

Accounting concept and conventions:-

- Accounting principles are the rules to be adopted by the Accountant which are generally accepted in the preparation of Accounts.
- Generally Accepted Accounting Principles (GAAP)
It includes conventions procedures and Accounting practices

Accounting Concepts:-

1. separate legal entity / business entity concept
2. Going concern concept
3. money measurement concept
4. cost concept / objectivity concept
5. dual acceptable concept
6. Accounting period concept.
7. periodic matching of cost & revenue concept
8. Realization concepts

separate legal entity :-

every business unity is a separate and legal entity from its owners who contribute capital to start it can buy / sell on its own name and in the name of the company .

going-concern

According to the concept the concern would continue for ever and ever based on this assumptions the accounts are prepared it is not going to be liquidated closed down in the near future.

Money measurement concept:-

only those transactions and events that are capable of being measured in monetary terms are recognized in the financial statements.

All transactions and events recorded in the financial statements must be reduced to a unit of monetary currency.

cost concept / objectivity concept:-

According to this concept the assets are recorded at cost at which they are acquired in other words the market values are ignored.

Dual aspect concept:-

This is the basic Accounting concept every business transaction has a dual effect either according to double entry book keeping system assets for every debt there is an equivalent credit.

6. Accounting period concept:-

→ Accounts are prepared by all the forms for a period of 12 months from Jan to Dec or Apr-May.

7. Periodic matching concept:-

It states that the expenses of a given period must be related to the revenues of that particular period only. The revenues earned for the period must be determined 1st and then the expenses are to be matched to the revenues earned during that period only.

8. Realization concept:-

- According to this concept revenue is recognized when a sale is made but only when sales proceeds are collected.
- It is the application of accrual concepts towards the recognition of the revenue.

Accounting conventions:-

1. Consistency
2. Convention of full disclosure
3. Convention of materiality
4. Convention of convertism.

consistency:-

According to this convention accounting practices should not be changed from one period to another.

convention of full disclosure:-

The accounting reports should disclose fully and fairly the information to represent.

proprietors and creditors & investors

convention of materiality:-

It states that if an Accounting details is not very important or materialistic in nature it can be dropped or ignored.

convention of conservatism:-

The Accountant follow the rule anticipate no profit but provide all possible losses. while recording the business transaction , valuation of ^{opening} stock at market price or cost price which ever is lower.

Personal Accounts :-

→ These are accounts opened in the name of persons, firms and companies with whom the firm deals.

Rules for Personal Account :-

→ Debit is the receiver

→ Credit is the giver

Ex:- Suppose X buys goods worth 50,000 for cash.

De	X A/c	Dr	50000	
		TO cash A/c		50000
(Being goods purchased by 'X')				

Real Accounts :-

These accounts are opened in the name of assets such as land & building, plant & machinery, furniture and fixtures.

Rules for Real Account :-

Debit - what comes in

Credit - what goes out

Ex:- You sell your refrigerator for ₹ 60,000

cash A/c	→ DR	60,000	
	TO Refrigerator A/c and sales ↑		60,000

Nominal Accounts:-

The accounts which cannot be physically which are open in the name of expenses, losses, profit incomes and gains.

Rules for Nominal Accounts:-

Debit → all expenses and losses

Credit → all incomes and gains

Ex:- Suppose you pay ₹ 5,000 salary of clerk

salary A/c	DR	5,000	
	TO clerk A/c cash		5,000

(Being salary paid to clerk)

Journal entries proforma

DATE	PARTICULARS	L.O.F	DEBIT AMOUNT	CREDIT AMOUNT

Generalize the following transactions in the books of Nandhu company

1. 2012/07/11

~~Suresh~~ Nandhu commenced business with

£ 5000.

2. July 5th

Deposited into bank £ 4000

3. July 6th

Purchased goods worth £ 10,000 from Harini

Date	Particulars	L.F	Debit amount	Credit amount
July 1	Cash A/c → Dr To Suresh Capital [Being the business commenced]		5000	
July 5 th	Bank A/c → Dr To Cash A/c [Being cash deposited into bank]		4,000	4,000
July 6 th	Purchase A/c → Dr To Kamal A/c [Being the goods purchased from Harini]		10,000 19,000	10,000 19,000

Generalize the following transactions from the month of January 2017 in the books of XYZ company.

1. commenced business with cash £ 100000 - Jan 1st
2. deposited into bank 10000 - Jan 3rd
3. purchased machinery £ 25,000 - Jan 5th
4. Paid salaries 10,000. - Jan 10th

company - D - C.A
C - Inc ad pro

DATE	PARTICULARS	C.P	D-A	C.A
Jan 1st	cash A/c → DR To capital A/c [Being the business commenced]		100,000	100,000
Jan 3rd	Bank A/c → DR To cash A/c [Being cash deposited in to Bank]		10,000	10,000
Jan 5th	Purchas A/c → DR To Cash A/c [Being machinery Purchased]		25,000	25,000
Jan 10th	Salary A/c → DR To cash A/c [Being salary paid]		10,000	10,000

Generalize the following transactions in the books of Ajith & Company for the month of Dec 2016

- DEC 1ST Ajith started business with cash ₹ 40,000
- DEC 3RD He paid into the ^{bank} ₹ 2,000
- DEC 5TH He purchased goods for cash ₹ 15,000
- DEC 8TH He sold goods for cash ₹ 15,000
- DEC 10TH He purchased furniture and paid by cheque ₹ 5,000
- DEC 24TH He paid telephone charges ₹ 1,000
- DEC 31ST Paid for stationary ₹ 200, Rent ₹ 500 & salaries to staff ₹ 2,000.

DATE	PARTICULARS	L.F	D.A	C.A
DEC 1 ST	CASH A/C → DR TO Ajith A/C (capital) [Being started business]		40,000	40,000
DEC 3 RD	BANK A/C → DR TO cash A/C [Being deposited in bank]		2,000	2,000

DEC 5th

Goods A/c → DR

TO cash A/c

15,000

15,000

[Being goods

purchased]

DEC 8th

cash A/c → DR

15,000

TO sales A/c

15,000

[Being goods

sold]

DEC 10th

furniture A/c → DR

5000

TO Bank A/c

5000

[Being purchased

Furniture paid by
cheque]Dec 24th

Tele A/c → DR

1000

TO cash A/c

1000

[Being paid

telephones
charges]

Dec 31 st	Sat A/c \rightarrow DR To rent A/c \rightarrow DR Sal A/c \rightarrow DR To cash A/c (Being sat, Rent, salary Paid)	200 500 2000 2700	
Total	To	80700	80700

Generalize the following transactions in the books of Chatanya company for the month of July 2018.

Jul 1st : Chatanya started business with cash ₹ 25k

Jul 3rd : He paid into the bank ₹ 5000

Jul 5th : He purchased refrigerator with cash ₹ 25k

Jul 20th : He paid advertisement charges ₹ 1000

Jul 31st : Paid for stationery ₹ 500, rent ₹ 300

DATA	PARTICULAR	L.F	DA	C-A
JUL1st	CASH A/c → DR TO CAPITAL A/c [Being commensed with business]		55000	
JUL3rd	BANK A/c → DR TO CASH A/c [Being deposited into the bank]		5000	5000
JUL5th	PURCH REF A/c → DR TO CASH A/c [Being purchased refi]		25000	25000
JUL12th	ADVER A/c → DR TO CASH A/c [Being expenses charged]		7000	7000
JUL13st	SATIONERY A/c → DR RENT A/c → DR TO CASH A/c [Being expenses paid]		500 300 800	
	TOTAL		1991800	1991800

15/10/24

Trial balance (Nominal account only)

debit Balance: All expenses and losses and
ASSETS

credit Balance: All incomes and gains
and liabilities.

① debtors Account

② Asset Account such as plant, furniture
building etc

③ expenses Accounts Rent Paid, salaries

Paid fuel and power, office manufacturing
expenses

④ Accounts such as Goods destroyed in fire
discount allowed, written in words

⑤ purchases Accounts

⑥ sales return Accounts

⑦ drawings account - ~~credit~~

Credit Balance showing:-

① creditors Account

② Liabilities account, income account,

gain and profits account, loan account.

bank over draft account

- ⑦ Sales account
- ⑧ Purchase return account
- ⑨ Provisions account such as Debts, discount on debtors, bad debts.
- ⑩ Reserves and funds account such as general reserve account / reserve fund.
- ⑪ One of the student prepared the trial balance.

Name of the account	Debit Balance	Credit Balance
Opening stock - Dr	6000	
Capital account - Cr		10000
Creditors - Cr	1200	
Bank overdraft - Cr	1000	
Machinery - Dr		8000
Furniture - Dr	1000	
Debtors - Dr		2000
Purchases - Dr		161000
Discount allowed to customers - Dr	60	

loan from X	- Cr	1600
carriage inwards	- Dr	180
investments	- Dr	2000
return inwards	- Dr	600
return outwards	- Cr	200
insurance premium	- Dr	240
interest on X loan	- Dr	20
reserve fund	- Cr	1200
sales	- Cr	26000
Interest on investment	- Cr	100
salaries	- Dr	2200
Advertisement	- Dr	8000
drawings	- Dr	1000

Name of the Account	Debit balance	Credit balance
opening stock	6000	
capital account		10,000
creditors		1200
Bank over draft		1000
machinery	8000	
furniture	1000	
debtors	2000	
purchases	16,000	
Discount allowed to customers	60	
loan from x		1600
carriage inwards	180	
investments	2000	
return inwards	600	
return outwards		200
insurance premium	400	
invest on x loan	20	

reverse fund:

	5. a)	7200
sales		26000
interest on investment		100
salaries	2200	
advertisement	8000	
drawings	1000	
Total	47,300	47,300

Q) the following trial balance of XYZ company

Name of the Account	Debit balance	Credit balance
capital → cr	8,950	
drawings → dr		1050
stock → dr	31725	
purchases - dr		23100
wages & salaries - dr	6205	
sales - cr		39,425
Lighting & heating	310	

Equipment — DR	3600	
carriage outwards — DR		230
carriage inwards — DR	105	
return outwards — CR		290
provision for bad debts — CR	350	
discount allowed — DR		315
Rent, rates & insurance — DR	1015	
motor vehicles —	1475	
cash in hand —	110	
creditors — CR	4925	
debitors — DR		13,920
Bank Overdraft	975	
Suspense Account	285	
	55,230	55,230

	Debit	Credit
capital		8950
drawings	1050	
stock	3725	
purchase	23100	
wages and salaries	6205	
sales		39425
lighting and heating	310	
equipment	3600	
carriage outwards	55,230	230
carriage inwards	105	
return outwards		290
provision for bad debts		350
discount allowed	315	
Rate & insurance, rents	1115	
motor vehicles	1475	
cash in hand	110	
creditors		4925

Debtors	13,920	
Bank overdraft		915
Suspense Account		315
<u>Total</u>	<u>55,260</u>	<u>55,260</u>

3.

Name of the student	Balance
Debtors	32000
Stock	22000
Cash in hand	35
Cash at bank	1545
Plant & machinery	17,500
Creditors	10,650
Trade expenses	1075
Sales	21,34,500
Carriage outwards	400
Rent	900
Salaries	2225
Bills payable (Dr)	7500
Purchase	21,81,870
Discount (Dr)	79,500 1100
Capital	79500
Business premises	34,500

Name of the student	Debit balance	Credit balance
Debtors	32,000	32,000
Stock	22,000	22,000
Cash in hand	35	35
Cash at bank	1545	1545
Plant & Machinery	17,500	17,500
Creditors	10,650	10,650
Trade expenses	1075	1075
Sales	2,34,500	2,34,500
Carriage outwards	400	400
Rent	900	900
Bills payable	7500	7500
Purchase	2,18,870	2,18,870
Discount	1100	1100
Capital	19,500	19,500
Business premises	34,500	34,500
Salaries	2225	2225
Total	332150	332150
	329,925	329,925

Particulars

Balance

1. capital — Cr	1100,000
2. machinery — Dr	30,000
3. stock — Dr	16,000
4. wages — Dr	50,000
5. carriage inwards — Dr	500
6. salaries — Dr	5000
7. Rent — Dr	8400
8. Repairs — Dr	400
9. fuel & power — Dr	2500
10. Buildings — Dr	40,000
11. Debtors — Dr	20,000
12. sales — Cr	2903,600
13. purchases — Dr	1122,000
14. creditors — Cr	129500
15. Return outwards — Cr	2000
16. Return inwards — Dr	3600
17. drawings — Dr	2000
18. discount allowed — Dr	750

19. discount received		250
20. office expenses	- Cr	1000
21. manufacturing expenses	- Dr	600
22. bills payable - Cr		8,1500
23. bills receivable - Dr		5000
24. cash in hand - Dr		2400
25. cash at bank - Dr		15,400
26. office rent - Dr		18,100
27. suspense account - Dr		5,500
		326850

16,000

500

5000

2900

400

2500

5000

2400

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24/06/12

preparation of final Accounts :-

Trading Account

particulars	Amount	particulars	Amount
To opening stock	xxx	By sales xxx	
To purchase xxx		(-) Sales Returns <u>xxx</u>	xxx
(-) Purchase Returns <u>xxx</u>		By closing stock	xxx
To wages	xxx		
To carriage inwards	xxx		
To fuel and power	xxx		
To direct expenses	xxx		
To gross profit →	xxx		
(transferred to profit & loss Account)			
	xxx		xxx

Profit & loss Account

DR			CR
Particulars	Amount	Particulars	Amount
To salaries	xxx	By gross profit	xxx
To Rent	xxx	By discount received	xxx
To insurance	xxx	By commission	xxx
To carriage outwards	xxx	By provision for bad debts	xxx
To cost of samples	xxx	By profit on sale of fixed assets	xxx
To advertising	xxx	xxx	xxx
To heating and lighting	xxx	xxx	xxx
To interest on loan	xxx	xxx	xxx
To discount allowed	xxx	xxx	xxx
To Net profit	xxx	xxx	xxx
(Transferred to capital A/c)	xxx	xxx	xxx
	xxx		xxx

Balance sheet (final account): -

Liabilities	Amount	Assets	Amount
long term liabilities		Fixed Assets	
owner capital xxx		Plant & Machinery xxx	
(i) Net capital profit xxx		(ii) provision for depreciation xxx	
(ii) drawings xxx	xxx	Furniture & fixture xxx	
<u>current liabilities</u>	xxx	P for b. xxx	xxx
sundry creditors	xxx	<u>current Assets:</u>	
bills payable	xxx	Stock xxx	
outstanding expenses	xxx	sundry debtors xxx	
		(iii) P for bad debt for doubtful bets xx	xxx
		Bills receivable xxx	
		cash at bank xxx	
		cash in hand xxx	
		prepaid expenses xxx	
	xxxx		xxx

1. Prepare a final account?

Particulars	Debit	Credit
1. Capital (B) (Liabilities)		30,000
2. cash (ASSETS)	5000	
3. PURCHASES Trading - DR	19,000	
4. PURCHASE RETURNS T-DY		500
5. SALES T-CR		20,000
6. WAGES T-DR	1,000	
7. SALARIES P-DR	800	
8. FACTORY INSURANCE T-DR	200	
9. RENT P-DR	650	
10. CARRIAGE INWARDS T-DR	150	
11. OFFICE EXPENSES P&G DR	200	
12. CARRIAGE OUTWARDS P-DR	200	
13. MACHINERY (ASSETS)	8,000	
14. FURNITURE (ASSETS)	6,000	
15. DISCOUNT ALLOWED (P&G - DR)	250	
16. DISCOUNT RECEIVED		1500
17. GOODWILL (ASSETS) P&G - CR	35,50	

1. opening stock	T-DY	1500
2. debitors - A/c		8500
3. creditors - L		3000
4. Adjustments		

- 1) value of closing stocks : ₹ 2200 T-Cy
- 2) outstanding salaries : 200 — P&DR
- 3) Prepaid Rent : 150 — P&-DY

solution:- Trading account

DR

Particulars	Amount	Particulars	Amount
To opening stock	1500	By sales	20,000
To purchase 19000		By closing A/c	2200
(-) purchase returns 500	18,500		
To wages	1000		
To factory insurance	150		
To carriage inwards	200		
To Gross profit →	850		
	22200		22200

Particulars	Amount	Particulars	Amount
Salaries	800	By Gross profit →	850
(+) outstanding salaries	200		
	<u>1000</u>	By Discount received	1500
Rent	650		
-prepaid Rent	150		
	<u>500</u>		
carriage outwards	200		
Discount allowed	250		
Office expenses	200		
Net profit	<u>2350</u>		
(Transferred to capital A/c)	200		
	<u>2350</u>		

	Debit	Credit
Capital	50000	
Profit	250	
	<u>50250</u>	
Salaries		5000
Bank		2000
Bank		6000
Sold stock		3550
Debtors		8500
During stock		2200
Prepaid Rent		50
	<u>33,200</u>	<u>33,200</u>

Q:-

Balance sheet as on 31-3-2015 31,501

Debit balance	Amount	Credit balance	Amount
PURCHASE T-DR	25,200	capital A/c (+) 35,000	
Furniture - Ass	1600	Sales T-cr 61,604	
wages T-DR	3500	S. Creditors (Liabys) 3903	
Machinery - Ass	20,000	Purchase Returns 222	
O-Stock T-DR	17,525		
OPENING STOCK T-CR			
Sales return,	1200		
Debtors - Ass	10,400		
Freight on purchase	200		
Salaries T-DR VPEL DR	10,600		
Freight on sales P-DR	503		
Rent & Taxes PR-DR	2001		
Cash at bank Asset	8000		
=			

Adjustments:-

Capital Account closing stock rs. 16,800 (Assets)

Prepaid wages 500 (-) (ASSETS) A.

Depreciate machinery 10% |

S. outstanding 400. (L) TL

Prepaid Rents & taxes = 201 (ASSETS) A.

Trading Account as 31-03-2015.

or

particulars	Amount	particulars	Amount
opening stock	171525	By sales	161604
purchases	25,200	Sales return	1200
- purchase returns	- 222		
	24978		
wages	3500	By closing stock	1600
prepaid wages	500		
	3000		
Freight on purchases	200		
TO GROSS PROFIT	→ 31501		
Transferred to PEL A/c			
	77,204		77,204

2000

Profit & Loss Account as on 31-3-2015

Particulars	Amount	Particulars	Amount
Salaries	10,600	By Gross profit	3150/-
(+) Outstanding Salaries	400		
	11000		
Freight on sales	503		
Rent & Taxes	2001		
(-) Prepaid Rent & Tax	1800		
To Depreciation on machinery $(2000 \times 10\%)$	2000		
Net Profit	16198		
(Transferred Capital)	31501		
			31501

Balance sheet on 31-3-2015

Liabilities	Amount	Assets	Amount
Capital A/c	35000	Machinery	20000
Net profit	16198	- Depreciation	- 2000
	51,198		18000
Creditors	3903	Furniture	1600
Standing salaries	400	Debtors	10400
	-	Cash at bank	8000
	55,501	Closing stock	16800
		Prepaid wages	500
		Prepaid Rent &	201
		Taxes	100
			55,501