Unit - 4

Accounting Concept:

Defination: Accounting is an art of recording, classifying and summarizing in a significant manner in terms of money and event

Financial staments use following important accounting Concepts

1. Business Entity Concepts

Every Business are having separate and differant legal entity. Business records are sperate from its owners and propritors. They should be clear difference b/w personal and Business transaction

2. Money Measurment Concepts

Every transcation can only express in the form of money which are recorded in the book of account

3. Going concern Concept:

Every Business enterprise will be continued for ever. It is not going to close due to the death of owners (or) aiding of this Business. Because prices of goods will confused.

4. Cost Concept

Cost concept will desided by the quality and ~~qa~~ contity quantity of the product by ignoring the market value

5. Realization Concepts.

The revenue is generate when actual Sale is realized.

For example, when a firm sells goods on March 31/2020 on credit and receives cash from customer on April 10/2020 then the Sale revene is recognized in the month of April 2020.

6. Accounting period Concept

Economic life of enterprise must be divided into intervals called period of accounting.

Accounting period only decide the profit and losses of enterprise and shows the financial position of the firm.

7. Matching concept:

The expenses of give period must be same as revenues period only.

8. Dual Aspet concept

Every transaction has dual effects in the books. i.e Recorded in the aspet side as well as liability side.

Accounting Conventions
1. Full Disclosure
2. Consistency
3. Materiality - only material info will be recorded
4. Conservatism
5. Historical cost and replacement

** Financial statement (Ledger, Trial Balance)

① Journal

Transaction are are recorded roughly in the book. the journal is a primary book in which the original transactions are recorded day-to-day (or) chronological order.
It is also called as originally entry. The Journal entry as shown

Form of journal

JOURNAL

Date (1)	Particular (2)	Ledger Folio (3)	Dr. Amount(₹) (4)	Cr. Am(₹) 5

② Ledger

The transaction from journal are transferred to respective accounts.
* ledger is a book which contain accounts
* It is also known as "book (or) register" which contains summarization, classification and recording forms
* Ledger is a permanent record of transaction

Form of Ledger

~~Dr.~~
Dr. | | | LEDGER | | | | Cr.

Date	Particulars	Folio	₹ Amount	Date	Particulars	₹ Folio	Amount

③ Trial Balance

After posting the accounts in the ledger, the statement is prepared to show separatly the debit and credit balance, such statement ~~are~~ is known as trial balance (or)* It shows the result of buying and selling of goods and services/s during accounting period*

From of Trial Balance

TRIAL BALANCE
As at March - 31, 2020
⊛ Trial Balance as on ......

Sr. No (1)	Ledger Accounts (2)	Ledger folio (3)	Dr. Amount (₹) (4)	Cr. Amount (₹) (5)

** The purpose of preparing Trial *

** (4) Trading account in accounting System

Trading A/c shows the effect of buying and selling of goods/services during an accounting period.

The statement indicates gross profit/gross loss and net profit/loss.

** {Gross Profit = Net sales − cost of goods solds}

Where

i) Net Sales = (Total Sales − Sales returns)

ii) Cost of goods sold = [opening stock + Net purchases + Direct expenses − closing stock]

iii) Net Purchases = (Total Purchases − Purchas returns)

→ Form of Trading Account

TRADING ACCOUNT
For the Year ending....

Cr. Dr.

Particular	Amount (₹)	Particulars	Amount
To Opening stock	.....	By Sales Accounts....	
To Purchase account	.....	Less: Returns	.....
Less: Returns....		By stock in hand	.....
To Wages inwards	.....		
To Freight inwards	.....		
To clearing charges	.....		
To Gross Profit transferred	.....		
To Profit and loss A/c	.....		

(5) Balance Sheet:

Section 210 and Section 211 of Companies Act states about the balance sheet.

Balance sheet must be prepare at the end of each trading period (Financial Year)

* Balance sheet shows the financial positions of the business on a particular date.

* On the left hand side of Balance sheet is total liabilities on the right hand side of Balance sheet shows total assets of Busi

* Balance sheet of a Company either be horizontand or Vertical form. Most of Companies preffered to horizontal-

Debit (Dr.) Credit (Cr.)

Particular	Amount ₹	Particular	Amount ₹
Share Capital	------	Fixed assets	------
Bank over draft	-----	Investments	------
Bill over draft	-----	Current assets	------
Sundry Creditors	-----	Loan advances	-----
Loans	-----	Bills receivables	------
a) Secured	-----	Sundry debtors	-----
b) Unsecured	-----	closing stock	-----
Current liabilities	------		
Total	------	Total	----

Balance Sheet of Technical Publication Pvt. Ltd as on 31/3/20

(6) Profit and loss accounts

Balance sheet focus on the overall financial worth of the organization at a specific point of time

* Income statement (or) Profit (or) loss account shows the amount of profit or loss for a particular accounting period. This period may be a mounth, quarter (or) a half year
* It shows the result, wther it may profit/loss
* It is opened with Gross profit on its credit side (or) Gross loss on its Debit side
* The difference b/w debit and credit represents the net profit / net loss of the business for an accounting period.

Debit (Dr.) Particulars	Amount ₹	Credit (Cr.) Particulars	Amounts
To Gross loss	....	By Gross Profit	.....
To Office Rent	....	By Discount Recived	.....
To Office Rent	....	By Commission Received	.....
To Postage	....	By Interest Received	....
To Telephone charges	....	By Rent Received	.....
To Insurance	....	By Divident Received	....
To Travelling	....	By Net loss transferred to capital account	.....
To commission Paid	....		
To Advertising	....		
To General Expense	....		
To Net Profit transferred to capital account	....		
Total	.....	Total	......

Profit and loss account for the year ending on ......

Profit and loss account is also refferred as profitability statement.

Debit: the Reciver
Credit: the giver

Classification of Accounts

I personal Accounts

Dr. The Receiver (who is the recives)
cr. The Giver

II Impersonal Accounts

Real Account

Debit: what comes in
cr. what goes out

Tangeble & Intangeble a/c

which are visible
- Fixed assets
- Machinary,
- Furniture,
- buildings,
- land, premises

non-visible
- good will,
- patents,
- copy wrights

Nominal Account

Dr. Expenses & losses
cr. Income & gains

Expences
paying of ...
income
Intrest recie...

Accounting and

The double entry System is the system which recognizes and records both the aspets (debits & credit) of transactions.

The System has been proved to be Systematic and use for recording the trasactions

Example Journalize the following transctions, post them in the leadger and balance the accounts on 31th March

March-1st	Mohan started business with a capital of	₹ 95,000
March-2nd	Goods purchased from Ram on credit	₹ 27,000
-3rd	Brought machinery for	₹ 20,000
-4th	Sold goods to Shyam for cash	₹ 29,000
-7th	Returned goods to Ram	₹ 15,000
-8th	Sold goods to Vishal on credit	₹ 500
-10th	Brought furniture for	₹ 16,000
-11th	Cash Sales	₹ 12,500
-15th	Goods returned from Vishal	₹ 3,500
-17th	Cash paid to Ram	₹ 10,000
-21th	Cash received from Vishal	₹ 11,200
-25th	cash purchases	

JOURNAL ENTRIES

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
March-1st	Cash A/c Dr.		₹ 95,000	–
	To capital A/c		–	₹ 95,000
	(Being started business).			
March-2nd	Purchase A/c Dr.			
	To Ram A/c on credit base			
	(Being purchase goods from Ram)			
March-3rd	Machinery A/c Dr.			
	To Cash A/c			
	(Being Purchase machinery)			
March-5th	Ram A/c Dr.			
	To Cash A/c			
	(Being cash paid to Ram)			

March 8th Ram A/c Dr
To Purchase return
(Being returned the goods to Ram)

March 10th Vishal A/c Dr
To Sales A/c
(Being goods sold to Vishal)

March 11th Furniture A/c Dr.
To Cash A/c ~~Dr~~
(Being purchase furniture)

Mar-15th Cash A/c Dr
To Sales A/c
(Being Cash sales made)

March 17 Sales return A/c Dr
To Vishal A/c
(Being Goods returned from Vishal)

March-21 Cash A/c Dr
To Vishal A/c
(Being cash recived from Vishal)

March-25 Purchase A/c Dr
To Cash A/c
(Being Purchase made with Cash

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Leager Accounts

Cash A/c

Dr. | Cr.

Date	Particulars	JF	Amount (₹)	Date	Particulars	Amount (₹)
March 1st	To Capital A/c		95,000	Mar-3rd	By Machinery a/c	20,000
March 5th	To Sales A/c		29,000	Mar-7th	By Ram a/c	15,000
March 15th	To Sales A/c		8,500	Mar-11th	By Firm a/c	12,500
March 21st	To Vishal A/c		10,000	Mar-25th	By Purchases a/c	11,200
			~~1,42,500~~	March-31st	By Bal c/d	83,800
			1,42,500			1,42,500
April 1st	To Balance b/d		83,000			

Capital A/c

Dr. | Cr.

Date	Particulars	JF	Amount (₹)	Date	Particular	JF	Amount (₹)
~~March 31st~~				March 1st	By Cash a/c		95,000
	To Balance b/d		~~95,000~~				
			95,000				95,000
				April 1st	By Balance b/d		95,000

Purchase A/c

Dr. | Cr.

Date	Particulars	JF	Amount (₹)	Date	Particular	JF	Amount
Mar-2nd	To Ram A/c		27,000				
Mar-25th	To Cash A/c		11,200				
				March-31st	By Balance c/d		38,200
			38,200				
	To Balance b/d		38,200				

Dr. **Ram A/c** Cr.

Date	Particulars	LF	Amount (₹)	Date	Particulars	LF	Amount (₹)
March 7th	To Cash A/C		15,000	Mar-2nd	By P. A/C		27,000
Mar-8th	To Purchase r A/c		500				
Mar-31st	To Balance c/d		11,500				
			27,000				27,000
				Mar-31st	By Bal b/d		11,500

Dr. **Machinery A/c** Cr.

Date	Particulars	LF	Amount (₹)	Date	Particulars	LF	Amount (₹)
Mar-3rd	To cash a/c		20,000	Mar-31st	By Bal c/d		20,000
			20,000				20,000
March-31st	To Bal b/d		20,000				

Dr. **Sales A/c** Cr.

Date	Particulars	LF	Amount (₹)	Date	Particulars	LF	Amount (₹)
				Mar-5th	By cash A/c		29,000
				Mar-10th	By Vishal a/c		18,000
				Mar-15th	By cash a/c		8,500
Mar-31st	To Bal c/d		5~~4~~5,500				
			5~~4~~5,500				5~~4~~5,500
				~~Mar 31~~ April 1st	By Bal b/d		55,500

Purchase return

Dr. Cr.

Date	Particulars	LF	Amount	Date	Particulars	LF	Amount (₹)
Mar-31st	To Bal c/d		500	Mar-8th	By Ram A/c		500
			500				500
				April-1st	By Bal b/d		500

Vishal a/c

Dr

Date	Particulars	LF	(₹) Amount	Date	Particulars	LF	(₹) Amount
Mar-10	To Sales a/c		18,000	Mar 17	By ~~Vishal~~ Sales returns a/c		3,500
				M-21	By ~~Vishal~~ Cash a/c		10,000
			4,500	M-31	By Bal c/d		4,500
			18,000				18,000
April 1st	To Bal b/d		4,500				

Furniture a/c

Dr

Date	Particulars	LF	(₹) Amount	Date	Particulars	LF	(₹) Amount
Mar-11	To ~~Furniture~~ Cash A/c		12,500	Mar-31st	By Bal c/d		12,500
			12,500				12,500
April-1st	To Bal b/d		12,500				

Sales returns

Dr Cr.

Date	Particulars	LF	(₹) Amount	Date	Particul	LF	(₹) Amount
Mar-17	To Vishal a/c		3,500	Mar-31st	By Bal c/d		3,500
			3,500				3,500
April-1st	To Bal b/d		3,500				

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Accounting principles and Accounting Concepts

Accounting principles: Accounting principles are those rule and regulation which the accontants should be follow at the time of recording the accounting transactions.

Accounting Principle is define as "a list of principles with theory and procedure of accounting for the explanation of current practice (A/c) and guideline for the accountants"

Accounting Concepts: ABCD, GMMR

1) Accounting Periode con
2) Business entity con
3) Cost con
4) Dual Aspect con: It is recorded in the assets side as well as in liability side.
5) Going concern con
6) Money Measurement con
7) Matching con
8) Realization

5. Financial Analysis through Ratios

1. Liquidity Ratios

(i) Current Ratio :
(ii) Quick Ratio

(i) Current Ratio: Ratio of Current Assets & Current liabilities
It is also known as "Working Capital ratio"

Current Assets are coverted into cash within a year
Current liabilities are expected to be matured within a year

$$\boxed{\text{Current Ratio} = \frac{\text{Current assets}}{\text{Current liability}}}$$

The firm is said to be comfortable when liquidity position of current ratio is 2:1. But in industrial norm the current ratio is 2:6

Higher current ratio indicates better coverage of current assets
Extremely high current ratio indicates improper handling of stocks.

(ii) Quick Ratio: Ratio of Quick assets and Current liabilities
Quick ratio is a measure the ~~ability of the firm's~~ firm's ability to convert its current assets into cash to meet its current liabilities.
It is also known as "acid-test ratio".

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

Quick assets = Current assets − (stock + prepaid expenses)

The standard for this ratio 1:1

2. Activity Ratio

(i) Inventory turnover ratio
(ii) Debtor's turnover ratio

Important ratios

Liquidity ratios

(1) Current ratio/ Working capital $= \frac{\text{Current assets}}{\text{Current liability}}$

(2) Quick ratio/ acid-test $- \frac{\text{Quick assets (current assets} - \text{(stock + prepaid expenses))}}{\text{current liability}}$

1:1 we done take bank overdraft

+ Absolute liquid ratio $= \frac{\text{Abs. liquid Assets (cash in hand)}}{\text{Quick Abs. liquid Assets}}$

Active ratios

(1) Inventory turnover ratio/ Stock turnover $= \frac{\text{Cost of goods sold}}{\text{Average inventory}}$

Cost of goods = Sales − Gross profit

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

Inventory holding period $= \frac{365 \text{ days}}{\text{Inventory turnover ratio}}$

(2)

Debtor's turnover ratio $= \frac{\text{Credit ratio}}{\text{Average Deptor's}}$

Avg. Debtor's $= \frac{\text{Debtors at the begining of year} + \text{Deb. at the end of}}{2}$

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Capital Structure Ratios

(1) Debt-Equity ratio = $\frac{\text{Debt}}{\text{Equity}}$ = $\frac{\text{Total long term Debts}}{\text{Shareholders Funds}}$

(2) Interest Coverage ratio = $\frac{\text{Net Profit before interest \& taxes}}{\text{Interest}}$

Profitability Ratio

(i) Gross profit Ratio = $\frac{\text{Gross Profit}}{\text{Net Sales}} \times 100$

(ii) Net Profit Ratio = $\frac{\text{Net Profit after taxes}}{\text{Net Sales}} \times 100$

(iii) Price/Earning Ratio = $\frac{\text{Market value per share}}{\text{EPS (Earning per share)}}$

(iv) Earnings Per Share = $\frac{\text{Net profit after taxes}}{\text{Number of shares outstanding}}$

Addition Ratios

(1) Fixed Assets Turn-over Ratio = $\frac{\text{Net Sales}}{\text{Avevage fixed Assets}}$

(~~2~~)

Liqudity Ratio → (x) Fixed Assets