Entertainment expenses – Nominal (expen) – Debit

Cash – Real Account – Credit.

Journal				
Date			Debit	Credit
5/11/23	Entertainment expenses A/c Dr To Cash Cr (Being entertainment expenses paid)		1000	1000

9) Sold goods worth 5000 to Virat Kohli.

Sales — Nominal (income) – Cr.

Virat Kohli — Personal — Dr.

Journal				
Date			Debit	Credit
9/11/23	Virat Kohli A/c Dr To Sales Cr (Being goods sold to Virat Kohli)		5000	5000

10) Goods returned to Samantha Rs 200.

Purchase Returns – Nominal – Cr.

Samantha — Personal – Dr.

Journal				
Date			Debit	Credit
10/11/23	Samantha A/c Dr To Purchase Return Cr (Being goods returned to Samantha)		200	200

1. Ram invests Rs 10,000 in cash — Cash – Real account – Dr; Capital – Real account – Cr
2. He bought goods worth Rs 2000 from Shyam — Purchase – Nominal – Dr; Shyam – Personal – Cr.
3. He bought a machine for Rs 5000 from Lakshman on account. → credit machine – Lakshman –
4. He paid to Lakshman Rs 2000 — Lakshman – cash
5. He sold goods for cash Rs 3000 — Sales – Cr; Cash – Dr
6. He sold goods ~~for cash~~ to A on account Rs 4000 — Sales – Nom – Cr; A – Per – D
7. He paid to Shyam Rs 1000 — Shyam – Dr; Cash – Cr
8. He received amount from A Rs 2000.

Journal				
Date	Particulars of Business Transactions	Folio	Debit	Credit
1/11/23	Cash A/c Dr To Capital (Being business started with capital)		10,000	10,000.
2/11/23	Purchase A/c Dr To Shyam (Being goods purchased from shyam)		2000	2000
3/11/23	Machinary A/c Dr To Lakshman (Being machine purchased from Lakshman)		5000	5000
4/11/23	Lakshman A/c Dr To Cash (Being cash paid to Lakshman)		2000	2000
5/11/23	Cash A/c Dr To Sales (Being goods sold for cash)		3000	3000
6/11/23	A A/c Dr To Sales (Being goods sold for A).		4000	4000.
7/11/23	Shyam A/c Dr To Cash. (Being cash paid to Shyam)		1000	1000.
8/11/23	Cash A/c Dr To A (Being cash received from A).		2000	2000.

Jan 1 Commenced business with a capital of Rs 10000

Jan 2 Bought furniture for cash Rs 3000

Jan 3 Bought goods for cash from 'B' Rs 500.

Jan 4 Sold goods for cash to A Rs 1000.

Jan 5 Purchased goods from C on credit Rs 2000

Jan 6 Goods sold to D on credit Rs 1500.

Jan 8. Bought machinery for Rs 3000 paying cash.

Jan 12 Paid trade expenses Rs 50.

Jan 18 Paid for Advertising to Apple Advertising Ltd Rs 1000

Jan 19 Cash deposited into Bank Rs 500

Jan 20 Received interest Rs 500

Jan 24 Paid insurance premium Rs 200

Jan 30 Paid rent Rs 500.

Jan. 30 Paid salary to P Rs. 1000

Date		Folio	Debit	Credit
1/01/23	Cash A/c Dr To Capital (Being business started with capital)	–	10,000	10,000
2/01/23	Furniture A/c Dr To Cash (Being furniture purchased for cash)	–	3000	3000.
3/01/23	Purchases A/c Dr To Cash (Being goods purchased for cash)	–	500	500
4/01/23	Cash A/c Dr To Sales (Being goods sold for cash)	–	1000	1000
5/01/23	Purchase A/c Dr To C (Being goods purchased from C)	–	2000	2000
6/01/23	To Sales Dr (Being goods sold to D).	–	1500	1500
8/01/23	Machinery A/c Dr To Cash (Being machinery purchased for cash)	–	3000	3000.
12/01/23	Trade Expenses A/c Dr To Cash (Being trade expenses paid)	–	50	50
18/01/23	Advertising expenses A/c Dr To Cash (Being expenses paid)	–	1000.	1000
19/01/23	Bank A/c Dr To Cash (	–	500	500
20/01/23				
24/01/23				
30/01/23				

5/12/23

Trail Balance :-

According to Double entry System of book Keeping for every debit there must be a corresponding credit. As such all debit balances should be equal to credit balances. To prove this, a comprehensive stmt of debits & credits will be prepared by the accountant. This Statement is known as Trail Balance.

↓

provide full list of debits & credits

In the trial Balance there will be 3 columns. They are : (i) Name of the Account (ii) Debit (iii) Credit.

Trail Balance of xxx as on date

particulars	Debit	Credit

1/03/98	Cash A/c Dr To capital (	-	10,000	10,000
2/03/98	Muthu A/c Dr To Sales (Being goods sold to Muthu)	-	4,300	4,300
6/03/98	Cash A/c Dr To Sales (Being goods sold for cash)	-	5,000	5,000
8/03/98	Cash A/c Dr To Commission received A/c (Being commission received)	-	50	50
14/03/98	Sales A/c Dr To Muthu. (Being goods returned by Muthu)	-	100	100
16/03/98	Purchases A/c Dr To Murali (Being goods purchased from murali)	-	21000	21000
18/03/98	Purchases A/c Dr To cash (Being goods purchased for cash)	-	2,400	2,400
20/03/98	Stationery expense A/c Dr To Cash (being goods purchased from stationery)	-	75	75
21/03/98	Murali A/c Dr To Purchase return (Being goods returned to murali)	-	300	300
21/03/98	Murali A/c Dr To cash	-	11700	11700

22/03/93	Purchases A/c To Cash (Being goods purchased for cash)	Dr	–	600	600
31/03/93	Salaries A/c To Cash (Being salaries paid to cash)	Dr	–	300	300
31/03/93	Wages A/c To Cash (Being wages paid)	Dr	–	200	200
31/03/93	Electricity A/c To Cash (	Dr	–	100	100

Dr

Capital Account

Cr

Date	Particulars	Amount	Date	Particulars	Amount
31/3/93	To Balance c/D	10,000	1/03/93	By Cash	10,000
		10,000			10,000
			1/04/93	By Balance B/D.	10,000

Drawings Account

31/03/93	To Cash	300	31/03/93	By Balance c/D	300
		300			300
1/04/93	To Balance B/D	300.			

Purchase Accounts.

Date	Particulars	Amount	Date	Particulars	Amount
10/03/93	To Murali	21000	31/3/93	By Balance c/D	51,000
19/03/93	To Cash	21400			
22/03/93	To cash.	600			
		5000			51,000
1/4/93	To Balance B/D	51,000			

Sales Account

31/3/93	To Balance c/D	9,300.	2/03/93	By Mullu	4,300
			6/03/93	By Cash.	5,000
		9,300			9,300
			1/04/93	By Balance B/D	9,300

Cash Accounts.

1/03/93	To Capital	10,000	19/03/93	By Purchases	21,400
8/03/93	To Sales	5,000.	20/03/93	By Stationery expenses	75
8/03/93	To. commission received	50	21/03/93	By Murali	1,700
			22/03/93	By Purchase	600
			31/03/93	By Salaries	300
			31/03/93	By Wages	200
			31/03/93	By Electricity	100
			31/3/93	By Balance c/D	9,675
		15,050			15,050
1/4/93	To Balance B/D	9,675			

15,000 - 5300
9,675

Trail Balance → calculate.

4/12/23

Trading Account :-

The first step in the preparation of final Accounts is the preparation of Trading Account. The main purpose of preparing a Trading Account is to ascertain gross profit / gross loss as a result of buying & selling goods.

Trading Account Format :-

Specimen of Trading Account

Trading Account for the year ended ——

Dr. Cr.

	Rs	Rs		Rs	Rs.
To Opening stock		xxx	By sales	xxx	
To purchases	xxx		less : returns	xxx	
less : returns	xxx				xxx
		xxx	By closing stock		xxx
To carriage inwards		xxx	By Gross Loss		
To wages		xxx			xxx
To Freight		xxx			
To Customs duty		xxx			
To Gas, fuel		xxx			
To other manufacturing expenses		xxx			
		xxx			
To Gross profit					xxx
		xxx			

Profit & Loss Account :-

The businessman is always interested in knowing his net income or net profit. Net profit represents the excess of gross profit plus other revenue incomes over administrative, sales, financial & other expenses. The debit side of P&L account shows the expenses & the credit side the incomes. If the total of the credit side is more, it will be net profit. And if the debit side happens to be more, it would be net loss.

Format

Proforma of Profit and Loss Account

Dr. Profit & Loss A/c — for the year ended — Cr.

	Rs		Rs
To Salaries	xxx	By Gross profit b/d	xxx
To Rent, rates & taxes	xxx	By Interest received	xxx
To Printing & Stationery	xxx	By Discount received	xxx
To Legal charges	xxx	By Commission received	xxx
To Audit fee	xxx	By Income from investment	xxx
To Insurance	xxx	By Dividend on shares	xxx
To General Expenses	xxx	By Miscellaneous incomes	xxx
To Advt expenses	xxx		
To Bad debts.	xxx		
To Carriage outward	xxx		
To Repairs	xxx		
To Depreciation	xxx		
To Interest on capital	xxx		
To Interest on loans	xxx		
To Discount allowed	xxx		
To Commission paid	xxx		
To Net Profit	xxx		
	xxx		

Balance Sheet :-

~~It is~~ A Balance sheet may be described as a stmt of the financial position of a concern at a given date. The financial position of a concern is revealed by its assets on a given date & its liabilities. Excess of assets over liabilities is capital.

Format :-

Specimen of Balance Sheet

Balance Sheet of ___ as on ___

Liabilities		Rs.	Assets	Rs.
Current Liabilities :			Current Assets :	
Sundry Creditors		xxx	Cash in hand	xxx
Bills Payable		xxx	Cash at Bank	xxx
Bank Overdraft		xxx	Bills Receivable	xxx
Loans		xxx	Sundry debtors	xxx
Mortgage		xxx	Closing stock	xxx
Reserve fund		xxx	Investments	xxx
Capital :			Unexpired expenses	xxx
capital	xxx		Accrued Income	xxx
Add : Net Profit	xxx		Fixed Assets :	
	xxx		Furniture & fittings	xxx
Less Drawings	xxx		Plant & Machinery	xxx
Less Income tax	xxx	xxx	Land & Buildings	xxx
			Freehold or leasehold lands	xxx
			Patents & Trade marks	xxx
			Goodwill.	
		xxx		xxx

5) in group where

Trading Account of Shri Krishna for the year ended 31st March, 2005.

Dr. | Cr.

To Opening stock	27,800	By Sales	1,85,000
To Purchase	1,97,100	By closing stock	15,000
To Carriage inwards	1,120		
To wages	10,000		
To Gross profit c/o (Transferred to P&L A/c)	41,980		
	2,00,000		2,00,000

By Gross Profit b/d 41,980

8/12/23

(15th B) Trading Account of x x x for the year ended 31/3/20

Dr. | Cr.

	Amount Rs	Amount Rs		Amount Rs	Amount Rs
To opening stock		15000	By Sales	1,75,000	
To Purchases	75,000		Less Returns	1,000	
Less Returns	4,700				1,74,000
		70,300	By closing stock		15,000
To Carriage		1,200			
To wages		16,500			
To Gross Profit c/o (Transferred to P&L account)		91,700			
		1,89,000			1,89,000

By Gross profit b/d

Profit and Loss Account of x x x for the year ended 31/3/20

Dr. | Cr.

	Amount Rs	Amount Rs		Amount Rs	Amount Rs
Rent & Rates	21,700		By Gross profit b/d (Transferred from Trading account)		91,700
Standing rent	300				
		21,800			
Salaries		22,500	By Interest received		500
Depreciation on Plant & machinery (10% of 75,000)		5,000			
Depreciation on furniture		15,00			
Net Profit c/o		60,400			
Transfer to capital A/c					
		92,200			92,200

By Net Profit b/d 60,400

Balance Sheet of x x x as on 31/3/2021

Capital & Liabilities	Amount Rs	Amount Rs	Assets	Amount Rs	Amount Rs
Capital	50,000		Debtors	30,000	
Add Net Profit	60,400	110,400	Less Provision for Bad & doubtful debt	2,200	27,800
Creditors		25,000			
Outstanding rent		300	Plant & Machinery	50,000	
			Less Depreciation	5,000	45,000
			Furniture	10,000	
			Less Depreciation	1,500	8,500
			Cash at Bank		29,400
			Closing stock		15,000
		135,700			135,700

(Ans c) Trading Account of Brashan for the year ended 31/03/2005

Dr | Cr

	Amt Rs	Amt Rs		Amt Rs	Amt Rs
To Opening stock		45,000	By Sales	2,71,000	
To purchases	60,000		less returns	3,000	
less returns	8,000				2,68,000
		52,000	By closing stock		80,000
To wages		35,000			
To Gross Profit c/d (Transferred to P&L A/c)		1,91,000			
		3,48,000			3,48,000
			By Gross Profit B/D		1,91,000

Profit and loss Account of Brashan for the year ended 31/03/2005

Dr | Cr

	Amt Rs	Amt Rs		Amt Rs	Amt Rs
To Salaries		60,000	By Gross Profit B/D		1,91,000
To Rent, Taxes & Insurance	15,000				
Prepaid Insurance (Ans)	1,000	16,000			
To Depreciation		8,000			
To Advertisement		18,000			
To Bad debts		8,000			
To Net Profit c/d		44,000			
(Transferred to Capital A/c)		1,91,000			1,91,000
			By Net Profit B/D		44,000

Balance Sheet of Brashan as on 31/03/2005

Dr | Cr

	Amt Rs	Amt Rs	Assets	Amt Rs	Amt Rs
Bills payable		70,000	Bills receivable		40,000
Creditors		50,000	Debtors	75,000	
Loans payable		25,000	less Provision	5,000	70,000
Capital	1,00,000		Cash in hand		15,000
	44,000		Cash in Bank		25,000
		66,000	Stores purchased		2,75,000
			Furniture		75,000
			Prepaid Insurance		1,000
			Closing stock		80,000
		9,19,000			5,19,000

Set - 1

Dr | Cr

	Amt Rs	Amt Rs		Amt Rs	Amt Rs
To Opening Stock		15,000	By Sales	96,500	
To Purchases	45,000		less returns	3,000	
less returns	1,500				93,500
		43,500	By Closing Stock		20,000
To Wages		6,000			
To Gross Profit c/D		48,500			
(Transferred to P&L A/c)		1,13,500			1,13,500
			By Gross Profit B/D		48,500

(3) Trading Account of Rangoli for the year ended 31/3/2012 — 16/12/23

	Amt Rs	Amt Rs		Amt Rs	Amt Rs
To opening stock		21,000	By Sales		2,43,000
To Purchases		1,00,000	By Closing Stock		60,000
To wages		21,400			
To Carriage inwards		700			
By Gross Profit c/D		1,59,900			
		303000			303000
			By Gross profit B/D		1,59,900

Profit & loss Account of Rangoli for the year ended 31/3/2012

	Amt Rs	Amt Rs		Amt Rs	Amt Rs
To Insurance	600		By Gross profit B/D		1,59,900
Less	280				
	320	320	By discount received		5,350
To Bad Debts		6,120			
To Rent, Rates & Interest	3100				
ADD	120				
		3220			
To Trade Expenses		2050			
To Salaries	3120				
ADD	280	3400			
To Discount Allowed		580			
To Depreciation		2,200			
To interest on capital 5% of 75000		3,500			
To Net Profit (Transferred to Capital A/c)		1,43,610			
		1,65,250			1165,250

Balance Sheet of Rangoli as 31st March, 2012

Capital & liabilities	Amt Rs	Amt Rs	Assets	Amt Rs	Amt Rs
Capital	75,000		Freehold land		79,000
ADD Net Profit	1,43,610		Loose Tools		9,000
ADD Interest on Capital	3,750				
		2,22,360	Plant & Machinery		91,000
To Mortage loan		40,000	To Debtors		36,400
To Bills Payable		6,800	Cash at Bank		22,000
To Creditors		31,200	To Bill Receivable		10,800
Outstanding rent		120	Cash in hand		1,280
Outstanding sales		200	Insurance unexpired		280
			Closing stock		60,000
		300,760			3,00,760

(4) Trading Account

	Amt Rs	Amt Rs		Amt Rs	Amt Rs
To Opening stock		47,000	By Sales	1,28,000	
To Purchases	50,000		Less returns from customers	1,000	1,27,000
Less returns	1,100	48,900	By closing stock		50,000
To Duty & clearing charges		3,500			
To Gross Profit c/D.		77600			
		1,77,000			1,77,000
			By Gross Profit B/D		77,600

	Amt Rs	Amt Rs		Amt Rs	Amt Rs
To Salaries	9,500		By Gross Profit B/D		73,600
Add Outstanding	500		By commission received	4,000	
		10,000	Less in advance	600	
To Commission and Traveling expenses		4,750			3,400
To General Expenses		2,500	By Interest received		200
To Rent paid		2,000			
To Depreciation on Furniture & fittings (10% of 8,500)		850			
To Interest on capital (8% of 30,000)		2400			
To Net Profit (Transferred to capital A/c)		58,750			
		81,200			81,200

By Net Profit B/D 58,750

Capital & Liabilities	Amt Rs	Amt Rs	Assets	Amt Rs	Amt Rs
Capital	30,000		Sundry debtors		51,000
Add Net Profit	58,750		Bill receivable		5,000
Add Interest on capital	2,400		Loan adv to Priya		12,000
	91,150		Furniture & fittings	8,500	7,650
Less Drawings	6,000		Less	850	
			Cash in hand		900
Sundry Creditors		85,150	Cash to SBI		12,500
Bills Payable		43,000			
Overdraft with Canara Bank of India		4,000	Interest to be received		200
		6,000			
Outstanding salaries		500	Closing Stock		150,000
Commission received in advance		600			
		1,39,250			1,39,250

Trading Account of Hanuman for year ended 31/3/2

	Amt Rs	Amt Rs		Amt Rs	Amt Rs
To Opening stock		25,000	By sales		1,00,000
To Purchases		75,000	Closing stock		32,000
To wages	3,000				
Outstanding	500				
		3,500			
To Gross Profit c/o		28,500			
		1,32,000			1,32,000

By Gross Profit c/o 28,500

Profit & Loss Account of Hanuman for year ended 31/3/2012

	Amt Rs	Amt Rs		Amt Rs	Amt Rs
To Interest paid	900		By Gross profit		28,500
Add Outstanding interest	900	1800			
To Establishment expenses		15,000	By Commission received	4,500	
			Less in advance	1300	
To Depreciation on Buildings (5% of 15,000)		750			3,200
			By Interest		3,000
To Depreciation on Furniture & fitting (10% of 7,500)		750			
To Depreciation on Motor van (10% of 25,000)		2,500			
To Net Profit (Transferred to Capital A/c)		13,900			
		34,700			34,700

By Net Profit B/D 13,900

Balance Sheet of Hanuman as of 31/03/2012.

Capital & Liabilities	Amt Rs	Amt Rs	Assets	Amt Rs	Amt Rs
Capital	1,00,000		Buildings	15,000	
ADD Net Profit	13,900		Less 5% of 15000	750	
	1,13,900				14250
Less Drawings	18,000		Furniture & Fittings	7500	
		95,900	(10% of 7500)	750	
					6,750
Loan from Hari		15,000	Motor van	25000	
Outstanding Interest on loan		900	(10% 25000)	2500	
					22500
Commission recived in advance		1300	Debtors		28,100
Creditors		10,000	Bank Balance		20,000
Outstanding wages		500	Closing Stock		32,000
		1,23,600			1,23,600

Financial Statements Analysis :-

Financial analysis is the process of identifying financial strengths & weaknesses of the firm by properly establishing relationships btw the items of Balance Sheet & the Profit & Loss Account.

Users of Financial Analysis :-

1) Trade Creditors 2) Suppliers of long-term debt
3) Investors 4) Management.

A ratio is defined as "the indicated quotient of two mathematical expressions" & as "the relationship btw two are more things".

In financial Analysis, a ratio is used as a Benchmark for evaluating the financial position & performance of a firm.

The relationship btw two accounting figures, expressed mathematically, is known as a financial ratio.

Standards of Comparison :-

The ratio analysis involves comparison for a useful interpretation of the financial statements. A single ~~ratio~~ accounting figure does not indicate favorable or unfavorable condition. It shld be compared with some standard.

Standards of comparison may consist of :-

1) Past ratios :- ratios calculated from the past financial statements of the same firm.
2) Competitor's ratios :- ratios of some selected firms, especially the most progressive & successful competitor

at some point of time.

3) Industry ratios.

4) Projected ratios

Types of Ratios :-

1. Short term creditors
2. Long term creditors
3. Owners
4. Management.

Four Categories of Ratios :-

1. Liquidity Ratios :- measure the firm's ability to meet current obligations.
2. Leverage Ratios :- (Solvency)
Show the proportions of debt & equity in financing the firm's assets.
3. Activity Ratios :- reflect the firm's efficiency in utilizing its assets.
4. Profitability Ratios :- measure overall performance & effectiveness of the firm.

Liquidity Ratios :-

The ability of business to pay the amount due to stake holders as & when it is due is known as liquidity. It is essentially SHORT TERM in nature.

i) Current Ratio

ii) Quick ratio / Acid Test ratio.

iii) Cash / Absolute liquidity ratio

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

2:1 Standard current ratio

$$\text{Quick ratio} = \frac{\text{Current assets} - \text{Inventory} \left[\text{Prepaid expenses, Stock}\right]}{\text{Current liabilities}}$$

1:1

$$\text{Cash ratio} = \frac{\text{Cash \& Cash Equivalents}}{\text{Current liabilities}}$$

0.50 :1

Current Assets	Current liabilities
Cash in Hand	Bank Overdraft
Cash in Bank	Creditors
Debtors	Bills Payable
Stock.	Short-term Debt
Bills Receivable	Advances & Deposits Received.
Short-Term Investments	Outstanding Expenses,
Short-Term Loans & Advances	
Prepaid Expenses.	
Income Earned but not received.	

Q)

$$\text{Current Ratio} = \frac{\text{Current assets}}{\text{Current liabilities}} = \frac{2,151,000}{591,000}$$

$$= 3.64:1$$

$$\text{Quick Ratio} = \frac{\text{Current assets} - \text{Inventory}}{\text{Current liabilities}} = \frac{2,150,00 - 10000}{591000}$$

$$= \frac{2,151,000 - (361500 + 10,000)}{591,000} = \frac{1,681,500}{591,000}$$

$$= 2.8:1$$

Cash Ratio = $\frac{\text{Cash \& Cash Equivalents}}{\text{Current Liabilities}}$ = $\frac{\text{Cash in hand + Bank + Short term investments}}{\text{Current Liabilities}}$

$= \frac{105000}{59,000} = 1.77:1$

Cash Ratio is extremely well because it is higher than the standard cash ratio

Assignment

1) What is National Income? What are the methods for ~~what are~~ measuring national income. Explain?

2) Explain the features & phases of business cycle?

3) What is meant by ratio analysis? Explain briefly about various types of ratios.

4) Define Accounting. Discuss Accounting concepts & conventions.

Leverage Ratios :-

1) Debt Ratio formula = $\frac{\text{Total Debt}}{\text{Total Assets}}$.

2) Debt to Equity ratio = $\frac{\text{Long Term Debt}}{\text{Shareholders funds}}$

3) Long Term Debt = Debentures + Long Term Loans.

Shareholders funds = Equity Share Capital + Preference Share Capital + Reserves − Fictitious Assets.

3) Interest Coverage Ratio = $\frac{\text{Earnings before interest \& tax}}{\text{Interest expense}}$.

Activity Ratios :-

Activity Ratios reflect how efficiently the company is managing its resources. These ratios express relationship b/w the level of sales & the investment in various assets, viz., inventories, receivables, fixed assets etc.

The important turnover ratios are :-

1) Inventory turnover Ratio
2) Debtors turnover Ratio
3) Fixed Assets turnover Ratio
4) Total Assets turnover Ratio
5) Working capital turnover Ratio.

(Cost of goods sold by avg stock) x

Inventory turnover :-

1) $\frac{\text{Cost of goods sold}}{\text{avg stock}}$.

Average Inventory = $\frac{\text{Beginning + Ending Inventory}}{2}$.

The inventory turnover ratio measures the no. of times a company sells its inventory during a year. It Measures the company's efficiency in turning its inventory to sales.

A higher inventory turnover ratio is a +ve indicator.

Cost of Goods Sold = Sales − Gross Profit.

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

(or)

Cost of sales = Opening stock + Purchases + Other Direct expenses + Manufacturing expenses − closing stock.

2) Debtor Turnover ratio :-

This ratio explains the relationship of net credit sales of a firm to its book debts indicating the rate at which cash is generated by turnover of receivables or debtors.

$$\text{Debtor Turnover ratio} = \frac{\text{Net credit sales}}{\text{Avg debtors}}.$$

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

Debtors include bills receivables along with book debts.

March 2001

Current Assets		Current Liabilities
Stock	10,000	Bills Payable 15,000
Debtors	20,000	
Bills receivable	10,000.	
Cash in hand	18,000	
	58,000	

1) Current Ratio :

The calculated current ratio for the year is 3.86:1, the standard norm of current ratio is 2:1. We can conclude that the liquidity position of blue Vond Ltd limited, for the year March 2001 is above the standard norm & can be interpreted as good liquidity position.

3) Stock Turnover Ratio $= \frac{\text{Sales}}{\text{Inventory}} = \frac{3,50,000}{10,000} = 35$ times

The calculated stock turnover is 35 times, it implies that the firm is able to turnover its avg inventory 35 times in a year which is a very +ve indicator of its efficiency in managing its inventory.

March 2002.

$$\text{Stock turnover ratio} = \frac{\text{Sales} - \text{Gross Profit}}{\text{Avg stock}} = \frac{3,00,000 - 50,000}{\frac{10,000 + 25000}{2}}$$

$= 14.28$ times

Current Assets :-

Stock	25,000
Debtors	20,000.
B/r	5,000.
Cash in hand	15,000.
	65,000