I.K.G. Punjab Technical University
BBA Batch 2018
BBA 102 BASIC ACCOUNTING

Course Objective:
This course aims to acquaint students with foundation of financial accountancy and its application in business. It also aims to familiarize students with regulatory framework of accounting in India.

Course Outcomes (COs): After completion of the course, the students shall be able to:
CO1: To understand the basic underlying concepts, principles and conventions of accounting.
CO2: To identify the rules of debit and credit in accounting.
CO3: To get an overview of the regulatory framework of accounting in India.
CO4: To prepare trading, profit & loss and balance sheet of a firm.
CO5: To comprehend the concept of depreciation and different methods to treat depreciation in accounting.

Unit I

Introduction to Accounting- Meaning, objectives and Scope of Financial Accounting, Concept of Book Keeping, Basic Accounting terms, users of accounting information, limitations of Financial Accounting. Accounting Concepts and Conventions. Accounting Standards- Concept, objectives, benefits, brief review of Accounting Standards in India.

Unit II

The Accounting Equation; Types and Nature of Accounts, Rules of Debit and Credit; Accounting process :Recording Transactions in Journal; Preparation of Ledger Accounts, Subsidiary Books; Preparation of Trial Balance.

Unit III

Bank Reconciliation Statement, Depreciation: Meaning, need & importance of depreciation, methods of charging depreciation (WDV & SLM). Preparation of Final Accounts: Preparation of Trading and Profit & Loss Account and Balance Sheet of sole proprietary Business

Unit IV

Introduction to Company Final Accounts: Important provisions of Companies Act, 1956 in respect of preparation of final accounts of a company. Understanding the Annual Report of a Company.
Computerized Accounting: Computers and its application in accounting. Accounting software packages

Unit-1

INTRODUCTION

Accounting has rightly been termed as the language of the business. The basic function of a language is to serve as a means of communication. Accounting also serves this function. It communicates the results of business operations to various parties who have some stake in the business viz., the proprietor, creditors, investors, Government and other agencies. Though accounting is generally associated with business but it is not only business which makes use of accounting. Persons like housewives, Government and other individuals also make use of a accounting.

For example, a housewife has to keep a record of the money received and spent by her during a particular period. She can record her receipts of money on one page of her "household diary" while payments for different items such as milk, food, clothing, house, education etc. on some other page or pages of her diary in a chronological order. Such a record will help her in knowing about :

(i) The sources from which she received cash and the purposes for which it was utilized.
(ii) Whether her receipts are more than her payments or vice-versa?
(iii) The balance of cash in hand or deficit, if any at the end of a period.

In case the housewife records her transactions regularly, she can collect valuable information about the nature of her receipts and payments. For example, she can find out the total amount spent by her during a period (say a year) on different items say milk, food, education, entertainment, etc. Similarly she can find the sources of her receipts such as salary of her husband, rent from property, cash gifts from her relatives, etc. Thus, at the end of a period (say a year) she can see for herself about her financial position i.e., what she owns and what she owes. This will help her in planning her future income and expenses (or making out a budget) to a great extent.

The need for accounting is all the more great for a person who is running a business. He must know :

(i) What he owns?
(ii) What he owes?
(iii) Whether he has earn a profit or suffered a loss on account of running a business?

(iv) What is his financial position i.e. whether he will be in a position to meet all his commitments in the near future or he is in the process of becoming a bankrupt

MEANING OF ACCOUNTING

The main purpose of accounting is to ascertain profit or loss during a specified period, to show financial condition of the business on a particular date and to have control over the firm's property. Such accounting records are required to be maintained to measure the income of the business and communicate the information so that it may be used by managers, owners and other interested parties. Accounting is a discipline which records, classifies, summarizes and interprets financial information about the activities of a concern so that intelligent decisions can be made about the concern.

The American Institute of Certified Public Accountants has defined the Financial Accounting as "the art of recording, classifying and summarising in as significant manner and in terms of money transactions and events which in part, at least of a financial character, and interpreting the results thereof". American Accounting Association defines accounting as "the process of identifying, measuring, and communicating economic information to permit informed judgments and decisions by users of the information.

From the above the following attributes of accounting emerge:

(i) Recording :
It is concerned with the recording of financial transactions in an orderly manner, soon after their occurrence In the proper books of accounts.

(ii) Classifying :
It Is concerned with the systematic analysis of the recorded data so as to accumulate the transactions of similar type at one place. This function is performed by maintaining the ledger in which different accounts are opened to which related transactions are posted.

(iii) Summarising :
It is concerned with the preparation and presentation of the classified data in a manner useful to the users. This function involves the 5 preparation of financial statements such as Income Statement, Balance Sheet, Statement of Changes in Financial Position, Statement of Cash Flow, Statement of Value Added.

(iv) Interpreting :
Nowadays, the aforesaid three functions are performed by electronic data processing devices and the accountant has to concentrate mainly on the

interpretation aspects of accounting. The accountants should interpret the statements in a manner useful to action. The accountant should explain not only what has happened but also (a) why it happened, and (b) what is likely to happen under specified conditions.

<u>Next topic:</u>

<u>OBJECTIVES OF ACCOUNTING</u>

The following are the main objectives of accounting :

<u>1. To keep systematic records</u> : Accounting is done to keep a systematic record of financial transactions. In the absence of accounting there would have been terrific burden on human memory which in most cases would have been impossible to bear.

<u>2. To protect business properties</u>: Accounting provides protection to business properties from unjustified and unwarranted use. This is possible on account of accounting supplying the following information to the manager or the proprietor: (i) the amount of the proprietor's funds invested in the business.

(ii) How much the business has to pay to others?

(iii)How much the business has to recover from others?

(iv) How much the business has in the form of (a) fixed assets, (b) cash in hand, (c) cash at bank, (d) stock of raw materials, work-in-progress and finished goods?

Information about the above matters helps the proprietor in assuring that the funds of the business are not necessarily kept idle or underutilized.

<u>3.To ascertain the operational profit or loss :</u> Accounting helps in ascertaining the net profit earned or loss suffered on account of carrying the business. This is done by keeping a proper record of revenues and expense of a particular period. The Profit and Loss Account is prepared at the end of a period and if the amount of revenue for the period is more than the expenditure incurred in earning that revenue, there is said to be a profit. In case the expenditure exceeds the revenue, there is said to be a loss. Profit and Loss Account will help the management, investors, creditors, etc. in knowing whether the business has proved to be remunerative or not. In case it has not proved to be remunerative or profitable, the cause of such a state of affairs will be investigated and necessary remedial steps will be taken.

4. To ascertain the financial position of the business : The Profit and Loss Account gives the amount of profit or loss made by the business during a particular period. However, it is not enough. The businessman must know about his financial position i.e. where he stands ?, what he owes and what he owns? This objective is served by the Balance Sheet or Position Statement. The Balance Sheet is a statement of assets and liabilities of the business on a particular date. It serves as barometer for ascertaining the financial health of the business.

5. To facilitate rational decision making : Accounting these days has taken upon itself the task of collection, analysis and reporting of information at the required points of time to the required levels of authority in order to facilitate rational decision-making. The American Accounting Association has also stressed this point while defining the term accounting when it says that accounting is the process of identifying, measuring and communicating economic information to permit informed judgments and decisions by users of the information. Of course, this is by no means an easy task. However, the accounting bodies all over the 11 world and particularly the International Accounting Standards Committee, have been trying to grapple with this problem and have achieved success in laying down some basic postulates on the basis of which the accounting statements have to be prepared.

6. Information System : Accounting functions as an information system for collecting and communicating economic information about the business enterprise. This information helps the management in taking appropriate decisions. This function, as stated, is gaining tremendous importance these days.

Next topic:

USERS OF ACCOUNTING INFORMATION

The basic objective of accounting is to provide information which is useful for persons inside the organization and for persons or groups outside the organization. Accounting is the discipline that provides information on which external and internal users of the information may base decisions that result in the allocation of economic resources in society.

I**. External Users of Accounting Information** : External users are those groups or persons who are outside the organization for whom accounting function is performed. Following can be the various external users of accounting information:

1. Investors,Those who are interested in investing money in an organization are interested in knowing the financial health of the organization of know how safe the investment already made is and how safe their proposed investment will be. To know the financial health, they need accounting information which will help them in evaluating the past performance and future prospects of the organization. Thus, investors for their investment decisions are dependent upon accounting information included in the financial statements. They can know the profitability and the financial position of the organization in which they are interested to make that investment by making a study of the accounting information given in the financial statements of the organization.

2. Creditors. Creditors (i.e. supplier of goods and services on credit, bankers and other lenders of money) want to know the financial position of a concern before giving loans or granting credit. They want to be sure that the concern will not experience difficulty in making their payment in time i.e. liquid position of the concern is satisfactory. To know the liquid position, they need accounting information relating to current assets, quick assets and current liabilities which is available in the financial statements.

3. Members of Non-profit Organizations. Members of non-profit organizations such as schools, colleges, hospitals, clubs, charitable institutions etc. need accounting information to know how their contributed funds are being utilised and to ascertain if the organization deserves continued support or support should be withdrawn keeping in view the bad performance depicted by the accounting information and diverted to another organisation. In knowing the performance of such organisations, criterion will not be the profit made but the main criterion will be the service provided to the society.

4. Government. Central and State Governments are interested in the accounting information because they want to know earnings or sales for a particular period for purposes of taxation. Income tax returns are examples of financial reports which are prepared with information taken directly from accounting records. Governments also needs accounting information for compiling statistics concerning business which, in turn helps in compiling national accounts.

5. Consumers. Consumers need accounting information for establishing good accounting control so that cost of production may be reduced with the resultant reduction of the prices of goods they buy. Sometimes, prices for some goods are fixed by the Government, so it needs accounting information to fix reasonable prices so that consumers and manufacturers are not exploited. Prices are fixed keeping in view fair return to manufacturers on their investments shown in the accounting records.

6. Research Scholars. Accounting information, being a mirror of the financial performance of a business organisation, is of immense value to the research scholars who wants to make a study to the financial operations of a particular firm. To make a study into the financial operations of a particular firm, the research scholar needs detailed accounting information relating to purchases, sales, expenses, cost of materials used, current assets, current liabilities, fixed assets, long term liabilities and shareholders' funds which is available in the accounting records maintained by the firm

II Internal Users of Accounting Information.

Internal users of accounting information are those persons or groups which are within the organization. Following are such internal users :

1. Owners. The owners provide funds for the operations of a business and they want to know whether their funds are being properly used or not. They need accounting information to know the profitability and the financial position of the concern in which they have invested their funds. The financial statements prepared from time to time from accounting records depicts them the profitability and the financial position.

2. Management. Management is the art of getting work done through others, the management should ensure that the subordinates are doing work properly. Accounting information is an aid in this respect because it helps a manager in appraising the performance of the subordinates. Actual performance of the employees can be compared with the budgeted performance they were expected to achieve and remedial action can be taken if the actual performance is not up to the mark. Thus, accounting information provides "the eyes and ears to management". The most important functions of management are planning and controlling. Preparation of various budgets, such as sales budget, production budget, cash budget, capital expenditure budget etc., is an important part of planning function and the starting point for the preparation of the budgets is the accounting information for the previous year. Controlling is the function of seeing that programmers laid down in various budgets are being actually achieved i.e. actual performance ascertained from accounting is compared with the budgeted performance, enabling the manager to exercise controlling case of weak performance. Accounting information is also helpful to the management in fixing reasonable selling prices. In a competitive economy, a price should be based on cost plus a reasonable rate of return. If a firm quotes a price which exceeds cost plus a reasonable rate of return, it probably will not get the order. On the other hand, if the firm quotes a price which is less than its cost, it will be given the order but will incur a loss on account of price being lower than the cost. So, selling prices should always be fixed on the basis of accounting data to get the reasonable margin of profit on sales.

3. Employees. Employees are interested in the financial position of a concern they serve particularly when payment of bonus depends upon the size of the profits earned. They seek accounting information to know that the bonus being paid to them is correct.

Next topic:

Scope of Accounting:

1. Identification

Accounting is concerned with financial transactions and events which bring 'about a change in the resources (or wealth) position of the business firm. Such transactions have to be identified first, as and when they occur. It is not difficult because. There will be proof in the form of a bill or receipt (called vouchers). With the help of these bills and receipts identification of a transaction is easy. For example, when you purchase something you get a bill, when you make payment you gets a receipt.

2. Measurement.

These transactions are to be measured or expressed in terms of money, if not done already. Generally, this problem will not arise, because the statement of proof expresses the transaction in terms of money. For example, if ten books are purchased at the rate of Rs. 20 each, then the bill is prepared for Rs. 200. But, if an event cannot be expressed in monetary terms, it will not come under the scope of accounting.

3.Recording

The transactions which are identified and measured are to be recorded in a book called journal or in one of its sub-divisions.

4 Classification

The recorded transactions are to be classified with a view to group transactions of similar nature at one place. The work of classification is done in a separate book called ledger. In the ledger, a separate account is opened for each item so that all transactions relating to it can be brought to one place. For example, all payments of salaries are brought to salaries account.

5. Summarizing

The recording and classification of many transactions will result in a mass of financial data. It is, therefore, necessary to summaries such data periodically (at least once a year), in a significant and meaningful form. The summarization is done in the form of profit and loss account which reveals the profit made or loss incurred, and the balance sheet which reveals the financial position.

6 Analyzing, interpretation and communication:

The summary results will have to be analyzed, interpreted (critically explained) and communicated to interested parties. Accounting information is generally communicated in the form of a 'report'. Big organizations generally present printed reports, called published accounts

Concept of book keeping:

A double-entry bookkeeping system is a set of rules for recording financial information in a financial accounting system in which every transaction or event changes at least two different nominal ledger The name derives from the fact that financial information used to be recorded using pen and ink in paper books – hence "bookkeeping" (whereas now it is recorded mainly in computer systems) and that these books were called journals and ledgers (hence nominal ledger, etc.) – and that each transaction was entered twice (hence "double-entry"), with one side of the transaction being called a accounts. debit and the other a credit. **It was first codified in the 15th century by the Franciscan Friar, Luca Pacioli.** In deciding which account has to be debited and which account has to be credited, the golden rules of accounting are used. This is also accomplished using the accounting equation**: Equity = Assets − Liabilities**. The accounting equation serves as an error detection tool. If at any point the sum of debits for all accounts does not equal the corresponding sum of credits for all accounts, an error has occurred. It follows that the sum of debits and the sum of the credits must be equal in value. Double-entry bookkeeping is not a guarantee that no errors have been made – for example, the wrong ledger Accounting entries account may have been debited or credited, or the entries completely reversed.

DISTINCTION BETWEEN BOOK-KEEPING AND ACCOUNTING

Book-keeping is a part of accounting and is concerned with the recording of transactions which is often routine and clerical in nature, whereas accounting performs other functions as well, viz., measurement and communication, besides recording. An accountant is required to have a much higher level of knowledge, conceptual understanding and analytical skill than is required of the book-keeper. An accountant designs the accounting system, supervises and checks the work of the book-keeper, prepares the reports based on the recorded data and interprets the reports. Nowadays, he is required to take part in matters of management, control and planning of economic resources.

DISTINCTION BETWEEN ACCOUNTING AND ACCOUNTANCY

Although in practice Accountancy and Accounting are used interchangeably yet there is a thin line of demarcation between them. The word Accountancy is used for the profession of accountants - who do the work of accounting and are knowledgeable persons. Accounting is concerned with 6 recording all business transactions systematically and then arranging in the form of various accounts and financial statements. And it is a distinct discipline like economics, physics, astronomy etc. The word accounting tries to explain the nature of the work of the accountants (professionals) and the word Accountancy refers to the profession these people adopt.

Next topic:

LIMITATIONS OF FINANCIAL ACCOUNTING

Advantages of accounting discussed in this lesson do not suggest that accounting is free from limitations. Anyone who is using accounting information should be well aware of its limitations also. Following are the limitations:

(a) **Financial accounting permits alternative treatments:**

No doubt accounting is based on concepts and it follows "generally accepted accounting principles", but there exist more than one principle for the treatment of any one item. This permits alternative treatments within the framework of generally accepted accounting principles. For example, the closing stock of a business may be valued by any one of the following methods: FIFO (First-in-first-out); LIFO (Last-in-first-out); Average price, Standard price etc., Application of different methods will give different results but the methods are generally accepted. So, the results are not comparable.

(b) **Financial accounting is influenced by personal judgments.**

In spite of the fact that convention of objectivity is respected in accounting but to record certain events estimates have to be made which requires personal judgment. It is very difficult to expect accuracy in future estimates and objectivity suffers. **For example,** in order to determine the amount of depreciation to be charged every year for the use of fixed asset it is required to estimate (1) future life of the asset, and (2) scrap value of the asset. Thus in accounting we do not determine but measure the income. In other words, the income disclosed by accounting is not authoritative but approximation.

(c) Financial accounting ignores important non-monetary information financial accounting takes into consideration only those transactions and events which can be described in money. The transactions and events, however important, if non-monetary in nature are ignored i.e., not recorded. **For example**, extent of competition faced by the business, technical innovations possessed by the business, loyalty and efficiency of the employees etc. are the important matters in which management of the business is highly interested but accounting is not tailored to take note of such matters. Thus any user of financial information is, naturally, deprived of vital information which is of non-monetary character.

(d) Financial accounting does not provide timely informationfinancial accounting is designed to supply information in the form of statements (Balance Sheet and Profit and Loss Account) for a period, normally, one year. So the information is, at best, of historical interest and only postmortem analysis of the past can be conducted. The business requires timely information at frequent intervals to enable the management to plan and take corrective action. For example, if a business has budgeted that during the current year sales should be Rs. 12,00,000 then it requires information – whether the sales in the first month of the year amounted to Rs. 1,00,000 or less or more? Traditionally, 19 financial accounting is not supposed to supply information at shorter intervals than one year.

(e) Financial accounting does not provide detailed analysis

The information supplied by the financial accounting is in reality aggregate of the financial transactions during the course of the year. Of course, it enables to study the overall results of the business activity during the accounting period. For proper running of the business the information is required regarding the cost, revenue and profit of each product but financial accounting does not provide such detailed information product-wise. For example, if a business has earned a total profit of, say, Rs. 5,00,000 during the accounting year and it sells three products namely petrol, diesel and mobile oil and wants to know profit earned by each product. Financial accounting is not likely to help him.

(f) Financial accounting does not disclose the present value of the business

In financial accounting the position of the business as on a particular date is shown by a statement known as balance sheet. In balance sheet the assets are shown on the basis of going concern concept. Thus it is presumed that business has relatively longer life and will continue to exist indefinitely, hence the asset values are going concern values. The realized value of each asset if sold today can't be known by studying the balance sheet.

Next topic:

BASIC ACCOUNTING TERMS

1. Business

Any legal action that is done in order to earn income or profit is called business. It includes the production of goods and services, purchase and sale of goods and services, banking, insurance, education transportation, and any other trading activity etc.

2. Trade

Purchase and sale of goods and services in order to earn profit is called trade.

3. Profession

Any work done in order to earn profit which necessarily requires prior training and education is called a profession. For example doctors, lawyers, engineers etc..

4. Proprietor

The person who invests capital in the business and entitled to have all profits and losses of the business is called proprietor or owner of the business. The nature of proprietor depends upon the type or nature of the business organization. In a sole trade business, sole trader is a proprietor, in a partnership firm, partners or proprietor and in company shareholders are proprietors.

5. Capital

The amount of cash, goods or assets which is initially invested by proprietor while commencing business is called capital. It is invested to earn profits. In other words, the excess of assets over liability is capital.

6. Assets

All the resources of business having economic value are called assets. These resources help the business to earn a profit and have future value. These are important for running a business and are in the possession of businessman. These are of two types: –

a. Fixed assets

The assets which are used by business for a long time are called fixed assets or non-current assets. These are continued to be used by the business for a period of more than one year. For example:- land ,building ,plant, machinery ,furniture ,vehicle etc.

b. Current assets

The assets which are used up in one year or easily get converted into cash in one year are called current assets. For example:- raw material, finished goods, debtors, cash balance and bank balance etc.

7. Liabilities

The amount which business owes to others is called its liabilities. There is a certain amount which business is under obligation to pay. There are two types of liabilities: –

a. Long-term liabilities

Those liabilities which are usually payable after a period of 1 year. Long-term loans from Financial Institutions, debentures issued by companies etc.

b. Short-term liabilities

These are those which are payable within one year. For example creditors, bank overdrafts etc.

8. Drawings

The amount of cash or goods which is withdrawn by proprietor from business for its private uses is called drawings. It reduces the capital of the business.

9. Goods

The things which are bought and sold by business are called goods. Goods maybe raw material work in progress of finished goods. In accounting, when goods are purchased it is written as purchases. When goods are sold it is written as sales. It is written as a stock if remain unsold at the end of the year.

10. Purchases

Goods bought for resale are called purchases. This may be in form of raw material or finished goods. Purchase of assets is not called purchases because assets are not purchased for resale.

11. Sales

When purchase goods are sold in order to earn a profit are called sales. When goods are sold for cash it is called cash sales and goods sold on credit are called credit sales.

12. Purchase return

Goods once purchased by the business, are returned back due to any reason is called purchase return or return outwards.

13. Sales return

Goods once sold to the customer when are returned back by them due to any reason then such goods are called as sales returns or return inwards.

14. Stock

These are those goods which are left unsold in the business at the end of the year. The goods unsold at the end of the accounting year are called closing stock. The same stock is called opening stock at the beginning of a new accounting year.

15. Revenue

These are the amount received by a business for selling goods or services. This amount is received from day to day business activity in the form of rent, interest, commission, discount, dividend etc.

16. Expenses

The cost which business incurs for producing goods and services or for using services is called expenses. These include payments made for wages, salaries, freight, advertisement, rent, insurance etc. In other words, we can say that the cost of earning revenue is an expense.

17. Expenditure

The amount which is paid for increasing profit earning capacity of business is called expenditure. It is of long period nature.

18. Income

That amount which increases the capital of the business is called income. The excess of revenue over expenses is also called income.

19. Loss

When expenses incurred are more than revenue then this excess of expenses is called loss. This reduces the capital of the business.

20. Gain

It is a monetary receipt as a result of business transaction. The excess of revenue over the expenses is called gain.

21. Cost

Total of direct or indirect expenses which are incurred for the production of goods and services is called cost. Like the cost of raw material cost of labor and cost of other services used to make the article is called its total cost.

22. Discount

Concession a rebate allowed by a businessman 2 its customer is called a discount. it may be of two types: –

a. Trade discount

When a trader allows a concession to its customers on the list price, it is known as trade discount. It is not recorded in the books. It is stated in the invoice.

b. Cash discount

When a trader allows a concession to the customer to make payment in cash or by cheque, it is known as cash discount. It is recorded in the books. When cash discount is allowed customer is required to pay the less due amount, so it encourages the customer to pay as early as possible.

23. Debtor

The person, firm or an organization who takes goods or services on credit from the business are called debtors of the business. In other words, the person, firm or an organization who owes money or Money's worth to the business is called debtor.

24. Creditors

The person, firm or an organization from whom goods or services are purchased on credit by the business are called creditors of the business. The business owes money to them. The amount payable to creditors is a liability of the business.

25. Receivables

The total amount which is to be received in business is called receivables.

26. Payables

The total amount which is to be paid by the business is called payables.

27. Entry

Recording of the transaction in account books is called making an entry or the record of a transaction in books is called an entry.

28. Turnover

The total amount of cash and credit sales during a particular period is called turnover.

29. Insolvent

A person is said to be insolvent when he or she is incapable to meet all his or her liabilities. Such a person has more liability than assets.

30. Bad debts

The amount which could not be recovered from debtors due to his insolvency or disability to pay is called bad debts.

31. Vouchers

The written document through which financial transactions are recorded in the books is called voucher.

32 Account

A list of all transactions relating to a person, property, income expenses is called into account. It is a tabular statement containing all the transaction of same nature at one place under a common heading in a systematic manner.

33 Debit and credit

Every account has two sides. Left side is called the debit side and the right side is called the credit side. In short, it is Dr. and Cr.

34 Commission

In a business activity, a remuneration is paid to the agent for his services, is called commission.

Next topic:

ACCOUNTING CONCEPTS AND CONVENTIONS

The term 'Concept' is used to connote the accounting postulates, i.e., necessary assumptions and ideas which are fundamental to accounting practice. In other words, fundamental accounting concepts are broad general assumptions which underline the periodic financial statements of business enterprises. The reason why some of the these terms should be called concepts is that they are basic assumptions and have a direct bearing on the quality of financial accounting information. The term 'convention' is used to signify customs or tradition as a guide to the preparation of accounting statements. The following are the important accounting concepts and conventions:

ACCOUNTING CONCEPTS

The more important accounting concepts are briefly described as follows:

1. **Separate Business Entity Concept.**

   In accounting we make a distinction between business and the owner. All the books of accounts records day to day financial transactions from the view point of the business rather than from that of the owner. The proprietor is considered as a creditor to the extent of the capital brought in business by him. For instance, when a person invests Rs. 10 lakh into a business, it will be treated that the business has borrowed that much money from the owner and it will be shown as a 'liability' in the books of accounts of business. Similarly, if the owner of a shop were to take cash from the cash box for meeting certain personal expenditure, the accounts would show that cash had been reduced even though it does not make any difference to the owner himself. Thus, in recording a transaction the important question is how does it affects the business? For example, if the owner puts cash into the business, he has a claim against the business for capital brought in

2. **Money Measurement Concept.**

In accounting, only those business transactions are recorded which can be expressed in terms of money. In other words, a fact or transaction or happening which cannot be expressed in terms of money is not recorded in the accounting books. As money is accepted not only as a medium of exchange but also as a store of value, it has a very important advantage since a number of assets and equities, which are otherwise different, can be measured and expressed in terms of a common denominator

3. Dual Aspect Concept.

Financial accounting records all the transactions and events involving financial element. Each of such transactions requires two aspects to be recorded. The recognition of these two aspects of every transaction is known as a dual aspect analysis. According to this concept every business transactions has dual effect. For example, if a firm sells goods of Rs. 10,000 this transaction involves two aspects. One aspect is the delivery of goods and the other aspect is immediate receipt of cash (in the case of cash sales). Infect, the term 'double entry' book keeping has come into vogue because for every transaction two entries are made. According to this system the total amount debited always equals the total amount credited. It follows from 'dual aspect concept' that at any point in time owners' equity and liabilities for any accounting entity will be equal to assets owned by that entity. This idea is fundamental to accounting and could be expressed as the following equalities:

(1) Assets = Liabilities + Owners Equity ....

(2) Owners Equity = Assets - Liabilities .... The above relationship is known as the 'Accounting Equation'. The term 'Owners Equity' denotes the resources supplied by the owners of the entity while the term 'liabilities' denotes the claim of outside parties such as creditors, debenture-holders, bank against the assets of the business. Assets are the resources owned by a business. The total of assets will be equal to total of liabilities plus owners capital because all assets of the business are claimed by either owners or outsiders.

4. Going Concern Concept.

Accounting assumes that the business (9) entity will continue to operate for a long time in the future unless there is good evidence to the contrary. The enterprise is viewed as a going concern, that is, as continuing in operations, at least in the foreseeable future. In other words, there is neither the intention nor the necessity to liquidate the particular business venture in the predictable future.

5. **Accounting Period Concept.**

This concept requires that the life of the business should be divided into appropriate segments for studying the financial results shown by the enterprise after each segment.

6. **Cost Concept.**

The term 'assets' denotes the resources land building, machinery etc. owned by a business. The money values that are assigned to assets are derived from the cost concept. According to this concept an asset is ordinarily entered on the accounting records at the price paid to acquire it. For example, if a business buys a plant for Rs. 5 lakh the asset would be recorded in the books at Rs. 5 lakh, even if its market value at that time happens to be Rs. 6 lakh. Thus, assets are recorded at their original purchase price and this cost is the basis for all subsequent accounting for the business. The assets shown in the financial statements do not necessarily indicate their present market values. The term 'book value' is used for amount shown in the accounting records.

7. **The Matching concept.**

This concept is based on the accounting period concept. In reality we match revenues and expenses during the accounting periods. Matching is the entire process of periodic earnings measurement, often described as a process of matching expenses with revenues. In other words, income made by the enterprise during a period can be measured only when the revenue earned during a period is compared with the expenditure

8. **Accrual Concept.**

It is generally accepted in accounting that the basis of reporting income is accrual. Accrual concept makes a distinction between the receipt of cash and the right to receive it, and the payment of cash and the legal obligation to pay it. This concept provides a guideline to the accountant as to how he should treat the cash receipts and the right related thereto. Accrual principle tries to evaluate every transaction in terms of its impact on the owner's equity. The essence of the accrual concept is that net income arises from events that change the owner's equity in a specified period and that these are not necessarily the same as change in the cash position of the business. Thus it helps in proper measurement of income.

9. **<u>According to realization concept</u>**

Revenue is recognised when sale is made. Sale is considered to be made at the point when the property in goods passes to the buyer and he becomes legally liable to pay. This implies that revenue is generally realized when goods are delivered or services are rendered. The rationale is that delivery validates a claim against the customer.

ACCOUNTING CONVENTIONS

1. **<u>Convention of Materiality.</u>**

   Materiality concept states that items of small significance need not be given strict theoretically correct treatment. Infact, there are many events in business which are insignificant in nature. The cost of recording and showing in financial statement such events may not be well justified by the utility derived from that information. For example, an ordinary calculator costing Rs. 100 may last for ten years. However, the effort involved in allocating its cost over the ten year period is not worth the benefit that can be derived from this operation. The cost incurred on calculator may be treated as the expense of the period in which it is purchased. Similarly, when a statement of outstanding debtors is prepared for sending to top management, figures may be rounded to the nearest ten or hundred.

2. **<u>Convention of Conservatism.</u>**

   This concept requires that the accountants must follow the policy of ''playing safe" while recording business transactions and events. That is why, the accountant follow the rule anticipate no profit but provide for all possible losses, while recording the business events. This rule means that an accountant should record lowest possible value for assets and revenues, and the highest possible value for liabilities and expenses. According to this concept, revenues or gains should be recognised only when they are realised in the form of cash or assets (i.e. debts) the ultimate cash realisation of which can be assessed with reasonable certainty. Further, provision must be made for all known liabilities, expenses and losses, Probable losses regarding all contingencies should also be provided for. 'Valuing the stock in trade at market price or cost price whichever is less', 'making the provision for doubtful debts on debtors in anticipation of actual bad debts', 'adopting written down value method of depreciation as against straight line method', not providing for discount on creditors but providing for discount on debtors', are some of the examples of the application of the convention of conservatism

3. **Convention of Consistency.**

The convention of consistency requires that once a firm decided on certain accounting policies and methods and has used these for some time, it should continue to follow the same methods or procedures for all subsequent similar events and transactions unless it has a sound reason to do otherwise. In other worlds, accounting practices should remain unchanged from one period to another. For example, if depreciation is charged on fixed assets according to straight line method, this method should be followed year after year. Analogously, if stock is valued at 'cost or market price whichever is less', this principle should be applied in each subsequent year.

Next topic:

ACCOUNTING STANDARDS

The accounting concepts and conventions discussed in the foregoing pages are the core elements in the theory of accounting. These principles, however, permit a variety of alternative practices to co-exist. On account of this the financial results of different companies cannot be compared and evaluated unless full information is available about the accounting methods which have been used. The lack of uniformity among accounting practices have made it difficult to compare the financial results of different companies. It means that there should not be too much discretion to companies and their accountants to present financial information the way they like. In other words, the information contained in financial statements should conform to carefully considered standards. Obviously, accounting standards are needed.

OBJECTIVES OF ACCOUNTING SATANADRD

a) Provide a basic framework for preparing financial statements to be uniformly followed by all business enterprises,

b) Make the financial statements of one firm comparable with the other firm and the financial statements of one period with the financial statements of another period of the same firm,

c) Make the financial statements credible and reliable, and

d) Create general sense of confidence among the outside users of financial statements.

In order to harmonize varying accounting policies and practices, the Institute of Chartered Accountants of India (ICAI) formed the Accounting Standards Board (ASB) in April, 1977. ASB includes representatives from industry and government. The main function of the ASB is to formulate accounting standards. This Board of the Institute of Chartered Accountants of India has so far formulated around 27 Accounting Standards, the list of these (17) accounting standards is furnished. Regarding the position of accounting standards in India, it has been stated that the standards have been developed without first establishing the essential theoretical framework. As a result, accounting standards lack direction and coherence. This type of limitation also existed in UK and USA but it was remedied long back. Hence, there is an emergent need to make an attempt to develop a conceptual framework and also revise suitably the Indian Accounting Standards to reduce the number of alternative treatments.

Ind AS have many benefits, some of which are discussed below:

• **Wider acceptability**:

Since <u>Ind AS are converged form of IFRS</u> which are widely acceptable and will give confidence to the user of financial statements.

• **<u>Comparability of Financials</u>:**
Financial statements prepared using Ind AS are easily comparable with the financial statements prepared by companies of other countries.

• **<u>Changes in standards as per economic situations</u>:**
Principles of Ind AS are revised/modified in case there is any major change in economy. Ind AS 29 is 'Financial Reporting in hyperinflationary Economies' which deals with situations related to inflation.

• **<u>Attracts Foreign Investment</u>:**
Adopting Ind AS may attract foreign investors to invest in Indian Companies as that will ensure better comparability with similar companies across the globe.

• **<u>Saves financial statement preparation cost</u>:**
For multinational companies, it will be beneficial as it will be able to use the same accounting standards in all the markets in which they operate. This will save preparation costs of aligning financial statements of Indian company with other operations.

Indian Accounting Standards
Accounting Standard 1 : Disclosure of Accounting Policies
Accounting Standard 2 : Valuation of Inventories
Accounting Standard 3 : Cash Flow Statements
Accounting Standard 4 : Contingencies and Events Occurring after the Balance Sheet Date
Accounting Standard 5 : Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies
Accounting Standard 6 : Depreciation Accounting
Accounting Standard 7 : Construction Contracts
Accounting Standard 8 : (Deleted)
Accounting Standard 9 : Revenue Recognition
Accounting Standard 10 : Property, Plant and Equipment
Accounting Standard 11 : The effects of changes in Foreign Exchange Rates
Accounting Standard 12 : Accounting for Government Grants
Accounting Standard 13 : Accounting for Investments
Accounting Standard 14 : Accounting for Amalgamations
Accounting Standard 15 : Employee benefits

Accounting Standard 16 : Borrowing Costs
Accounting Standard 17 : Segment Reporting
Accounting Standard 18 : Related Party Disclosures
Accounting Standard 19 : Leases
Accounting Standard 20 : Earnings Per Share
Accounting Standard 21 : Consolidated Financial Statements
Accounting Standard 22 : Accounting for Taxes on Income
Accounting Standard 23 : Accounting for Investments in Associates in Consolidated Financial Statements
Accounting Standard 24 : Discontinuing Operations
Accounting Standard 25 : Interim Financial Reporting
Accounting Standard 26 : Intangible Assets
Accounting Standard 27 : Financial Reporting of Interest in Joint Ventures
Accounting Standard 28 : Impairment of Assets
Accounting Standard 29 : Provisions Contingent Liabilities and Contingent Assets
Accounting Standard 30 : Financial Instruments : Recognition and Measurements*
Accounting Standard 31 : Financial Instruments : Presentation*
Accounting Standard 32 : Financial Instruments : Disclosures*

Unit-2

MEANING OF DOUBLE ENTRY SYSTEM:

Double entry system owes its origin to an Italian merchant named LUCO PACIOLI who wrote the first book entitled 'De Computis et Scripturis' on double entry accounting in the year 1494. Every business transactions has two aspects, i.e. when we receive something, we give something else in return. For example, when we purchase goods for cash, we receive goods and give cash in return. Similarly in a credit sale of goods, goods are given to the customer and the customer becomes debtor for the amount of goods sold by him. This method of writing every transaction in two accounts is known as double entry system of accounting. Of the two accounts one account is given debit while the other account is given credit with an equal amount. Thus, on any date, the total of all debits must be equal to the total of all credits because every debit has a corresponding credit.

Rules for Double Entry System

An account is statement and it is a record of transactions relating to a person, or a firm, or a property, or a liability, or an income or expenditure. There are three kinds of rules for double entry system. They are as follows:-

1. **Personal Accounts**

Under this statement, a separate account will be prepared for each person. It includes Natural person's account, artificial person's account and representative personal accounts. Some of the examples of personal account are Ram's account, Bank account, any firms account, any companies account, prepaid expense account, outstanding wages account etc.

Rule for personal Account:-

"***Debit the receiver***
Credit the giver"

2. **Real Accounts**

Under the real account, a separate account will create for each class of property or asset. There will have an account relating to a property, an asset or a possession of property. Some of the examples for real account are Cash account, Furniture account, Goodwill account etc.

Rule for Real Account:-

"***Debit what comes in***
Credit what goes out"

3. Nominal Account

These includes the expenses and losses or incomes and gains of business. Some of the examples of Nominal account are wages account, discount received account, interest account etc.

Rule for nominal Account:-

"***Debit all expenses and losses***
Credit all incomes and gains"

Next topic:

Advantages of Double Entry System

Double entry system is the most scientific method of keeping accounts. In the modem age, this system is accepted as the best one.

In every organization whether big or small accounts are kept under double entry system.

The advantages of the double entry system are stated in brief;

1. **Complete accounts of transactions:** Double entry system can keep complete accounts of transactions as it is based on dual aspects of each transaction; i.e. debit and credit are recorded simultaneously. For this reason, this system maintains accounts of all parties relating transactions.
2. **Verification of arithmetical accuracy:** Arithmetical accuracy of accounting can be verified through the preparation of trial balance if the accounts are maintained under the double entry system. Under this system, every debit for a certain amount of money will have corresponding credit for an equal amount. For this reason, the total amount of debt will be equal to the total amount of credit. It can be detected through trial balance whether two sides of accounts are equal or not and thereby the arithmetical accuracy of the account is verified.
3. **Determining profit or loss:** Under double entry system, profit or loss of the company for a particular accounting period can be known by preparing an income statement. Since all accounts relating to income and expenditure are maintained properly in the ledger under the double entry system, it becomes convenient to draw income statement at the end of a particular accounting period.
4. **Determining financial position:** Under double entry system, the total assets and liabilities of a business concern are recorded properly. As a result at the closing day of the accounting period balance sheet is prepared with the help of all assets and liabilities. Through this balance sheet financial position of the business concerned can be ascertained.
5. **Knowing asset and liabilities:** Total amount of assets and liabilities can be ascertained if the account is kept under double entry system and it becomes easier to settle liability and assets.

6. **Fixation of the price of commodities:** It becomes easier to fix-up the price of commodities as the accounts are maintained systematically under double entry system.
7. **Submission of income and VAT statements:** Double entry system being the reliable system of keeping accounts the submission of reliable income and VAT statement under it are possible on the basis of which income tax and VAT are fixed and paid.
8. **Comparative analysis:** Under this system of accounting future course of action can be formulated by comparing income -expenditure, asset and liability of the current year with that of the previous year.
9. **Increase in profit:** Under this system of accounting the picture of all incomes or profits is reflected. It can be identified which item is more profitable for a business comparing the items relating to a profit of the current year with that of the previous year. In this way, attempts can be made in order to make more profit.
10. **Expenditure control:** Through comparative analysis expenditure may be controlled curtailing expensive expenditure.
11. **Detection and prevention of forgery:** Under this system of accounts errors or forgery of accounts can easily be detected. As a result moral qualities of an accountant and other employees are upheld.
12. **Supply of information:** This system helps run the business properly supplying necessary information and statistics to the management.
13. **Future reference:** Under this system as every transaction is permanently recorded properly and completely, any necessary information can be detected easily in future.
14. **Easy application:** It is easier to record the transactions properly in the books of accounts following the scientific method of double entry system.
15. **Generally accepted method:** Double entry system being a scientific method is a generally accepted system. The accounts under double entry system become reliable and acceptable to all concerned like income tax authority, creditors etc.
16. **Efficiency evaluation of business concern:** Capacity for earning a profit and repaying liabilities can be evaluated with the help of various ratios relating to accounts from financial statements. For example, creditors or loan givers evaluate the loan repaying capacity of a business concern with the help of current ratio. If the ratio is 2:1 then it is assumed that the loan repaying capacity of the business concern is sound enough.
17. **Timely step for correcting accounting errors:** Accounting errors can properly be detected and taking necessary measures for correction is possible under double entry system of accounting; i.e. before going to next stage the errors of accounting can be corrected.

18. **Utility:** The utility and application of this system in the accounts of all business concerns whether big, medium or small are accepted by all.

Disadvantages or Limitations of Double Entry System

The double entry system is a generally accepted scientific method. In spite of its many important advantages some limitations of it exist which are stated below:

1. **Increased size of books of accounts:** Under double entry system every transaction is recorded in two sides of two accounts and in two steps (Journal & ledger) of books of accounts.
2. **Complexity in accounting process:** Complexity arises in following rules, principles, techniques, and methods etc. for keeping accounts under the double entry system.
3. **Expensive, time and labor consuming:** Since accounting process under the double entry system is extensive, a good number of books are to be kept and a large number of employees are employed for accounting work. As a result, it requires enough labor, time and money. Therefore, it becomes impossible to follow this system by the small business concerns.
4. **Persons of specialized knowledge required:** The accountant should possess both theoretical and practical knowledge of accounting for proper keeping of accounts under double entry system. An inexperienced person in accounting fails and faces problems in maintaining accounts under this double entry system
5. **Possibility of mistake:** As the accounting process under the double entry system is complex and complicated, the possibility of errors and mistakes cannot be avoided completely.
6. **Limited scope of application:** In a small business organization, daily shopping, a cultural ceremony the application of single entry system of accounting is more popular and advantageous than double entry system.
7. **Problem in maintaining secrecy:** A lot of people are engaged in maintaining accounts under double entry system since the accounting process is very wide and extensive. As a result, a problem arises in maintaining the secrecy of the accounts or business.

Though there arise some problems in maintaining accounts under double entry systems, its advantages and acceptability are so wide and comprehensive that at present age in almost all field accounts is kept under this system.

Next topic:

Journal

A journal is a place of record in which business transactions are recorded in chronological order. A firm may use several specialized journals, such as a purchases journal or sales journal, to separately record transactions in the more high-volume areas. The general journal is used to record more general, lower-volume transactions. Once entered into a journal, transactions are then posted to general ledger accounts. Journals are the best source of information when researching the nature of business transactions, since they identify source documents.

Entries made into a journal employ double-entry accounting, where balancing debits and credits are used. The entries also state the date, accounts impacted, and amounts, as well as an identifier for the source document.

Illustration 1

Jeyaseeli is a sole proprietor having a provisions store. Following are the transactions during the month of January, 2018. Journalise them.

Jan. Rs.

1 Commenced business with cash 80,000

2 Deposited cash with bank 40,000

3 Purchased goods by paying cash 5,000

4 Purchased goods from Lipton & Co. on credit 10,000

5 Sold goods to Joy and received cash 11,000

6 Paid salaries by cash 5,000

7 Paid Lipton & Co. by cheque for the purchases made on 4th Jan.

8 Bought furniture by cash 4,000

9 Paid electricity charges by cash 1,000

10 Bank paid insurance premium on furniture as per standing instructions 300

Illustration 2

Ananth is a trader dealing in textiles. For the following transactions, pass journal entries for the month of January, 2018.

Jan. Rs.

1 Commenced business with cash 70,000

2 Purchased goods from X and Co. on credit 30,000

3 Cash deposited into bank 40,000

4 Bought a building from L and Co. on credit 95,000

5 Cash withdrawn from bank for office use 5,000

6 Cash withdrawn from bank for personal use of Ananthu 4,000

7 Towels given as charities 3,000

8 Shirts taken over by Ananth for personal use 12,000

9 Sarees distributed as free samples 3,000

10 Goods (table clothes) used for office use 200

Illustration 3

Arun is a trader dealing in automobiles. For the following transactions, pass journal entries for the month of January, 2018

Jan. Rs.

1 Commenced business with cash 90,000

2 Purchased goods from X and Co. on credit 40,000

3 Accepted bill drawn by X and Co. 20,000

4 Sold goods to D and Co. on credit 10,000

5 Paid by cash the bill drawn by X and Co.

6 Received cheque from D and Co. in full settlement and deposited the same in bank 9,000

7 Commission received in cash 5,000

8 Goods costing Rs. 40,000 was sold and cash received 50,000

9 Salaries paid in cash 4,000

10 Building purchased from Kumar and Co. for Rs. 1,00,000 and an advance of Rs. 20,000 is given in cash

Illustration 4

Bragathish is a trader dealing in electronic goods who commenced his business in 2015. For the following transactions took place in the month of March 2018, pass journal entries.

March Rs.

1. Purchased goods from Y and Co. on credit 60,000

2. Sold goods to D and Co. on credit 30,000

3. Paid Y and Co. through bank in full settlement 58,000

4. D and Co. accepted a bill drawn by Bragathish 30,000

5. Sold goods to L on credit 20,000

6. Sold goods to M on credit 40,000

7 Received a cheque from M in full settlement and deposited the same to the bank 39,000

8. Goods returned to Y and Co. 4,000

9. L became insolvent and only 90 paise per rupee is received by cash in final settlement

10. Goods returned by M 3,000

Illustration 5

Valluvar is a sole trader dealing in textiles. From the following transactions, pass journal entries for the month of March, 2018.

March Rs.

1 Commenced business with cash 90,000

with goods 60,000

2 Purchased 20 readymade shirts from X and Co. on credit 10,000

3 Cash deposited into bank through Cash Deposit Machine 30,000

4 Purchased 10 readymade sarees from Y and Co. by cash 6,000

5 Paid X and Co. through NEFT

6 Sold 5 sarees to A and Co. on credit 4,000

7 A and Co. deposited the amount due in Cash Deposit Machine

8 Purchased 20 sarees from Z & Co. and paid through debit card 12,000

9 Stationery purchased for and paid through net banking 6,000

10 Bank charges levied 200

Illustration 7

Deri is a sole trader dealing in automobiles. From the following transactions, pass journal entries for the month of January, 2018.

Jan. Rs.

1 Commenced business with cash 1,00,000

with goods 2,00,000

with buildings 5,00,000

2 Purchased goods from A and Co. on credit 3,00,000

3 Cash deposited into bank 80,000

4 Purchased goods from B and Co. and payment made through credit card 5,000

5 Paid A and Co. through RTGS

6 Sold goods to C and Co. and cheque received 50,000

7 Deposited the cheque received from C and Co. with the bank

8 Purchased goods from Z & Co. and paid through debit card 12,000

9 Stationery purchased for and paid through net banking 6,000

10 Income tax of Deri is paid by cheque 10,000

Illustration 8

Chandran is a sole trader dealing in sports items. From the following transactions, pass journal entries for the month of March, 2018.

March Rs.

1 Commenced business with cash 4,00,000

2 Cash deposited into bank 3,00,000

3 Purchased goods from Ravi and payment made through net banking 90,000

4 Sales made to Kumar, who deposited the money through CDM 10,000

5 Sales made to Vivek, who made the payment by debit card 60,000

6 Sold goods to Keerthana, who made the payment through credit card 50,000

7 Dividend directly received by bank 2,000

8 Money withdrawn from ATM 3,000

9 Salaries paid through ECS 6,000

10 Cricket bats donated to a trust 10,000

Illustration 9

Deepak is a dealer in stationery items. From the following transactions, pass journal entries for the month of January and February, 2018.

Jan. Rs.

1 Commenced business with cash 2,00,000

2 Opened a bank account by depositing cash 1,00,000

3 ‘A 4 papers’ sold on credit to Padmini and Co. 60,000

4 Bills received from Padmini and Co. for the amount due

5 Bills received from Padmini and Co. discounted with the bank 58,000 Feb.

15 Bills of Padmini and Co. dishonoured

Next topic:

LEDGER

Introduction

Ledger account is a summary statement of all the transactions relating to a person, asset, liability, expense or income which has taken place during a given period of time and it shows their net effect. From the transactions recorded in the journal, the ledger account is prepared. Ledger is known as principal book of accounts. It is a book which contains all sets of accounts, namely, personal, real and nominal accounts. Accountwise balance can be determined from the ledger. The ledger accounts are prepared based on journal entries passed.

The balances in the ledger accounts show the net effect of transactions during a particular period in various accounts. The personal accounts give the net amount due to creditors and the net amount due from debtors, real accounts show the values of assets and nominal accounts show incomes and expenses. The financial statements can be prepared from the ledger balances.

Ledger may be maintained in the business enterprises in the form of a bound register or in the form of loose sheets with spiral binding. Normally one page or one sheet may be provided for one account. An index is provided in the beginning of the ledger giving details of the accounts contained in it such as specific code for each account, page number, etc. Where computerised accounting is followed, once the transactions are recorded in the journal, ledger accounts are automatically prepared.

Utilities of ledger

Following are the utilities of ledger:

i) Quick information about a particular account

Ledger account helps to get all information about a particular account like sales, purchases, machinery, etc., at a glance. For example, where there are several transactions with a debtor, the net amount due from a debtor can be known from the ledger account.

ii)Control over business transactions

From the ledger balances extracted, a thorough analysis of account balances can be made which helps to have control over the business transactions.

iii)Trial balance can be prepared

With the balances of ledger accounts, trial balance can be prepared to check the arithmetical accuracy of entries made in the journal and ledger.

iv) Helps to prepare financial statements

From the ledger balances extracted, financial statements can be prepared for ascertaining net profit or loss and the financial position.

Format of ledger account

The ledger account is prepared in T format. It is divided into two parts. Left side is debit side and right side is credit side. Each side contains four columns. The name or title of the account is placed at the top middle and the details are entered in the ledger. The format of ledger account is given below:

Following are the details contained in the various columns in the ledger:

Date : **Date of the transaction is recorded in this column.**

Particulars : **The account debited or credited is recorded in this column. On the debit side, the entries are made starting with 'To' and on the credit side, entries are made starting with 'By'.**

Journal Folio (J.F.): **In this column, the page number of the journal or subsidiary books from which the entry has been posted to the ledger is noted.**

Amount : **The amount of the transaction is recorded in this column.**

Next topic

MEANING OF TRIAL BALANCE:

Trial balance is a statement of debit and credit totals or balances extracted from various accounts in the ledger with a view to test the arithmetical accuracy of the books. This statement is usually prepared at the end of the year and is a connecting link between the ledger accounts and the final accounts.

- **Objective of Trial Balance:**

The following are the main objective of trial balance.

1) To check the arithmetical accuracy of ledger

Trial balance is prepared on the basic of double entry systems of book keeping which states that every debit should have equal and corresponding credit and vice versa, as a result, the sum of the debit totals and credit totals of trial balances must be equal. If the debit total does not agree with the credit total, it is assumed that the transactions are not arithmetically accurate. Thus, one of the important objectives of trial balance is to provide check on the arithmetical accuracy of the financial transactions.

2) To help in locating accounting errors

since the trial balance indicates whether there is an error committed in journal or ledger, it helps to locate errors as trial balance is the starting point of locating error. Thus locating error is one of the importance objectives of trial balance.

3) To provide the summary of transactions

A business organization performs number of financial transaction during a certain period of time. These transaction themselves cannot depict any picture of financial of the business organizations. To fulfill the purpose, the trial balance is prepared which summarized the financial transactions of business in a certain date.

4) To serve as basic for preparing final accounts

Financial statements are prepared from trial balance. Trial balance contains all ledger accounts, and provides a basis for further processing of accounting data i.e. preparation of financial statements.

5) To facilitate auditors:

Total of all debit balances must be equal to total of all credit balances. Agreement of trial balance assures auditors that all transactions have been recorded in books of accounts.

- **Limitations of Trial Balance:**

Following are the main limitations of trial balance:

1) Trial balance can be prepared only in those concerns where double entry system of accounting is adopted. This system is very costly and cannot be adopted by the small concerns.
2) Though trial balance gives arithmetic accuracy of the books of accounts but there are certain errors which are not disclosed by the trial balance. That is why it is said that trial balance is not a conclusive proof of the accuracy of the books of accounts.
3) If trial balance is not prepared correctly then the final accounts prepared will not reflect the true and fair view of the state of affairs of the business. Whatever

conclusions and decisions are made by the various groups of person will not be correct and will mislead such persons.

- **METHODS OF PREPARATION OF TRIAL BALANCE**

  The following are the two methods of preparing trial balance:

1. **Total Method:**
   Under this method, every ledger account is totaled and that total amount (both credit and debit side) is transferred to trial balance. The difference of totals of each ledger account is the balance of that particular account. This method is not commonly used as it cannot help in the preparation of financial statements
2. **Balance Method:**
   Under this method, every ledger account is balanced and those balances only are carried forward to the trial balance. Financial statements are commonly prepared on the basis of this method
3. **Total and Balance Method:**
   As name shows it is combination of above two methods. Under this method, statement of trial balance shows to balance contains the balance in both ways as explained in the above two methods.

SUBSIDIARY BOOKS – I

Introduction

Business entities carry on transactions of different nature. The types of transactions depend on the nature of business and the management policy. Many transactions may be of repetitive type, that is, similar nature of transactions take place repeatedly in a business entity. Therefore, transactions can be classified and grouped conveniently according to their nature. Generally, transactions are of two types: cash and non cash transactions (credit). Cash receipts and payments can be grouped in one category and credit transactions in another category. Thus, in practice, for easy, convenient, speedy and appropriate maintenance of accounts, the main journal may be sub-divided in such a way that a separate book is used for each category or group of transactions which are repetitive and sufficiently large in number. Each subdivision of the books is a special journal and a book of primary record or a book of primary entry

Types of subsidiary books

The number of subsidiary books may vary according to the requirements of each business. Based on the nature of business and the volume of transactions, the following subsidiary books are maintained:

i. Subsidiary book for entering cash transactions - Cash book

ii. Subsidiary books (special journal) for entering non-cash transactions:

· Purchases book or purchases journal – for recording only credit purchase of goods in which the trader deals.

· Sales book or sales journal–for recording only credit sale of goods dealt in by the trader.

· Purchases returns or returns outward book – for recording return of goods purchased by the trader, for which no cash is immediately received.

· Sales returns or returns inward book – for recording the goods returned (out of previous sale) by customers for which no cash is immediately paid.

· Bills receivable book – to record bills drawn or promissory notes received.

· Bills payable book – to record bills accepted or promissory notes given.

iii. Journal proper – The general journal or all purpose journal to record transactions which do not find a place in the above seven subsidiary books.

or subsidiary book.

Journal entries are not passed when records are made in subsidiary books. When journal is the only book of prime entry it is possible for only one book-keeper to enter transaction in it at a time. In case of business entities having large volume of transactions, one person cannot do all the recording work by himself. There is a need for sub-division of the book-keeping work leading to the sub-division of the journal into parts or subsidiary journal

Advantages of subsidiary books

The advantages of maintaining subsidiary books can be summarised as under:

Proper and systematic record of business transactions

All the business transactions are classified and grouped conveniently as cash and non cash transactions, which are further classified as credit purchases, credit sales, returns, etc. As separate books are used for each type of transactions, individual transactions are properly and systematically recorded in the subsidiary books.

Convenient posting

All the transactions of a particular nature are recorded at one place, i.e., in one of the subsidiary books. For example, all credit purchases of goods are recorded in the purchases book and all credit sales of goods are recorded in the sales book. It facilitates posting to purchases account, sales account and concerned personal accounts.

Division of work

As journal is sub-divided, the work will be sub-divided and different persons can work on different books at the same time and the work can be speedily completed.

Efficiency

The sub-division of work gives the advantage of specialisation. When the same work is done by a person repeatedly the person becomes efficient in handling it. Thus, specialisation leads to efficiency in accounting work.

Helpful in decision making

Subsidiary books provide complete details about every type of transactions separately. Hence, the management can use the information as the basis for deciding its future actions. For example, information regarding sales returns from the sales returns book will enable the management to analyse the causes for sales returns and to adopt effective measures to remove deficiencies.

Prevents errors and frauds

Internal check becomes more effective as the work can be divided in such a manner that the work of one person is automatically checked by another person. With the use of internal check, the possibility of occurrence of errors or fraud may be avoided or minimised.

Availability of requisite information at a glance

When all transactions are entered in one journal, it is difficult to locate information about a particular item. When subsidiary books are maintained, details about a particular type of transaction can be obtained from subsidiary books. The maintenance of subsidiary books helps in obtaining the necessary information at a glance.

Detailed information available

As all transactions relating to a particular item are entered in a subsidiary book, it gives detailed information. It is easy to arrive at monthly or quarterly totals.

Saving in time

As there are many subsidiary books, work of entering can be done simultaneously by many persons. Thus, it saves time and accounting work can be completed quickly.

Labour of posting is reduced

Labour of posting is reduced as posting is made in periodical totals to the impersonal account, for example, Purchases account.

Purchases book

Purchases book is a subsidiary book in which only credit purchases of goods are recorded. When business wants to know the information about the credit purchases of goods at a glance, the information can be made available if purchases of goods on credit are separately recorded.

Goods here mean the items in which the business entity is dealing. In other words, it is the item which is purchased for regular sales. For example, furniture will be treated as goods in the case of the firm dealing in furniture. For other firms, which are not dealing in furniture it will be an asset. Hence, while recording transactions in the purchases book, it must be ascertained whether the credit purchase is related to the item in which the firm is dealing. Purchases of assets and purchase of goods for cash are not entered in purchases book.

i. Date

In the date column, the date of purchases of goods on credit is recorded.

ii. Particulars

In this column the name of the supplier from whom goods have been purchased and details of goods purchased are given. It contains the name, quantity, quality and rate of goods purchased, trade discount and any other specification and specialties of the goods are recorded in this column.

iii. Invoice number

Invoice is the statement prepared by the seller of goods. It contains details about the goods, its price and other expenses incurred. The invoice number is entered in this column.

iv. Ledger Folio (L.F.)

The page number of the ledger in which the supplier's account appears is recorded in this column. Purchases of goods must be posted to the personal accounts of suppliers. Purchases book contains the page number of supplier's account in the ledger. It helps in posting and also in checking the records.

v. Amount column (Details)

Amount column is divided into two parts, i.e., details and total. The details column is used to record the amount of various individual items purchased from a particular supplier. The amount of trade discount allowed is deducted. This column is used for adjustment of additions and subtractions.

vi. Total amount column (Total)

The net amount payable to the supplier of goods is recorded in the total amount column.

Purchases returns book

Purchases returns book

After purchases of goods, the business unit may find that some of the goods are not upto the satisfactory level because of the following reasons:

- Goods may be defective.
- They might have been damaged in transit.
- Quantities delivered may not agree with the invoice.
- They might have been received quite late (off-season).
- They might not be as per the samples or specifications.
- There may be a breach of agreement.

Therefore, the buyer may return them to the suppliers.

Purchases returns book is a subsidiary book in which transactions relating to return of previously purchased goods to the suppliers, for which cash is not immediately received are recorded. Since goods are going out to the suppliers, they are also known as returns outward and the book is called as ‘r*eturns outward book or returns outward journal*’.

<u>1. Posting from the purchases returns book</u>

After the transactions are recorded in the purchases returns book, posting them to ledger involves two steps:

Step 1: **Posting to personal accounts of creditors:** Every day, each entry in purchases returns book is posted to the debit side of the respective personal account of the creditor by writing the words ‘To Purchases Returns account’.

Step 2: **Posting to Purchases returns account:** At the end of the month, the aggregate of the purchases returns is ascertained. It is the total purchases returns for the month and is posted to the credit side of purchases returns account by debiting ‘Sundry creditors account’.

2. Debit note – the source document for returns outward

A ‘debit note’ is a document, bill or statement sent to the person to whom goods are returned. This statement informs that the supplier’s account is debited to the extent of the value of goods returned. It contains the description and details of goods returned, name of the party to whom goods are returned and net value of the goods so returned with reason for return.

Sales book

Sales book

Sales book is a subsidiary book maintained to record credit sale of goods. Goods mean the items in which the business is dealing. These are meant for regular sale. Cash sale of goods and sale of property and assets whether for cash or on credit are not recorded in the sales book. This book is also named as sales day book, sold day book, sales journal or sale register.

The preparation of the sales book is similar to that of purchases book. The entries are made in the sales book on the basis of copies of the invoice sent to the buyer.

In the date column of the sales book, the date of credit sales is recorded. Particulars column contains the name of party purchasing goods or the party to whom goods have been sold. It also shows the details of goods as regards its quantity, quality, other descriptions and the rate of trade discount allowed. In Ledger Folio (L.F.) column the page number of debtors account in the ledger is recorded for reference. The amount of various items of the goods sold is entered in the details column. Adjustments for trade discount, packing charges, etc., are made in the details column. In the total column, the net amount payable by individual customer is recorded. The total of the amount column is the total credit sales during the period.

1. Posting from sales book

After the transactions are recorded in the sales book, posting them to ledger involves two steps:

Step 1: **Posting to personal accounts of debtors:** Every day, each entry is posted to the debit side of the respective personal account of the debtor.

Step 2: **Posting to Sales account:** At the end of the month, the aggregate of the sales is posted to the credit side of sales account by writing the words ‘By Sundry debtors A/c’.

Sales returns book

Sales returns book

Sales returns book is a subsidiary book, in which, details of return of goods sold for which cash is not immediately paid are recorded. Just as goods may be returned to suppliers, goods may be returned by customers for the following reasons:

- Defect in the goods
- Delay in the dispatch of goods to the customers
- Over-supply of goods
- Goods not being in accordance with the samples and specifications
- Violation of the terms of the contract, etc.

Goods returned by the customers is known as ‘returns inwards’.

This book is not concerned with the return of assets or return of goods for which cash is paid.

This book is prepared just like the other day books.

1. Posting from sales returns book

After the transactions are recorded in the sales returns book, posting them to ledger involves two steps:

Step 1: **Posting to personal accounts of debtors:** Each entry in the sales returns book is posted to the credit side of the respective personal account of the debtor on daily basis by writing the words ‘By Sales returns account’.

Step 2: **Posting to Sales returns account:** At the end of the month, the aggregate of the sales returns is posted to the debit side of sales returns account by writing the words ‘To Sundry debtors A/c’.

2. Credit note – Source document for returns inward

A credit note is prepared by the seller and sent to the buyer when goods are returned indicating that the buyer's account is credited in respect of goods returned. Credit note is a statement prepared by a trader who receives back from his customer the goods sold. It contains details such as the description of goods returned by the buyer, quantity returned and also their value.

UNIT – 3

BANK RECONCILIATION STATEMENT

Bank statement or bank pass book

It is very common in business these days, to deposit cheques received and cash, with the bank. Payments can also be made through bank. Because, dealing cash through bank is always safe.

Also, it is legally necessary to operate the transactions through bank beyond a certain limit.

When any bank transaction is undertaken, two records are kept of the transactions. One is kept by the business [customers to the bank], which is the cash book. The other one is kept by the bank, which is bank record [bank statement]. In other words, it can be said that the cash book maintained by the business [customer of a bank] and the ledger accounts maintained by the bank, record the same transactions.

- Bank statement or bank pass book is simply a copy of the customer's account in the books of a bank. A bank may send a statement at regular intervals to its customers. It shows all the deposits, withdrawals and the balance available in its customer's account, on a particular date. In recent times, the copy of the records can be obtained by the customer electronically, which is called E-statement.

- Various types of accounts such as savings account, fixed deposit account, current account, etc., can be opened with the bank by different types of customers. But, current account is the most suitable for business concerns. The facility of bank overdraft is not available to any account other than current account.

- When the entries in the bank statement are compared with the cash book, it will be found that the accounting treatment is reverse in the cash book. This is because the cash book is prepared from the point of view of business, whereas the bank statement is prepared from the bank's point of view.

Following the double entry system, the credit balance in the bank pass book represents the debit balance as per the cash book and vice-versa. This is because, bank is a debtor for the business and business unit (customer to the bank) is a creditor for the bank when there is a favourable balance in the bank. When money is deposited by the business into the bank, customers account is credited in the bank's book, as this is the amount owed by the bank to its customer. Similarly, when the money is withdrawn or taken out of the bank by the business, customer's account is debited as this decreases the amount owed by the bank to the customer. As a result of this, favourable balance, as per bank statement (bank pass book), will appear as a credit balance and overdrawn balance as a debit balance.

Bank overdraft

It is not possible to have unfavourable cash balance in the cash book. But, it is possible to have unfavourable balance in the bank account. When the business is not having sufficient money in its bank account, it can borrow money from the bank. As a result of this, amount is overdrawn from bank.

Bank Reconciliation Statement (BRS)

If every entry in the cash book matches with the bank statement, then bank balance will be the same in both the records. But, practically it may not be possible. When the balances do not agree with each other, the need for preparing a statement to explain the causes arises. This statement is called bank reconciliation statement (BRS). ***The bank reconciliation statement is a statement that reconciles the balance as per the bank column of cash book with the balance as per the bank statement by giving the reasons for such difference along with the amount. As a result of this, internal record of a business (bank column of cash) can be reconciled with external record (bank statement).***

Need for bank reconciliation statement

It is important to compare the bank statement and bank column of cash book. If the two balances do not match, it is necessary to reconcile them to explain why the differences have occurred. It may be prepared every month, every week or even daily depending on the number of transactions and the needs of the business.

The need for bank reconciliation statement is as follows:

i. To identify the reasons for the difference between the bank balance as per the cash book and bank balance as per bank statement.

ii. To identify the delay in the clearance of cheques.

iii. To ascertain the correct balance of bank column of cash book.

iv. To discourage the accountants of the business as well as bank from misusing funds.

Reasons why bank column of cash book and bank statement may differ

The need for reconciliation arises only when there are differences in entries recorded in the cash book and bank statement. Sometimes, the bank balance as per both the records may be the same, but the entries may not match. In such cases also, bank reconciliation statement is to be prepared. But, before preparing the bank reconciliation statement, it is necessary to find out the reasons for the disagreement.

Difference between the two records (bank column of cash book and bank statement) generally occurs because of the following reasons:

- **Timing differences** – The different times at which the same items are entered
- **Errors in recording** - Difference arising due to errors in recording the entries

Timing differences

- Cheques issued but not yet presented for payment
- Cheques deposited into bank but not yet credited

- Bank charges and interest on loan and overdraft
- Interest and dividends collected by the bank
- Dishonour of cheques and bills
- Amount paid by parties directly into the bank

- Payment made directly by the bank to others
- Bills collected by the bank on behalf of its customer

Errors in recording

- Errors committed in recording the transactions by the business in the cash book
- Errors committed in recording the transactions by the bank.

1. Timing differences

(a) Cheques issued but not yet presented for payment

When the cheques are issued by the business, it is immediately entered on the credit side of the cash book by the business. But, this may not be entered in the bank statement on the same day. It will be entered in the bank statement only after it is presented with the bank.

(b) Cheques deposited into bank but not yet credited

When the cheques are deposited into bank, the amount is debited in the cash book on the same day. But, these may not be shown in the bank pass book on the same day because these will be entered in the bank statement only after the collection of the cheques.

(c) Bank charges and interest on loan and overdraft charged by the bank

The bank has to cover the cost of running the customer's account. So debit is given to the account of the business towards bank charges. Also, if the business had taken any loan or overdrawn, interest has to be paid by the business. These entries for bank charges and interest are made in the bank statement. But, the entry is made in the cash book only when the bank statement is received by the business. Till then, the cash book shows more balance than bank statement.

(d) Interest and dividends collected by the bank

The bank may collect dividends on its customer's investment in shares and also interest on any investment. The entry for this will be made in the bank statement on the date of collection. But the entry is made in the cash book only when the bank statement is received by the customer. Till then, the cash book shows less balance than the bank statement.

(e) Dishonour of cheques and bills

When the cheque is received from outside parties, it is deposited with the bank and debited in the cash book. If the cheque is dishonoured, the bank cannot collect the amount of such cheque from outside parties' bank. It is not credited in the bank statement. As a result of this, the two records would differ.

While discounting the bills receivables, in the cash book it is entered in the debit side and in the bank statement it is credited. When the bill is presented by the bank to the drawee of the bill and the payment is not received, the bank debits the same to cancel the credit. But, credit is made in the cash book only when the customer gets the entries made in the bank statement is received. The bank may also charge some amount for such dishonour.

(f) Amount paid by parties directly into the bank

Sometimes, debtors or the customers of the business may directly deposit the money into bank account of the business. It may be done by directly visiting the branch of the bank by paying cash (including NEFT, RTGS) or swiping debit or credit or business card or depositing the money in cash deposit machine or transfer through online banking facility. This will be credited in the banker's book. But the entry is made in the cash book only when the bank statement is received by the customer. Until then, the cash book shows less balance than bank statement.

(g) Amount paid directly by the bank to others

Sometimes the bank may be instructed to make payments such as, insurance premium, instalment of loan, etc., as an agent of the customer on behalf of its customer. In all such cases, debit is made in bank statement. But, the entry is made in the cash book only when the bank statement is received by the customer. Till then, the cash book shows more balance than bank statement.

,(h) Bills collected by the bank on behalf of its customers

When goods are sold by the business, the documents may be sent through the bank. When the bank collects the amount, it is credited in bank records. But, the entry is made in the cash book only when the bank statement is received by the business. Till then, the bank statement shows more balance than cash book.

2. Errors in recording

(a) Errors committed in recording the transactions by the business in the cash book

Sometimes, errors may be committed in the cash book. For example, omission or wrong recording of transaction relating to cheques deposited or issued, wrong balancing, etc. In these cases, obviously, there will be differences between bank balance as per bank statement and bank balance as per cash book.

For example

The cheque received for Rs. 10, 000 is not entered in the cash book, but has been deposited with the bank. As a result, on collecting the money the balance as per bank statement will be more by Rs. 10, 000.

(b) Errors committed in recording the transactions by the bank

Sometimes errors may be committed in the banker's book. For example, omission or wrong recording of transaction relating to cheques deposited and wrong balancing. In these cases, obviously, there will be differences between bank balance as per bank statement and bank balance as per cash book.

For example

The cheque deposited for Rs. 50000, wrongly entered by the bank as Rs. 15, 000. This will lead to a difference of Rs. 35, 000 between the cash book balance and the balance as per bank statement.

Preparation of bank reconciliation statement

Preparation of bank reconciliation statement

After having identified the causes of differences, the reconciliation may be done in the following way:

Bank reconciliation statement can be prepared either from the balance as per cash book or bank statement. If it is prepared from the balance of cash book, the effect of the transaction will be studied on the balance as per bank statement. If it is prepared from the balance as per bank statement, the effect of the transaction will be studied on the balance as per cash book.

Given the causes of disagreement, the balance of one record (cash book or bank statement) can be either more or less compared to the other record (cash book or bank statement).

For example

If the reconciliation is started with debit balance as per cash book and there is a cheque deposited in the bank, but not cleared, the balance as per bank statement will be less. In this case, the amount of cheque should be subtracted from the cash book balance to arrive at the balance as per bank statement. Similarly, after making all the adjustments the balance as per the other book is obtained. It is important to note that the debit balance as per cash book means the credit balance as per bank statement and vice-versa.

To illustrate it further, take an example of bank charges. ***The balance as per bank statement will be lesser as compared to cash book. This is because, the bank balance has already been reduced with the bank charges, but, it has not yet been recorded in the cash book. In this case, if balance as per cash book is taken to prepare the reconciliation statement, the amount of bank charges has to be subtracted, because the balance as per bank statement is lesser than cash book balance.***

Bank reconciliation statement can be prepared on the basis of 'Balance' presentation, or 'Plus & Minus' presentation

1. Balance presentation method

When balance of cash book or bank statement is given:

If unfavourable balance as per cash book is the starting point, then reverse is the procedure for preparing bank reconciliation statement. This means that, items that are added are to be subtracted and items that are subtracted are to be added.

Based on the earlier explanation the following table has been prepared for ready reference when reconciliation is done on the basis of 'balance presentation'. The final balance, which is obtained after addition and subtraction, will be the balance as per the other book.

NEXT TOPIC:

DEPRECIATION ACCOUNTING

Business enterprises use certain fixed assets for the conduct of business operations. Such assets are building, plant and machinery, motor vehicles, furniture, office equipment, etc. These assets have a long span of life. After some years, the assets will lose their usefulness for the business operations. Purchase of such fixed assets or construction of these is a capital expenditure. Hence the amount cannot be transferred to profit and loss account of the year of purchase. But every year, a part of the capital expenditure attributable to the use during the year is charged to profit and loss account and is reduced from the cost of the asset. The portion of cost of asset attributable to the use and expiry of time is to be measured and accounted which is called depreciation. Depreciation is treated as a charge against profit and is debited to profit and loss account.

Depreciation - Meaning and definition

The process of allocation of the relevant cost of a fixed asset over its useful life is known as depreciation. It is an allocation of cost against the benefit derived from a fixed asset during an accounting period.

According to **Spicer and Pegler**, "Depreciation is the measure of exhaustion of the effective life of an asset from any cause during a given period".

According to **R.N. Carter**, "Depreciation is the gradual and permanent decrease in the value of an asset from any cause".

Useful life of the asset

Useful life is (a) the period over which an asset is expected to be available for use by an enterprise; or (b) the number of production or similar units expected to be obtained from the asset by an enterprise.

Depreciable assets

Fixed assets which are meant for use in the business for more than one accounting period, the cost of which can be written off over their useful life are known as depreciable assets. ***Buildings, machinery, vehicles, furniture, computers and equipment are examples of depreciable fixed assets.*** These assets have limited useful life. They are meant for use in the business for production or supply of goods or for administrative purposes. These are not meant for resale.

Objectives of providing depreciation

Objectives of providing depreciation

Following are the objectives of providing depreciation:

(i) To find out the true profit or loss

According to matching principle, the expenses incurred during a period must be matched with revenue earned during that period. Hence, when an asset is used for generating income for a business, the cost of the asset attributable to the use, i.e., the reduction in the book value of the asset proportionate to the benefit derived from it, should be charged against the revenue. This is to be done to find out the true cost of production and profit or loss of the business for every accounting period.

(ii) To present the true and fair view of financial position

When the depreciation is charged on fixed assets, the book value of fixed assets is reduced to that extent and the remaining value is shown in the balance sheet. The balance represents the value of benefit that is yet to be derived from them. The written down value is the true value of fixed assets which represent cost not yet written off. The balance sheet must represent a true and fair view of financial status. Hence, fixed assets must be shown at their at written down value.

(iii) To facilitate replacement of fixed assets

When the depreciation is debited to profit and loss account, an equal amount is either retained in the business or invested outside the business. When the useful life of an asset comes to an end, a new asset can be purchased by using the resources available in the business.

(iv) To avail tax benefits

As per the Indian Income Tax Act, while computing tax on business income, depreciation is deductible from income. Hence, depreciation is computed and charged to profit and loss account to reduce tax liability.

(v) To comply with legal requirements

Depreciation is provided on fixed assets to comply with the provisions of law apart from Income Tax Act. For example, Section 123(1) of the Indian Companies Act, 2013, requires every company to provide depreciation on fixed assets before declaring dividend to its shareholders.

Causes of depreciation

There are different reasons causing the reduction in the book value of the fixed assets. Such causes are as follows:

(i) Wear and tear

The normal use of a tangible asset results in physical deterioration which is called wear and tear. When there is wear and tear, the value of the asset decreases proportionately.

(ii) Efflux of time

Certain assets whether used or not become potentially less useful with the passage of time.

(iii) Obsolescence

It is a reduction in the value of assets as a result of the availability of updated alternative assets. This happens due to new inventions and innovations. Though the original asset is in a usable condition, it is not preferred by the users and it loses its value.

For example, preference of latest computers by the users.

(iv) Inadequacy for the purpose

Sometimes, the use of assets may be stopped due to their inadequacy for the purpose. These may become inadequate due to expansion in the capacity of a firm.

(v) Lack of maintenance

A good maintenance will naturally increase the life of the asset. When there is no proper maintenance, there is a possibility of more depreciation.

(vi) Abnormal factors

Decline in the usefulness of fixed asset may be caused by abnormal factors like damage due to fire accidents, natural calamities, etc. These may even lead to the state of an asset being discarded.

Characteristics of depreciation

Following are the characteristics of depreciation:

- Depreciation is the process of allocation of cost of depreciable asset (capital expenditure) to revenue expenditure or to profit and loss account over the useful life of the asset.

- It is the process of allocation of cost and not the process of valuation.

- it is a decrease in the book value of the asset and not the market value of the asset.

- It is a gradual and continuous decrease in the book value of asset over its useful life.

- It is calculated only for tangible depreciable fixed assets. Depreciation is not provided on intangible and wasting assets.

Factors determining the amount of depreciation

There are different factors that determine the amount of depreciation to be provided on a fixed asset. They are as follows:

(i) Actual cost of the asset

Actual cost means the amount incurred in acquiring or constructing the asset. It is the acquisition or construction cost or historical cost. It includes all the expenses incurred on the asset to bring the asset to present condition and location, that is, all incidental expenses incurred till it is put into use. Purchase price of the asset, freight, loading charges, unloading charges, erection cost, setting up cost and expenses of trial run are included in the cost of the asset. If the asset is a second-hand one, the initial repair to make the asset useable is also to be taken as part of actual cost of the asset.

(ii) Estimated useful life of the asset

The period for which an asset can be used in the enterprise is known as estimated useful life of an asset. It can be calculated in terms of period for which the asset is expected to be used by the entity or units of output to be obtained by the use of the asset. etc. In the case of intellectual properties like patents and copyrights, their legal life is taken as their estimated useful life. The Indian Companies Act, 2013 has prescribed useful lives of fixed assets for the purpose of computation of depreciation.

For example, the useful lives prescribed in Part C of Section 123 for general plant and machinery and general furniture and fittings are 15 years and 10 years respectively.

(iii) Scrap value of an asset

The amount which is expected to be realised at the end of the estimated useful life of an asset is known as scrap value of the asset. It is also known as residual value. In determining the scrap value, costs to be incurred for removal and sale of the asset should be deducted from the estimated gross realisable value.

(iv) Other factors

Besides the above mentioned factors, legal provisions, technological factors, etc., also determine the amount of depreciation.

Methods of providing depreciation

There are various methods used for providing depreciation on fixed assets. The management of a business enterprise has to select the most appropriate method based on the consideration of various factors such as nature of the asset, use of the asset and circumstances that prevail in the business. The following are the different methods of providing depreciation:

1. Straight line method or Fixed instalment method or Original cost method

2. Written down value method or Diminishing balance method

1. Straight line method/ Fixed instalment method / Original cost method

Under this method, a fixed percentage on the original cost of the asset is charged every year by way of depreciation. Hence it is called original cost method. As the amount of depreciation remains equal in all years over the useful life of an asset it is also called as fixed instalment method. When the amount of depreciation charged over its life is plotted on a graph and the points are joined together, the graph will show a horizontal straight line. Hence, it is called straight line method.

This method is suitable for those assets the useful life of which can be estimated accurately and which do not require much expense on repairs and renewals.

Merits

Following are the merits of straight line method of depreciation:

(a) Simple and easy to understand

Computation of depreciation under this method is very simple and is easy to understand.

(b) Equality of depreciation burden

Under this method, equal amount of depreciation is debited to the profit and loss account each year. Hence, the burden of depreciation on the profit of each year is equal.

(c) Assets can be completely written off

Under this method, the book value of an asset can be reduced to zero if there is no scrap value or to the scrap value at the end of its useful life. Thus the asset account can be completely written off.

(d) Suitable for the assets having fixed working life

This method is appropriate for the fixed assets having certain fixed period of working life. In such cases, the estimation of useful life is easy and in turn it helps in easy determination of rate of depreciation.

Limitations

Following are the limitations of straight line method of depreciation:

(a) Ignores the actual use of the asset

Under this method, a fixed amount of depreciation is provided on each asset by applying the predetermined rate of depreciation on its original cost. But, the actual use of the asset is not considered in computation of depreciation.

(b) Ignores the interest factor

This method does not take into account the loss of interest on the amount invested in the asset. That is, the amount would have earned interest, had it been invested outside the business is not considered.

(c) Total charge on the assets will be more when the asset becomes older

With the passage of time, the cost of maintenance of an asset goes up. Hence, the amount of depreciation and cost of maintenance put together is less in the initial period and goes up year after year. But, this method does not consider this.

(d) Difficulty in the determination of scrap value

It may be quite difficult to assess the true scrap value of the asset after a long period say 10 or 15 years after the date of its installation.

Suitability

Straight line method of depreciation is suitable in case of fixed assets in respect of which useful life can be determined and maintenance and repair cost is the same throughout the life of the asset.

2. Written down value / Diminishing balance method

Under this method, depreciation is charged at a fixed percentage on the written down value of the asset every year. Hence, it is called written down value method. Written down value is the book value of the asset, i.e., original cost of the asset minus depreciation up to the previous accounting period. As the amount of depreciation goes on decreasing year after year, it is called diminishing balance method or reducing instalment method.

Merits

Following are the merits of written down value method.

(a) Equal charge against income

In the initial years depreciation is high and repair charges are low. When the asset becomes older, the amount of depreciation charged is less but repair charges are high. Hence, the total burden on profit in respect of depreciation and repairs put together remains almost similar year after year.

(b) Logical method

In the earlier years, when the asset is more productive, high depreciation is charged. In the later years when the asset becomes less productive, the depreciation charge is less.

Limitations

Following are the limitations of written down value method.

(a) Assets cannot be completely written off

Under this method, the value of an asset even if it becomes obsolete and useless, cannot be reduced to zero and some balance would continue in the asset account.

(b) Ignores the interest factor

This method does not take into account the loss of interest on the amount invested in the asset. The amount would have earned interest, had it been invested outside the business is not considered.

(c) Difficulty in determining the rate of depreciation

Under this method, the rate of providing depreciation cannot be easily determined. The rate is generally kept higher because it takes very long time to write off an asset down to its scrap value.

(d) Ignores the actual use of the asset

Under this method, a fixed rate of depreciation is provided on the written down value of the asset by applying the predetermined rate of depreciation on its original cost. But, the actual use of the asset is not considered in the computation of depreciation.

Suitability

This method is suitable in case of assets having a comparatively long life and which require considerable repairs in the later years when they become older. Examples are building and plant and machinery.

Next topic

Final Account

Introduction to final accounts

Business entities raise funds, acquire assets and incur various expenses for the purpose of carrying on business operations and earning income from such operations. These transactions are first recorded in the journal and then classified under common heads in the ledger. Preparation of trial balance from ledger balances helps to verify the arithmetical accuracy of entries made in the books of accounts, but it is not the end in itself. The business entities are interested in knowing periodically the results of business operations carried on and the financial soundness of the business. In other words, they want to know the profitability and the financial position of the business. These can be ascertained by preparing the final accounts or financial statements. The final accounts are usually prepared at the end of the accounting period on the basis of balances of ledger accounts shown by the trial balance.

The final accounts or financial statements include the following:

i. Income Statement or Trading and Profit and Loss Account and

ii. Position Statement or Balance Sheet.

The purposes of preparing the financial statements are:

i. To ascertain the financial performance of an enterprise and

ii. To ascertain the financial position of an enterprise.

The income statement and balance sheet are prepared for these purposes respectively. Income statement gives the manner in which the profit or loss for an accounting period is arrived at. The revenues earned and expenses incurred to earn the revenues during the period are shown in the income statement under appropriate heads as per matching principle. All the nominal accounts and accounts relating to goods during an accounting period are to be considered only in the relevant accounting period and are not to be carried forward. Moreover, only these items are to be compared for determining the financial performance. Hence, at the close of the accounting period, all nominal accounts (i.e. expenses, losses, revenues, gains, purchases, purchases returns, sales and sales returns) are to be closed by transferring to the income statement or trading and profit and loss account.

While transferring the items, it is desirable that the results of buying and selling of goods and the results of overall operations and financial performance are given separately. Hence, income statement is divided into two parts. The first part, i.e., trading account shows the results of buying and selling and the second part shows the results of overall financial performance.

The second part may also be presented in such a manner to give the operating results and overall financial performance separately. All the direct expenses and items relating to goods are transferred to trading account which is the first part of income statement. All indirect expenses and losses and indirect incomes and gains are transferred to profit and loss account along with the net result of trading account.

Trading account

Trading refers to buying and selling of goods with the intention of making profit. The trading account is a nominal account which shows the result of buying and selling of goods for an accounting period.

According to J. R. Batliboi, "The trading account shows the results of buying and selling of goods. In preparing this account, the general establishment charges are ignored and only the transactions in goods are included."

Trading account is prepared to find out the difference between the revenue from sales and cost of goods sold. Cost of goods sold refers to directly related cost. Direct cost includes the purchase price of goods purchased and all other expenses which are incurred to bring the goods to the business premises or godown and to make these ready for sale. All the goods purchased during the accounting period may not be sold during the same accounting period. Hence, it is necessary to calculate the cost of goods sold during the period. Matching principle is applied here. Hence, the cost of stock not sold must be deducted, i.e., value of closing stock must be deducted. But if there is any opening stock of goods that will be sold during the accounting period, it is to be added to the cost of purchases made during the period. If there is cost of goods manufactured, it must also be added to find out the cost of goods sold.

Cost of goods sold = Opening stock + Net purchases + Direct expenses – Closing stock

If the amount of sales exceeds the cost of goods sold, the difference is gross profit. On the other hand, the excess of cost of goods sold over the amount of sales results in gross loss.

Sales – Cost of goods sold = Gross profit

Sales – Gross profit = Cost of goods sold

Need for preparation of trading account

Preparation of trading account serves the following purposes:

(i) Provides information about gross profit or gross loss

It shows the gross profit or gross loss of the business for an accounting year. This helps the business persons to find out gross profit ratio by expressing the gross profit as a percentage of sales. It helps to compare and analyse with the ratios of the previous years. Thus, it provides data for comparison, analysis and planning for a future period.

(ii) Provides an opportunity to safeguard against possible losses

If the ratio of gross profit has decreased in comparison to the preceding years, effective measures can be taken to safeguard against future losses.

For example, the sale price of goods may be increased or steps may be taken to analyse and control the direct expenses.

(iii) Provides information about direct expenses and direct incomes

All the expenses incurred on the purchase of goods are direct expenses. They are recorded in the trading account. Trading account also shows sales revenue, which is a direct income. With the help of trading account, percentage of such expenses on sales revenue can be calculated and compared with similar ratios of the previous years. Thus, it enables the management to have control over the direct expenses.

Preparation of trading account

Trading account is a nominal account. The opening stock, net purchases and all expenses relating to purchase of goods are shown on the debit side and the net sales and closing stock are shown on the credit side of it.

A) Items shown on the debit side of the trading account

The following are the items shown on the debit side of the trading account:

(i) Opening stock

The stock of goods remaining unsold at the end of the previous year is the opening stock of the current year. This item will not be there in a newly started business. It will not appear if it is adjusted with purchases. As opening stock would have been sold during the year, the cost of opening stock is included in trading account.

(ii) Purchases and purchases returns

Goods which have been bought for resale are termed as purchases. Goods purchased which are returned to suppliers are termed as purchases returns or returns outward. Purchases include both cash purchases and credit purchases. Net purchases, i.e., purchases minus purchases returns are shown in the debit side of the trading account.

(iii) Direct expenses

All the expenses incurred on the purchase of goods and for bringing the goods to the go down or place of business and to make them to saleable condition are known as direct expenses. They are debited to trading account. Direct expenses include the following:

(a) Carriage inwards or Freight inwards

Amount paid for transporting the goods purchased to the godown or business premises is called carriage inwards or carriage on purchases or freight inwards.

(b) Wages

Amount paid to workers who are directly engaged in loading, unloading and handling of goods purchased is known as wages.

(c) Dock Charges

These are the charges levied for shipping the cargo while entering or leaving docks. When they are paid on import of goods, they are treated as direct expenses.

(d) Octroi

This is a tax levied by the local authority when the purchased goods enter the municipal limits.

(e) Import duty

Taxes paid on import of goods are known as import duties.

(f) Royalty

This is the amount paid to the owner of a mine or a patent for using owner's right. When the royalty is based on cost of production or output, it is treated as a direct expense.

(g) Coal, gas, fuel and power

Cost incurred towards coal, gas and fuel to make the goods saleable is also considered as direct expenses.

(iv) Cost of goods manufactured

If the sole proprietor is also engaged in manufacture of goods, a separate account, namely, manufacturing account is to be prepared in which expenses incurred for manufacture of goods will be entered. Examples of such expenses are raw materials, coal, gas, fuel, water, power, factory rent, packaging, factory lighting, royalty on manufactured goods, etc. The total cost of goods manufactured is transferred to the debit side of trading account.

B) Items shown on the credit side of the trading account

Following are the items shown on the credit side of the trading account:

(a) Sales and Sales returns

Both cash and credit sales of goods will be included in sales. The sales account will show credit balance whereas the sales returns account will show debit balance. The amount of net sales is shown on the credit side of the trading account by deducting sales returns from sales.

(b) Closing stock

The goods remaining unsold at the end of the accounting period are known as closing stock. They are valued at cost price or net realisable value (market price) whichever is lower as per Accounting Standard 2 (Revised).

3. Closing of trading account

The difference between the totals of two sides of the trading account indicates either gross profit or gross loss. If the total of the credit side is more, the difference represents gross profit. On the other hand, if the total of the debit side is higher, the difference represents gross loss. The gross profit or gross loss is transferred to profit and loss account.

Profit and loss account

Profit and loss account is the second part of income statement. It is a nominal account in nature. A business entity is interested in knowing not only the gross profit or loss but also the net profit earned or net loss incurred during the year. Hence, profit and loss account is prepared to ascertain the net profit or net loss during the year. Profit and loss account contains all the items of indirect expenses and losses and indirect incomes and gains in addition to gross profit or gross loss pertaining to the accounting period. The difference is net profit or net loss.

According to Prof. Carter, "A Profit and Loss Account is an account into which all gains and losses are collected, in order to ascertain the excess of gains over the losses or vice-versa".

Need for preparing profit and loss account

Profit and loss account is prepared for the following purposes:

(i) Ascertainment of net profit or net loss

The profit and loss account discloses the net profit available to the proprietor or net loss to be borne by him. Ascertainment of profitability helps in planning for the growth and efficiency of a business enterprise. Inter-firm comparison and intra-firm comparison of profit and loss account items help in assessing efficiency in comparison with other enterprises and other departments of the same enterprise respectively.

(ii) Comparison of profit

The net profit of the current year can be compared with the profit of the previous years. It helps to know whether the business is conducted efficiently or not.

(iii) Control on expenses

Profit and loss account helps in comparing various expenses with the expenses of the previous years. The percentage of individual expenses to net sales can be calculated and compared with the similar ratios of previous years. Such a comparison will be helpful in taking effective steps for controlling unnecessary expenses.

(iv) Helpful in the preparation of balance sheet

A balance sheet can be prepared only after ascertaining the net profit or loss through profit and loss account. Net profit or loss is shown in the balance sheet. Thus, it facilitates preparation of balance sheet.

Preparation of profit and loss account

The amount of gross profit or gross loss brought down from the trading account is the first item in the profit and loss account. All the indirect expenses and losses are debited to profit and loss account. Indirect expenses include office and administrative expenses, selling expenses, distribution expenses, etc. As the profit and loss account is a nominal account, all the indirect expenses and losses are shown on the debit side and all the indirect incomes and gains are shown on the credit side.

Items shown on the debit side of profit and loss account are as follows:

(i) Gross loss

If trading account discloses gross loss, it is shown on the debit side of the profit and loss account.

(ii) Indirect expenses

Expenses which are not connected with purchase of goods are indirect expenses, i.e., expenses incurred in administration; office, selling and distribution of goods are indirect expenses.

(a) Office and administrative expenses

Expenses incurred for office and administration such as salary of office employees, office rent, lighting, postage, printing, legal charges, audit fee, depreciation and maintenance of office equipment, etc. are classified as office and administrative expenses.

(b) Selling and distribution expenses

Expenses incurred for selling, promotion of sales and distribution of goods such as advertisement charges, commission to salesmen, carriage outwards, bad debts, godown rent, packing charges, etc., are classified as selling and distribution expenses.

(c) Other indirect expenses and losses

The expenses such as interest on loan, repair charges, depreciation, charity, loss on sale of fixed assets and abnormal losses such as loss due to fire, theft, etc. not covered by insurance are shown under this category.

Items shown on the credit side of profit and loss account are as follows:

(i) Gross profit

The first item on the credit side of profit and loss account is the gross profit brought down from the trading account if there is gross profit.

(ii) Other incomes and gains

All items of indirect incomes and gains are shown on the credit side of the profit and loss account. Income from investments, rent earned, discount received, commission earned, interest earned and dividend received are indirect incomes. Profit on sale of fixed assets and investments are examples of gains.

Closing of profit and loss account

After debiting indirect expenses and losses and crediting all indirect incomes and gains, if the total of the credit side of the profit and loss account exceeds the debit side, the difference is termed as net profit. On the other hand, if the total in the debit side exceeds the credit side, the difference is termed as net loss. Net profit or net loss is transferred to the capital account.

Balance sheet

Balance sheet is a statement which gives the position of assets and liabilities on a particular date. Assets are the resources owned by the business. Liabilities are the claims against the business. After ascertaining the net profit or net loss of the business enterprise, a business person would like to know the financial position of the business. For this purpose, balance sheet is prepared which contains amounts of all the assets and liabilities of the business enterprise as on a particular date. The statement so prepared is called ‘balance sheet’ because it gives the balances of ledger accounts which are still there, after the closure of all nominal accounts by transferring to the trading and profit and loss account. Balances of all the personal and real accounts are grouped into assets and liabilities. In the balance sheet, liabilities are shown on the left hand side and assets on the right hand side.

According to J.R. Batliboi, “A Balance Sheet is a statement prepared with a view to measure the exact financial position of a business on a certain fixed date.”

Need for preparing a balance sheet

The purposes of preparing a balance sheet are as follows:

i. The main purpose of preparing a balance sheet is to ascertain the true financial position of the business at a particular point of time.

ii. It helps in comparing the cost of various assets of the business such as the amount of closing stock, amount due from debtors, amount of fictitious assets, etc. Moreover as assets and liabilities of similar nature are grouped and presented in balance sheet, a comparative study of these assets and liabilities is facilitated. It helps in comparing the various liabilities of the business.

iii. It helps in finding out the solvency position of the firm. The firm’s solvency position is favourable if the assets exceed the external liabilities. The firm’s solvency position is not favourable it the external liabilities exceed the assets.

Characteristics of balance sheet

The following are the characteristics of a balance sheet:

i. A balance sheet is a part of the final accounts. However, the balance sheet is a statement and not an account. It has no debit or credit sides and as such the words ‘To’ and ‘By’ are not used before the names of the accounts shown therein.

ii. A balance sheet is a summary of the personal and real accounts, which have balances. Personal and real accounts having debit balances are shown on the right hand side known as assets side, whereas personal and real accounts having credit balances are shown on the left hand side known as liabilities side.

iii. The totals of the two sides of the balance sheet must be equal. If the totals are not equal, it indicates existence of error. It must satisfy the accounting equation, ie., Assets = Capital + Liabilities, following the dual aspect concept.

iv. Balance sheet is prepared on a particular date and not for a fixed period. It discloses the financial position of a business on a particular date. It gives the balances only for the date on which it is prepared.

v. It shows the financial position of the business according to the going concern concept.

Grouping and Marshalling of assets and liabilities in a balance sheet

The assets and liabilities shown in the balance sheet are grouped and presented in a particular order. The term ‘grouping’ means showing the items of similar nature under a common heading. For example, the amount due from various customers will be shown under the head ‘Sundry debtors.’ Similarly, under the head ‘Current assets’, the balance of cash, bank, debtors, stock and other current assets will be shown.

‘Marshalling’ is the arrangement of various assets and liabilities in a proper order. Marshalling can be made in one of the following two ways:

(a) In the order of liquidity

According to this method, an asset which is most easily convertible into cash, i.e., cash in hand is shown first and then will follow those assets which are comparatively less easily convertible, so that the least liquid asset i.e., goodwill is shown last. In the same way, the liabilities which are to be paid at the earliest will be shown first. In other words, current liabilities are shown first, then fixed or long-term liabilities and finally the proprietor’s capital.

(b) In the order of permanence

This method is exactly the reverse of the first method. Asset which is more permanent, i.e., goodwill is shown first followed by assets which are less permanent. Similarly, those liabilities which are to be paid last will be shown first. In other words, the proprietor's capital is shown first, then fixed or long-term liabilities and lastly the current liabilities. Joint stock companies are required under the Companies Act to prepare their balance sheet in the order of permanence.

Preparation of Balance Sheet

There is no prescribed format for preparing the balance sheet of sole proprietor and partnership. For Joint Stock Company, the format of preparing balance sheet is given under Schedule III of Indian Companies Act, 2013. After transferring all nominal accounts, the items left out in trial balance are real account and personal accounts. These are grouped under assets (debit balance) and liabilities (credit balance) and presented in a balance sheet.

Classification of assets and liabilities

The resources acquired by the business entity out of funds provided by owners or creditors are called assets. These are the resources owned by the business. Assets of a business include cash, stock, plant and machinery, etc.

A) Classification of assets

According to the nature of assets, they may be classified into the following:

a) Fixed assets

Fixed assets are those assets which are acquired or constructed for continued use in the business and last for many years such as land and building, plant and machinery, motor vehicles, furniture, etc. According to Finney and Miller, "Fixed assets are assets of a relatively permanent nature used in the operations of business and not intended for sale." As the purpose of keeping such assets is not to sell but to use them, changes in their realisable values are ignored and these are always shown in the balance sheet at cost less depreciation. Fixed assets can be classified into i) Tangible fixed assets ii) Intangible fixed assets.

i) Tangible fixed assets

Tangible fixed assets are those which have physical existence or which can be seen and felt.

Examples: plant and machinery, building and furniture.

ii) Intangible fixed assets

Intangible fixed assets are those which do not have any physical existence or which cannot be seen or touched.

Examples: goodwill, trade-marks, copy rights and patents. Intangible assets are as much valuable as tangible assets because they also help the firm in earning profits. For example, goodwill helps in attracting customers and patents represent the know-how which helps in producing the goods.

b) Current assets

Current assets are those assets which are either in the form of cash or can be easily converted into cash in the normal course of business or within one year. In the words of Hovard and Upton, "The current assets are usually defined as those assets which are convertible into cash through the normal course of business within a short time, ordinarily in a year."

Current assets include cash in hand, cash at bank, short-term investments, bills receivable, debtors, prepaid expenses, accrued income, closing stock, etc. Among these, closing stock is valued at cost or realisable value whichever is lower and debtors are shown after deducting a reasonable provision for bad and doubtful debts.

c) Liquid assets

Liquid assets are the assets which are either in the form of cash or which can be immediately converted into cash within a very short period of time, such as cash at bank, bills receivable, short-term investments, debtors and accrued incomes. In other words, if prepaid expenses and closing stock are excluded from current assets, the balance is known as liquid assets.

d) Investments

Amount invested outside the business in shares, debentures, bonds and other securities is called investments. If it is invested for a period more than a year they are called long-term investments. If they are invested for a period less than a year they are short term investments and shown under current assets.

e) Wasting assets

These are the assets which get exhausted gradually in the process of excavation. ***Examples: mines and quarries.***

f) Fictitious or Nominal assets

These are assets only in name but not in reality. These assets are not really assets but are shown on the assets side only for the purpose of writing off by transferring them to the profit and loss account gradually over a period of time in future. Such assets include the expenditures, the benefit of which lasts for more than a year, not yet written off, such as advertisement expenses, preliminary expenses, etc.

B) Classification of liabilities

Liabilities or equities are claims against the business entity. These are the amounts owed by a business entity to the outsiders (outsider's equity) and owners (owners' equity).

Liabilities may be classified according to their nature as follows:

(a) Fixed or long-term liabilities

The liabilities which are to be repaid after one year or more are termed as long-term liabilities.

Example: Long-term loans.

(b) Current or short-term liabilities

The liabilities which are expected to be paid within the normal operating cycle or one year are termed as current or short-term liabilities. These include bank overdraft, creditors, bills payable, outstanding expenses, etc.

(c) Contingent liabilities

These are the liabilities which are not certain at the time of preparation of balance sheet. These liabilities may or may not occur. These are the liabilities which will become payable only on the happening of some specific event which itself is not certain, otherwise these need not be paid. Such liabilities are as follows:

Liabilities for bills discounted

In case a bill discounted with the bank is dishonoured by the acceptor on the due date, the firm will become liable to the bank.

Liability in respect of a suit pending in a court of law

This would become an actual liability if the suit is decided against the firm.

Liability in respect of a guarantee given for another person

The firm would be liable to pay the amount if the person for whom the guarantee is given fails to meet his obligation.

Unit -4

Meaning of Computerized Accounting:

Manual system of accounting has been traditionally the most popular method of keeping the records of financial transactions of an organization. Conventionally, the bookkeeper (or accountant) used to maintain books of accounts such as cash book, journal and ledger so as to prepare a summary of transactions and final accounts manually. The technological innovations led to the development of various machines capable of performing a variety of accounting functions.
For example, the popular billing machine was designed to typewrite description of the transaction along with names, addresses of customers. This machine was capable of computing discounts; adding the net total and posting the requisite data to the relevant accounts. The customer's bill was generated automatically once the operator has entered the necessary information. These machines combined the features of a typewriter and various kinds of calculators. With substantial increase in the number of transactions, the technology advanced further.
With exponential increase in speed, storage and processing capacity, newer versions of these machines evolved. A computer to which they were connected operated these machines. The success of a growing organization with complexity of transactions tended to depend on resource optimization, quick decision-making and control. As a result, the maintenance of accounting data on a real-time (or spontaneous) basis became almost essential. Such a system of maintaining
Accounting records became convenient with the computerized accounting system.

Need for Computerized Accounting:

The need for computerized accounting arises from advantages of speed, accuracy and lower cost of handling the business transactions.

Numerous Transactions:

The computerized accounting system is capable of large number of transactions with speed and accuracy.

Instant Reporting:

It is capable of offering quick and quality reporting because of its speed and accuracy.

Reduction in Paper Work:

Manual accounting system requires large storage space to keep accounting records/books, and vouchers/documents. The requirement of books and stationery and books of accounts along with vouchers and documents is directly dependent on the volume of transactions beyond certain point.

There is a dire need to reduce the paper work and dispense with large volume of books of account. This can be achieved with the help of computerized accounting system.

Flexible Reporting:

The reporting is flexible in computerized accounting system. It is capable of generating reports of any balance as when required and for any duration which is within the accounting period.

Accounting Queries:

There are accounting queries, which are based on some external parameters. For example, a query relating to overdue customers' accounts can be easily answered by using the structured query language [SQL] support of database technology in the computerized accounting system. Such an exercise would be quite difficult and expensive in manual accounting system.

Online Facility:

Computerized accounting system offers online facility to store and process transaction data so as to retrieve information to generate and view financial reports.

Accuracy:

The information and reports generated are accurate and quite reliable for decision-making. In manual accounting system, as many people do the job and the volume of transactions is quite large, such information and reports are likely to be distorted and unreliable and inaccurate.

Security:

This system is highly secured and the data and information can be kept confidential, when compared to manual accounting system.

Scalability:

The system can cope easily with the increase in the volume of business. It requires only additional data operators for storing additional vouchers.

Special Features of Computerized Accounting System:

1. It leads to quick preparation of accounts and makes available the accounting statements and records on time.

2. It ensures control over accounting work and records.

3. Errors and mistakes would be at minimum in computerized accounting.

4. Maintenance of uniform accounting statements and records is possible.

5. Easy access and reference of accounting information is possible.

6. Flexibility in maintaining accounts is possible.

7. It involves less clerical work and is very neat and more accurate.

8. It adapts to the current and future needs of the business.

9. It generates real-time comprehensive MIS reports and ensures access to complete and critical information instantly.

Advantages of Computerized Accounting:

1. Better Quality Work:

The accounts prepared with the use of computers are usually uniform, neat, accurate, and more legible than manual job.

2. Lower Operating Costs:

Computer is a labor and time saving devise. Hence, the volume of job handled with the help of computers results in economy and lower operating costs.

3. Improved Efficiency:

Computer brings speed and accuracy in preparing the records and accounts and thus, increases the efficiency of employees.

4. Facilitates Better Control:

From the management point of view, greater control is possible and more information may be available with the use of computer in accounting. It ensures efficient performance in accounting work.

5. Greater Accuracy:

Computerized accounting ensures accuracy in accounting records and statements. It prevents clerical errors and omissions.

6. Relieve Monotony:

Computerized accounting reduces the monotony of doing repetitive accounting jobs, which are tiresome and time consuming.

7. Facilitates Standardization:

Computerized accounting facilitates standardization of accounting routines and procedures. Therefore, standardization in accounting is ensured.

8. Minimizing Mathematical Errors:

While doing mathematics with computers, errors are virtually eliminated unless the data is entered improperly in the first instance.

Disadvantages of Computerized Accounting:

1. Reduction of Manpower:

The introduction of computers in accounting work reduces the number of employees in an organization. Thus, it leads to greater amount of unemployment.

2. High Cost:

A small firm cannot install a computer accounting system because of its high installation and maintenance cost. To be more economical there should be large volume of work. If the system is not used to its full capacity, then it would be highly uneconomical.

3. Require Special Skills:

Computer system calls for highly specialized operators. The availability of such skilled personnel is very scarce and very costly.

4. Other Problems:

Frequent repair and power failure may affect the accounting work very much. Computers are prone to viruses. Often time's people will assume the computer is doing things correctly and problems will go unchecked for long period of time.

Problems Faced In Computerized Accounting System:

1. User Training:

The user, for using computer accounting software, needs to understand the concepts of the software. Hence, he should undergo proper training. A computer operator must learn the basics of computer, concepts of software, working with the operating system software [such as Windows/DOS] and the accounting software.

2. System Dependency:

Using a computer solution makes the user to depend fully on the computer system and necessitates the availability of computer at all times. If the system is not available [due to hardware failure or power cut], it would be difficult to verify the accounts.

3. Hardware Requirements:

A full-fledged computer system with a printer is required to operate the computerized accounting system. Most small organizations may not afford to have such facility with necessary software.

4. System Failure:

When there is a system crash [hard disk crash], there is high risk of losing the data available on the hard disk drive at any point of time. It would be highly painful, if the problem occurs at end of the financial year, when the financial statements should be ready.

5. Backups and Prints:

Backups of the data should be done regularly so that, when the data is lost, it can be restored from floppies [backups]. Regular print outs of the system information would be useful as manual records.

6. Voucher Management:

Accounting software allows easy alteration of data. If a voucher is wrongly placed in a wrong head, it would be very difficult to sort out and bring back the voucher. A good voucher management is very essential.

7. Security:

Additional security has to be provided because improper handling of the system [hardware/software] could be dangerous. Passwords, locks, etc., have to be set so that no unauthorized person can handle the system.

Next topic:

Sourcing of Accounting Software

India is one of software making country. So, accounting software's is easily available in Indian Market. But it is more important to know what your need of accounting software is.

Generally, Tally accounting software is used in India which is easily available in market.

Accounting Software's

(1) Readymade Software: Readymade Software is the software that is developed not for any specific user but for the users in general. Some of the readymade software's available are Tally, Ex, Busy. Such software is economical and ready to use. Such software does not fulfill the requirement of very user.

(2) Customized Software: Customized software means modifying the readymade software to suit the specific requirements of the user. Readymade software is modified according to the need of the business Cost of installation, main tenancy and training is relatively higher than that of readymade user. There packages are used by those medium or large business enterprises in which financial transactions are somewhat peculiar in nature.

(3) Tailor-made Software: The software that are developed to meet the requirement of the user on the basis of discussion between the user and developers. Such software helps in maintaining effective management information system. The cost of this software in very high and specific training for using these packages is also required.

Generic Considerations Before Sourcing Accounting Software

(i) Flexibility: a computer software system must be flexible in respect of data handling and report preparing.

(ii) Maintenance Cost: The accounting software must be such which has less maintenance cost.

(iii) Size of organization: The accounting software must be according to need and size of organization.

(IV) Easy to adaptation: The accounting software must be such which is easy to apply in organization.

(v) Secrecy of data: The accounting software must be such which provide the secrecy of business data, from others.

Introduction

Tally is powerful accounting software, which is driven by a technology called concurrent multi-lingual accelerated technology engine. It is easy to use software and is designed to simply complex day to day activities associated in an enterprise. Tally provides comprehensive solution around accounting principles, inventory and data integrity. Tally also has feature encompassing global business. Tally software comes with easy to use interface thus making it operationally simple.

Tally accounting software provides a solution around inventory management, stock management, invoicing, purchase order management, discounting, stock valuation methodology, etc.

Tally accounting software also comes with drill down options, which can track every detail of transaction. It helps in maintaining simple classification of accounts, general ledger, accounts receivable and payable, bank reconciliation, etc.

The technology employed by tally makes data reliable and secure. Tally software supports all the major types of file transfer protocols. This helps in connecting files across multiple office locations.

Tally accounting software is capable of undertaking financial analysis and financial management. It provides information around receivables turnover, cash flow statement, activity consolidation and even branch accounting.

Tally accounting software is east to set up and simple to use. A single connection can support multiple users. It can be easily used in conjunction with the Internet making possible to publish global financial reports.

Tally accounting software can seamlessly connect with various Microsoft applications.

Features of tally:

General Features

1. A leading accounting package:

Tally is number one accounting package in with user base of 1.5 million in the country. It has almost share in the readymade accounting package market.

2. Complete business solution - Tally.ERP 9 provides a comprehensive solution to the accounting and inventory needs of a business. The package comprises financial accounting, book-keeping and inventory accounting. It also has various extract, interpret and present data.

3. No accounting codes:
Earlier systems of computerized accounting were base on accounting codes in which user first allot various codes to different accounts. It was not possible to maintain records by using name of account; accounting was based on code numbers. Unlike other computerized accounting packages Tally.ERP 9 pioneered the 'no accounting codes' concept. Tally users can allocate meaningful names to various accounts as it is done in case of manual accounting.

4. Multi-lingual: Tally is not only used in India but also in number of other countries. It supports many Indian as well as foreign languages. User can check the report made in Tally not only in English language but in many local as well as international languages.

5. Multi-company: There are many freelancer accountants who work for a number of firms at a time. Sometime a business has a number of group firms or companies. In all such cases, Tally provides the facility of creating a number of companies in a single package. User need not to buy different package for different companies. It allows you to create and maintain up to 99,999 companies, concurrently.

6. Job Costing — In case a firm have a number of different projects, Tally enables the business to generate profitability statements for each project executed, including financial and material resource apportionments, wherever applicable.

7. POS Invoicing —a point of sale (POS) is the place where sales are made. It is the area where a customer completes a transaction, such as a checkout counter. Tally allows POS facility also which means invoice can be issued to customer, cash register can be maintained and automatic recording can be done. It allows faster data entry and printing on 40 column continuous stationery. It also provides barcode support

8. Flexible Financial Periods — Tally allows you to break away from inflexible accounting years and perform all accounting functions in Tally for time-periods that suit your convenience.

9. Tax Reports: Tally has feature of generating tax reports. It cannot only generate reports related to income tax but is able to generate tax reports and returns related to GST.

10. Financial Management: Tally has features of Financial Management also. It helps in of budgets and management of cash. Finding returns of business and helps in efficient financial management by preparation

11. Payroll Recording: Tally has the feature of maintaining Payroll for the business. Tally can maintain employee wise record of wage and salaries and various deductions etc. made from this, so business need not to maintain separate Payroll.

12. Data Synchronization — Data Synchronization helps the branch offices to Transfer data to the head office and vice versa over the Internet or a private network. Data Synchronization is a two-way process; i.e... All the data pertaining to masters and transactions from the Client Company (Branch) is transferred to the Server (Head Office) and similarly data from the Server can be transferred to the Client.

13. Consolidation of Companies — Tally helps in grouping of companies and provides consolidated reports. If any changes are done in any constituent or branch company, it is automatically updated in the grouped information.

14. Advanced MIS — Tally helps to compare information in order to understand and analyze performance levels for various periods or divisions. It helps to study and understand the buying patterns of customers, so that business can channel resources to specific segments, Periods or customers. It also helps to analyze cash flow situations.

15. Drill down Facility — A Drill Down facility moves from one report to the other to give a detailed view based on the selection in the current report. A user can return to the first Report from the detailed view starting from the Balance Sheet down to Vouchers, or vice versa.

Accounting Features

I. Complete Bookkeeping — Tally enables business to record all types of transactions including receipts, payments, income and .expenses, sales and purchases, debit notes, credit notes, adjustment journals, memorandum journals and reversing journals. Transaction data entry through unique voucher entry is easy and flexible to configure, for diverse types of transactions

2 Multi-currency Accounting — Tally offers flexibility of multiple currencies in the same transaction and allows viewing of all reports in one or more currency.

3. Receivables and Payables — Tally enables to get reports that are classified, grouped, and aged to your definitions and helps to identify troublesome debtors and persistent late payers, thereby helping to generate customizable reminders, over dues.

4. Ratio Analysis - Tally offers you a bird's eye view of company, through a single sheet performance analysis, based on a range of key performance ratios.

5. Generate Quotations, Orders and Cheque Printing — Tally can generate quotes, purchase orders and other documents that can either be printed or mailed directly to the recipient.

6. Budgeting — Tally has the feature of preparation of budgets. It gives unlimited budgets and periods and can prepare original and revised budgets.

7. Powerful Audit capabilities Tally is very helpful for auditing. It allows tracking changes, while making genuine corrections with unparalleled ease.

8. "Scenario" management — Tally can do business forecasting and planning. Business can use optional, reversing journals and memorandum vouchers, to aid in recording provisional entries that are useful for interim reports. It helps in prediction of future scenario.

Inventory Features

I. Multi-location Stock Control — helps you manage simple single-location, or complex multi-location stocks, with unlimited classification systems for your items, and your own units of measure.

2. Flexible Units of Measure — Tally has feature of flexible units of measure. It can track stock, irrespective of the units of measure. For example, when goods are purchased in tons and sold in kilograms it can record inventory.

3. Comprehensive recording of stock movement — Tally can record all sorts of inventory transactions, using the inventory voucher forms. Vouchers include goods receipt notes, delivery notes, stock journals, manufacturing journals and physical stock journals. All stock movements are fully recorded and maintained in stock registers.

4. Stock Ageing — Tally can identifies stocks based on age that is the period for which item remained in stock thus it helps business to dispose of old stocks quickly.

5. Multiple Stock Valuations — Tally has feature to choose inventory value from different types of valuation methods, including 'First in First out', 'Age Cost', 'Last in Last out', 'Standard', among others.

6. Reorder Levels - Tally allows for user-defined Reorder levels for any given period thus able to avoid excess stocking of items. Business can fix level of item based on previous consumption patterns

Disadvantages of Tally accounting software here below:

1. **Not User-Friendly:** Tally fails to be user friendly software. It does not help you use it with ease. It is of course simple software but not everyone can grasp the knowledge of accounting soon after installing. Hence it fails to guide its users in a simple way on how to use it when you do not know have much knowledge about accounting.
2. **Single window software:** It does not allow opening the same transaction screen from multiple computers. Therefore it becomes time consuming unlike other software that allows you to work on more than one ledger at a time. Tally allows only one ledger at a time which makes it difficult for the user to view other things in it at once.
3. **No Useful Upgrades:** They have brought out new versions of Tally but the improvement has been bare minimum. There was Tally 4.5 and till Tally 9 ERP but the difference is hardly noticeable. And in case you have got yourself the old Tally then you cannot improve it with new features that the latest version has, which is one of the biggest drawbacks of this software. You are stuck with one kind of tally as the developers do not care to check on the old existing Tally that is still being used. However they have now made it possible to move from 7.2 to 9 and it is a good start.
4. **Is not ideal for Multi-branch:** In case you have multiple branches, Tally becomes way too expensive to run. You will have to invest in Servers and LAN bundled with Tally.net. Furthermore the sync is not real-time. It needs manual sync and the data is not updated if the accountant is not available in any of the branches to sync manually.
5. **Not Flexible:** The default setting button is not provided. In case you want to change the setting after the configuration settings are done. You have to restart and delete all the ledgers and start again from the beginning. Once you have created the journal voucher it is not possible to make changes in it. In Tally ERP once you have set the level of the items in the inventory you cannot set the level once again after the reorder. This makes it very rigid and difficult to use.
6. **No Central Support:** The support system of this software is still lagging behind and that makes it difficult for the users to find support when there is any issue with the software. It makes the users find even more difficult in operating it as

there are no good supports from the other side to help them out with the training on how to use it.

7. **Low Security:** You have to be very careful with the password as well. Once you lose or forget the user password the retrieving of data is very difficult and quite time consuming. Also there is a alarming possibility of losing the data in case of a virus or hard disk crash.
8. **No Customization**: Customization is very limited. When they customize their product for you, you do not get the complete package and it makes it even more difficult for you to work with as you pay the price but then you have to settle for minimum.
9. **Bad Integration of Invoicing Modules:** Tally does not have any modules that you can call as an extra feature those results automatically when using a feature that already exists independently. So it does not provide account payable, receivable, etc; unlike quick book and other software.
10. **Risk of Data Loss and intrusion:** As it is offline software therefore it has no backup in case your system crash or some mishap takes place. Therefore you have to separately back up your data which gives birth to extra work.

Advantages of using Tally

- **Data reliability and security** – Data entered in Tally is reliable and secure. There is no scope of tampering or altering data, after being entered in the software
- **Payroll management** – There are several calculations that need to be made while disbursing salary to employees. Tally helps in maintaining financial record of the company that includes net deductions, taxes, bonuses, and net payment
- **Management in banking sector** – Banks use Tally to calculate interests on deposits and also manage various user accounts. Tally support ensures ease in calculation and makes banking simpler.
- **Regulation of data across geographical locations** – Tally software can be used to manage data of an organization globally. It brings together all branches and makes common calculations for the company at large. So no matter which location an employee has access, it will be uniform throughout.
- **Ease of maintaining a budget –** Small businesses work with a budget in mind. Tally helps companies to work and manage expenses keeping in mind the total budget being allotted. This ensures that the company does not indulge in over-spending.
- **Simple tax returns filing** – Tally GST ensures that the company complies with all GST norms. It takes care of TDS returns, VAT filing, service tax returns, excise tax and profit and loss statement for all small businesses.
- **Audit tool for compliance** – Tally acts as an audit tool as it carries out regular audits of companies. It does a thorough compliance check towards the beginning

of the financial year and ensures all monetary transactions are smoothly being carried out.

- **Remote access of data** – Employees can access financial data by logging in using a unique User ID and Password. This can be done sitting at the comforts of one’s house or office.
- **Quick access to documents** – Tally saves all bills, receipts, invoices, vouchers in its archive folder. It gives quick access to any of the documents previously stored. All billing related files can be retrieved immediately.

Tally support has been a boon to small scale businesses. Apart from being cost-effective and time-saving it ensures accuracy in business management. It enables digitalization of bills and signatures, thus staying up-to-date with latest technology. With the help of Tally ERP 9 Training, a small shop owner can also manage his/her store, keep records of customer bills and manage financial transactions efficiently.

Application of computer in Accounting:

l) Utility in Record Keeping:

Under the computerized environment, recording is done for every single transaction and the same is carried to the balance sheet. The records can be easily preserved in electronic storage devices for many years. At any time in the future the information can be easily retrieved and hence decision-making process becomes quite easy.

2) Utility in Batch Processing:

Some of the routine tasks like calculation of the periodic interest, wage payment of the employees can be calculated and processed in batches. Manual lengthy and cumbersome calculations are not required and are done electronically, known as batch processing.

3) Utility in Online/interactive Processing:

The faults of the batch processing are removed by the online processing. This processing is most commonly used these days and can be done anywhere subject to availability of a computer system. Users can now easily interact with the use of the internet

4) Utility in Wage/Payroll System:

Another emerging aspect of computer-based accounting in the payroll system. The idea is to reduce the computation of cost and save time to ensure timely payment of the wages and also making provision for the retirement benefits. Some of the documents that are required under this are:
i) Resume of the candidate,
ii) Letter of Appointment,
iii) Attendance records,
iv) Salary and wage agreement,
v) Data relating to wages or salary,
vi) Loan settlement and deductions, if any, and
vii) Any other statutory deduction.
The reports contains the details as regards to basic salary, ESI reporting, provident fund, income tax details, form 16, TDS certificates, contribution towards pension schemes, etc. The reports generated assist the various professionals in the financial department and the operational department. The same information may also be required by those at the helm of affairs for formulating various policies.

Next Topic:

Provisions of companies act 1956 in respect of preparation of final accounts of a company:

Companies are governed by the Companies Act, 1956. Therefore, it is statutory obligation that all companies are expected to follow the relevant section for the Act that governs the maintaining of accounts.

Section 209 and 210 of the companies act specifies regarding preparation of final accounts. Section 209 to 217 of the Companies Act deals with the preparation and presentations of accounts by the company.

- The Companies Act requires every company to prepare every year a Profit and Loss Account or Income and Expenditure Account and Balance Sheet of the end of the year – Final Accounts of company including Trading Account, Profit and Loss Account, Profit and loss Appropriation Account and Balance Sheet.

- The Act does not specify form to which the Profit and Loss Account to be presented. But it has laid down that all such information's which help in presenting a true and fair view of operations of the company disclosed in Profit and Loss Account.

- The period to which the accounts relate is known as the financial year of it may be less then, equal to or greater than 12 months but cannot exceed the 18 months.

Section 209 of the Companies Act makes it compulsory for every company to keep proper books of an account with respect to:

1. All sums of money received and spent by the company and the money in respect of which the receipt and expenditure take place.

2. All sale and purchases of goods by the company.

3. The assets and liabilities of the company. The books of accounts and the relevant vouchers to any entry relating to period of at least eight immediately preceding the current must be preserved.

Final Accounts:

1. Section 210 of the Companies Act governs the preparation of final account of a Company. The Board of Directors of a Company must, within 18 month from the date of incorporation, and subsequently once a year, lay take the company in general meeting the Balance Sheet of the Company and a Profit and Loss Account.

2. In case of non-profit Companies, an Income and expenditure Account should be submitted. The period to which the account relates is called a Financial Year of the Company. It may be less or more of a calendar year but must not exceed 15 months. It may also be extended to 18 months provided the Register has granted special permission.

3. The Profit and Loss Account or Income and Expenditure Account the relate, in the case of the first Annual General Meeting of the Company, in a period from the date of a incorporation to a day which shall not precede the day of the meeting by more than nine months.

4. Every Balance Sheet and every Profit and Loss Account of a Company shall be duly signed on behalf of the Board of Directors by the Manager or Secretary, if any, and by not less than two Directors of the Company.

   One of the Directors who sign shall be a Managing Director where there is one. The Balance Sheet and Profit and Loss Account must be approved by the Board before they are submitted to the auditors who must in turn attach their report thereto.

5. The Profit and Loss Account shall be annexed to the Balance Sheet and the auditor's report shall be attached thereto. If there is any separate, special supplementary report by the auditor, it shall also be attached to the Balance Sheet.

6. If any person, being a Director of a Company, fails to take all reasonable step to company with the previsions, he shall, in respect of each offence, be punishable with imprisonment for a term which may extend to six months, or with

imprisonment for a term which may extend to six months, or with fine which may extend to Rs. 1,000 or with both.

However, the punishment of imprisonment is given only when the offence is committed willfully.

Profit and Loss Account:

The Indian Companies Act is silent as to the form of Profit and Loss Account. But part II of Schedule VI contains a list of items of incomes and expenditure which should be included in the Profit and Loss Account.

The profit and Loss Account of a Company should give a true and fair view of the profit or loss of the Company for the financial year. The first account covers the period since the incorporation of the Company, and subsequent accounts cover the period since the date of the preceding account.

An Income and Expenditure Account takes the place of Profit and Loss Account in the case of a Company not trading for profit.

Statutory Requirements:

Profit and Loss Account shall be so made out as to clearly disclose the result of the working of the Company during the period covered by the account and shall disclose every material feature including credits or receipts and debits or expenses in respect of non-recurring expenditure or expenditure of an exceptional nature. It shall set out the various items relating to the income and expenditure of the Company under the most convenient heads and in particular shall disclose the following information in respect of the accounting period.

The Profit and Loss Account must be prepared with the directions given in part II Schedule VI of the Act. The important provisions are given below:

1. (a) The turnover, that is, the aggregate amount for which sales are affected by the Company, giving the amount of sales in respect of each class of goods dealt with by the Company, and indicating the quantities of such sales for each class Separately.

(b) Commission paid to sole selling agent within the meaning of section 294 of the Act

(c) Commission paid to other selling agents.

(d) Brokerage and discount on sales other than sales trade discount.

2. (a) In the case of manufacturing concerns, the purchase of raw material including consumption and the opening and closing stocks of the good produced indicating the quantity produced.

(b) In the case of trading concerns the purchases made and the opening and the Closing stocks.

(c) In the case of Companies rendering or supplying services, the gross income derived from service rendered or supplied.

(d) In the case of Company which falls under more than one of the categories mentioned in (a), (b) and (c) above, it shall be sufficient compliance with the requirements herein if the total amounts are shown in respect of the opening and closing stocks, purchases, sales up and the gross income from services rendered is shown.

(e) In the case of other Companies, the gross income derived under different heads.

3. In the case of all concerns having work-in-progress, the amounts for which (such works have been completed) at the commencement and at the end of the accounting period.

4. The amount provided for depreciation, renewals or diminution in value of fixed assets. If such provision is not made by means of a depreciation charge, the method adopted for making such provision.

If not provision is made for depreciation, the fact that no provision has been made shall be stated and the quantum of arrears of depreciation computed in accordance with Section 205 (2) of the Act shall be disclosed by way of a note.

1. The amount of interest on the Company's debentures and other fixed loans, that is to say loans for fixed periods stating separately the amount of interest if any, paid or payable to the Managing Director, and the Manager, if any.

2. **The amount reserved for:**

(a) Repayment of share capital and

(b) Repayment of loans.

(a) The aggregate, if material, of any amounts set aside or proposed to be set aside to reserves but not including provisions made to meet any specific liability, contingency or commitment known to exist at the date of the Balance Sheet.

(b) The aggregate, if material, of any amount withdraws from such reserves.

(a) The aggregate, if material of the amounts set aside to provisions made for meeting specific liabilities, contingencies or commitments.

(c) The aggregate, if material, of the amounts withdrawn from such provisions, as no longer required.

3. **Expenditure incurred on each of the following items separately for each item:**

(a) Consumption of stores and spare parts.

(b) Power and fuel.

(c) Rent.

(d) Repairs to Buildings.

(e) Repairs to Machinery.

(f) (i) Salaries, Wages and Bonus.

(ii) Contribution to provident and other funds.

(iii) Workmen and staff welfare expenses to the extent not adjusted from any previous provision or reserve.

(g) Insurance

(h) Rates and taxes including taxes on income.

(i) Miscellaneous expenses.

Provided that any item under which the expenses exceed 1% of the total revenue of the Company or Rs. 5,000, whichever is higher, shall be shown as a separate and distinct item against an appropriate account head in the Profit and Loss Account and shall not be combined with any other items to be shown under Miscellaneous Expenses.

(a) The amount of income from investments, distinguishing between trade Investments.

(b) Other income by way of interest, specifying the nature of the income.

(c) The amount of income tax deducted if the gross income is stated under subparagraphs (a) and (b) above.

(a) Profit and losses on investments (showing distinctly the extent of the profits or losses earned or incurred on account of membership of a partnership firm) to the extent not adjusted from any previous provision or reserve.

(b) Profit and losses in respect of transactions of a kind not usually undertaken by the Company or undertaken in circumstances of an exceptional or non-recurring if material in amount.

(c) Miscellaneous income.

(a) Dividends from Subsidiary Companies.

(b) Provisions for losses of Subsidiary Companies.

The aggregate amount of dividends paid and proposed, and stating whether such amounts are subject to deduction of income tax or not.

Amount, if material, by which any items shown in the Profit and Loss Account is affected by any change in the basis of accounting. The Profit and Loss Account shall contain by way of a note detailed information showing separately the following payments provided or made during the financial year to the Directors (including Managing Directors) the Managing Agents, Secretaries and Treasurers or Manager, if any, by the Company.

The Profit and Loss Account shall contain or give by way of a note a statement showing the computation of net profits in accordance with Section 340 of the Act with the relevant details of the calculation of the commission's payable by way of percentage of such profits to the directors including Managing Directors or Managers, if any.

The Profit and Loss Account also contains by way of note detailed information in regard to amounts paid to the auditors whether as fees, expenses or otherwise for services rendered as auditor and in any other capacity.

8. Provision and Reserves as per Company Act:

Provision:

Provision is a change against profits and finds its places on the debit side of Profit and Loss Account. The net profit is arrived at after taking into account all provisions. The provisions are in the nature of expense.

Thus Profit is subjected to further any adjustment that is in order to make it available for distribution of dividend to shareholders. It is popularly known as above line adjustments.

Provisions that are generally charged to the debit side of Profit and Loss Account.

Provision for Depreciation

Provision for Reserve for Doubtful Debts on Debtors

Provision for Managerial Remuneration payable

Provisions for any expenses that may become payable

Reserve:

Reserve is an appropriation out of net profits (i.e., the Profits after adjustment of provision).

The adjustments to reserve are made in Profit and Loss Appropriation Account. It is popularly known as below line adjustments.

Reserves that are generally appropriated out of profits

Reserve for Taxation i.e., provision for taxation though it is called a provision the meaning of provision is not applied to this and have to be treated as reserve. Moreover tax can be provided only after all the expenses are provided for.

Provision for Dividends as per law dividends can be paid out of profits. Profit means profit available after taking into all the statutory expenses and provision. This is applicable for interim dividend, final dividend and proposed dividend.

Transfers to Reserves specifically like general reserve, sinking fund, and other specific reserves.

9. Significant Accounting Policies:

(i) Basis of preparation of financial statements:

The financial statements have been prepared on the basis of historical cost concept in accordance with the generally accepted accounting principles and the provisions of the Companies Act, 1956.

(ii) Valuation of Inventories:

Inventories are valued at the lower of historical cost or the net realizable value.

(iii) Valuation of Investments:

Investments are valued at lower of cost or net realizable value.

(iv) Depreciation:

Depreciation on fixed asserts is provided using the straight-line method, based on the period of five years. Depreciation on addition is provided for the full year but no depreciation is provided on the assets sold in the year of their disposal.

IMPORTANT MCQ

Q1] Which accounting concept satisfy the valuation criteria

a) Going concern, Realisation, Cost

b) Going concern, Cost, Dual aspect

c) Cost, Dual aspect, Conservatism
d) Realisation, Conservatism, Going concern.

Q2] A trader has made a sale of Rs.75,500 out of which cash sales amounted to Rs.25,500. He showed trade receivables on 31-3-2014 at Rs.25,500. Which concept is followed by him?
a) Going concern
b) Cost
c) Accrual
d) Money measurement

Q3] In which of the following cases, accounting estimates are needed?
a) Employs benefit schemes b) Impairment of losses c) Inventory obsolescence d) All of the above

Q4] Deewali advance given to an employee is
a) Revenue Expenditure b) Capital Expenditure c) Deferred Revenue Expenditure d) Not an Expenditure

Q5] A firm has reported a profit of Rs.1,47,000 for the year ended 31-3-2014 after taking into consideration the following items.
(i) The cost of an asset Rs.23,000 has been taken as an expense
(ii) The firm anticipated a profit of Rs.12,000 on the sale of an old furniture
(iii) Salary of Rs.7,000 outstanding for the year has not been taken into account.
(iv) An asset of Rs.85, 000 was purchased for Rs.75,000 and was recorded in the books at Rs.85,000.
What is the correct amount of profit to be reported in the books? a) Rs.1,47,000 b) Rs. 1,51,000 c) Rs.1,63,000 d) Rs.1,41,000

Q6] The process of recording financial data upto trial balance is
a) Book keeping b) Classifying c) Summarising d) Analyzing

Q7] Rohit carrying on real estate business sold a piece of land for Rs.4,00,00,000 (cost Rs.3,50,00,000) then the type of receipt is_____nature and profit on sale is
a) Capital & transferred to capital reserve b) Revenue & transferred to P & L a/c c) Capital & transferred to P & L a/c d) Revenue & transferred to general reserve

Q8] In income measurement & recognisation of assets & liabilities which of the following concepts goes together ?
(a) Periodicity, Accural, Matching
(b) Cost, Accural, matching

(c) Going concern, cost, Realization
(d) Going concern, Periodicity, Reliability

Q**9]** Interpretation means
(a) Explanation of meaning and significance of the data in Financial Statements.
(b) Concerned with preparation and presentation of classified data
(c) Systematic analysis of recorded data
(d) Methodical classification of data given in Financial Statements.

Q10] A trader purchases goods for Rs. 2500000, of these 70% of goods were sold during the year. At the end of 31st December 2009, the market value of such goods were Rs. 500000. But the trader recorded in his books for Rs. 750000. Which of the following concept is violated.
(a) Money measurement
(b) Conservatism
(c) Consistency
(d) None of these

Q11] Which of the following is wrong?
(a) All real and personal accounts are transferred to balance sheet
(b) Nominal accounts are transferred to P & L account
(c) Each account is opened separately in ledger
(d) Rent is a personal account, outstanding rent is nominal account

Q 12] is root cause for financial accounting
(a) Stewardship accounting
(b) Social accounting
(c) Management accounting
(d) Human resource accounting

Q 13]If nothing is given in the financial statements about the three accounting assumptions then it is to be treated as it
a) Is assumed that it is not followed
b) Is assumed to be followed
c) Is assumed to be followed to some extent
d) None of the above

Q14] The proprietor of the business is treated as creditor for the capital introduced by him due to_______concept.
a) Money measurement b) Cost c) Entity d) Dual aspect

Q15] Fixed assets are held by business for ______
a) Converting into cash b) Generating revenue c) Resale d) None of the above

Q16] Which accounting concept specifies the practice of crediting closing stock to the trading account?
a) Cost b) Realisation c) Going concern d) Matching

Q17] Amount spent to increasing the earning capacity is a_______expenditure
a) Capital b) Revenue c) Deferred revenue d) Capital Loss

Q18] Change in the capital A/c of proprietor may occur due to ______
a) Profit earned b) Loss incurred c) Capital Introduced d) All of the above

Q19] Consistency with reference to application of accounting procedures means

a) All companies in the same Industry should use identical accounting procedures
b) Income & assets have not been overstated
c) Accounting methods & procedures shall be followed uniform basis year after year
d) Any accounting method can be followed as per convenience

Q20] If one of the cars purchased by a car dealer is used for business purpose, instead of resale, then it should be recorded by______
a) Dr Drawing A/c & Cr Purchases A/c b) Dr Office Expenses A/c & Cr Motor Car A/c
c) Dr Motor Car A/c & Cr Purchases A/c d) Dr Motor Car & Cr Sales A/c

Q21] If wages are paid for construction of business premises______A/c is credited and_A/c is debited.
a) Wages, Cash b) Premises, Cash c) Cash, Wages d) Cash, Premises

Q22] Human resources will not appear in the balance sheet according to ______ concept.
a) Accrual b) Going concern c) Money measurement concept d) None

Q23] Provision for discount on debtors is calculated on the amount of debtors.

a) Before deducting provision for doubtful debts.
b) After deducting provision for doubtful debts.
c) Before deducting actual debts and provision for doubtful debts.
d) After adding actual bad and doubtful debts.

Q24] Which of the following is not a Real Account?
a) Cash A/c b) Investments A/c c) Out standing rent A/c d) Purchases A/c

Q25] Value of goods withdrawn by the proprietor for his personal use should be credited to _____
a) Capital A/c b) Sales A/c c) Drawings A/c d) Purchases A/c

Q26] Which of the following is incorrect?
a) Good will intangible asset b) Sundry debtors - current asset
c) Loose tools tangible fixed asset d) Outstanding expenses -current asset.

Q27] M/s Stationery Mart will debit the purchase of stationery to _______
a) Purchases A/c b) General Expenses A/c c) Stationery A/c d) None

Q28] Small items like, pencils, pens, files, etc. are written off within a year according to _ concept.
a) Materiality b) consistency c) Conservatism d) Realisation

Q29] Business enterprise is separate from its owner according to______concept.
a) Money measurement concept b) Matching concept c) Entity concept d) Dual aspect concept

Q30] The policy of anticipate no profit and provide for all possible losses arise due to the concept of ______
a) Consistency b) Disclosure c) Conservatism d) Matching

Q31] According to which concept, the proprietor pays interest on drawings
a) Accrual concept b) Conservatism concept c) Entity concept d) Dual Aspect concept

Q32] Cost concept basically recognises _____
a) Fair Market value b) Historical cost c) Realisable value d) Replacement cost

Q33] If the Market value of closing Inventory is less than its cost price, inventory will he shown at ___
a) Marketable value b) Fair Market value c) Both d) none

Q34] The Market price of good declined than the cost price. Then the concept that plays a key role is ______
a) Materiality b) Going concern concept c) Realization d) Consistency

Q35] Fixed assets are double the current assets and half the capital. The current assets are Rs.3,00,000 and investments are Rs.4,00,000. Then the current liabilities recorded in balance sheet will be
a) 2,00,000 b) 1,00,000 c) 3,00,000 d) 4,00,000

Q36] Which of the following provide frame work and accounting policies so that the financial statements of different enterprises become comparable.
a) Business Standards b) Accounting Standards c) Market Standards d) None

Q37] Which of the following factor is not considered while selecting accounting policies?
a) Prudence b) Substance over form c) Accountancy d) Materiality

Q38] Debit the receiver & credit the giver is______account
a) Personal b) Real c) Nominal d) All the above

Q39] Cash a/c is a ________

a) Real a/c b) Nominal c) Personal d) None

Q40] As per accrual concept, which of the followings is not true
a) revenue – expenditure = profit b) revenue – profit = expenditure
c) sales + gross profit = revenue d) revenue = profit + expenditure

Q41] Mr. X sold goods to Mr. Y ask Mr. X to keep the goods with him for some time
a) symbolic delivery b) actual delivery c) constructive delivery d) none of these

Q42] If nothing is written about the accounting assumption to be followed it is presumed that
a) They have been followed b) They have not been followed
c) They are followed to some extent d) none of these

Q43]Capital A/c is a_______A/c.

a) Personal b) Real c) Nominal d) None

Q44] Cash A/c is a_________A/c.

a) Personal b) Real c) Nominal d) None

Q45] The principle "Debit the receiver and credit the giver" is related to____

a) Personal a/c b) Real a/c c) Nominal a/c d) None

Q46] As per the Matching concept, Revenue – ? = Profit

a) Expenses b) Liabilities c) Losses d) Assets

Q47] Sales – Gross Profit = _______

a) Cost of goods sold b) Net sales c) Gross Sales d) Liabilities

Q48] Which of the following is a Real A/c?

a) Building A/c b) Capital A/c c) Shyam A/c d) Rent A/c

Q49] Valuation of stock in accounting follows the principle of cost price or ____which ever is lower.

a) Market Price b) Average Price c) Net realizable Value d) None of these.

Q50] Which of the following is not a nominal Account?
A] Outstanding salaries Account B] Salaries account C] Interest paid D] Commission received

Q51] Mr. X is a dealer in electronic goods (refrigerator, washing machine, air conditioners, televisions, etc.) He purchased two air conditioners and installed in his showroom. In the books of X the cost two air conditioners will be debited to
A] Drawing account B] Capital Account C] Fixed assets account D] Purchases account

Q52] A trader calculated his profit as Rs.150000 on 31/03/2014. It is an A] Transaction B] Event
C] Transaction as well as event D] Neither transaction nor event

Q53] For every debit there will be an equal credit according to A] Matching concept B] cost concept
C] Money measurement concept D] Dual aspect concept

Q54] Historical cost concept requires the valuation of an asset at A] Original cost B] Replacement value
C] Net realizable value D] Market value

Q55] The comparison of financial statement of one year with that of another is possible only when --------------------concept is followed
A] Going concern B] Accrual
C] Consistency D] Materiality

Q56] Profit and loss is calculated at the stage of
A] Recording B] Posting
C] Classifying D] Summarising

Q57] Which of the following is not the main objective of accounting?
A] Systematic recording of transactions B] Ascertaining profit or loss
C] Ascertainment of financial position D] Solving tax disputes with tax authorities

Q58] An asset was purchased for Rs.1000000 with the down payment of Rs.200000 and bills accepted for Rs.800000/-. What would be the effect on the total asset and total liabilities in the balance sheet?
A] Assets increased by Rs.800000 and liabilities decreased by Rs.800000 B] Assets decreased by Rs.800000 and liabilities increased by Rs.800000 C] Assets increased by Rs.1000000 and liabilities increased by Rs.800000 D] Assets increased by Rs.800000 and liabilities increased by Rs.800000

Q59] The rule debit all expenses and losses and credit all income and gains relates to A] Personal account B] Real account C] Nominal accounts D] All

Q60] Matching concept means
A] Assets = capital + liabilities B] Transactions recorded at accrual concept C] Anticipate no profit but recognize all losses

D] Expenses should be matched with the revenue of the period.

1] a	2]c	3] d	4] d	5] b	6] a	7] b	8] a	9] a	10] b
11] d	12] a	13] b	14] c	15] b	16] d	17] a	18] d	19] c	20] c
21] d	22] c	23] b	24] c	25] d	26] d	27] a	28] a	29] c	30] c
31] c	32] b	33] a	34] c	35] b	36] b	37] c	38] a	39] a	40] c
41] a	42] b	43] a	44] b	45] a	46] a	47] a	48] a	49]c	50] a
51] c	52] b	53] d	54] a	55] c	56] d	57] d	58] d	59] c	60] d

Bank Reconciliation Statement MCQs

1. In cash book, the favorable balance indicates

A) Credit Balance

B) Debit Balance

C) Bank Overdraft

D) Adjusted Balance

Answer: B

2. On the bank statement, cash deposited by the company is known as

A) Credit

B) Debit

C) Liability

D) Expenses

Answer: A

3. Bank reconciliation statement compares a bank statement with __________

A) Cash payment journal

B) Cash receipt journal

C) Financial statements

D) Cashbook

Answer: D

4. What is “Deposit in transit” in bank reconciliation?

A) Added to Bank Balance

B) Subtracted From Bank Balance

C) Subtracted From the Cash Book Balance

D) Added to Cashbook Balance

Answer: A

5. ‘NSF’ marked in cheque sent back by the bank indicates

A) Cheque has been forged

B) A bank couldn’t verify the identity

C) No sufficient money

D) A cheque cannot be cashed because it’s illegal

Answer: C

6. Bank reconciliation description is composed of

A) Bank Accountant

B) Business Manager

C) Business Accountant

D) Controller of the bank

Answer: C

7. An unadjusted balance in cash book is because of the result of which error?

A) Deposit in transit

B) The omission of Bank charges

C) Outstanding checks

D) Unpresented checks

Answer: B

8. Unpresented checks also referred to as

A) Bounced checks

B) Outstanding checks

C) Uncredited checks

D) Uncollected checks

Answer: B

9. In cash book, bank charges of ₹5,000 was not recorded. Name the correct cash book adjustment

A) It will be credited in cash book

B) It will be debited in cash book

C) No adjustment needed in the cash book

D) Charges will be added to the cash book balance

Answer: A

10. What type of cheques is that which is issued by a firm but not deposited to the bank

A) Uncredited cheques

B) Outstanding cheques

C) Uncollected cheques

D) Bounced cheques

Answer: B

FINAL ACCOUNTS MCQ

Question 1

Business is said to be in a profit when

A) Expenditure exceeds income

B) Income exceeds expenditure

C) Income exceeds liability

D) Assets exceed expenditure

Answer: B

Question 2

As per the accounting double-entry system, an account that receives the benefit is

A) No need to show as an accounting record

B) Income

C) Debit

D) Credit

Answer: D

Question 3

What does the term “credit” mean in business?

A) It depends upon items

B) Provides benefits

C) It has no effect on business

D) Receiving benefits

Answer: D

Question 4

When a Liability is decreased or reduced, it is registered on the

A) Debit side or left side of the account

B) Credit side or right side of the account

C) Debit side or right side of the account

D) Credit side or left side of the account

Answer: A

Question 5

When there is an increase in capital by an amount, it is registered on the

A) Credit or right side of the account

B) Debit or left side of the account

C) Credit or left side of the account

D) Debit or right side of the account

Answer: A

Question 6

What kind of expenses is paid from Gross Profit?

A) Selling Expenses

B) Financial Expenses

C) General Expenses

D) All of the above

Answer: D

Question 7

Which option gives a review report on the firm's financial status at a specified date?

A) Income & Expenditure Account

B) Balance Sheet

C) Cash Flow Statement

D) Profit & Loss Account

Answer: B

Question 8

Which of the options is not an intangible asset?

A) Land

B) Patents

C) Goodwill

D) Franchise rights

Answer: A

Question 9

Which of the options is an example of business liability?

A) Creditors

B) Cash

C) Building

D) Land

Answer: A

Question 10

The unfavourable balance of Profit and Loss account should be

A) Subtracted from liabilities

B) Subtracted from capital

C) Subtracted from current assets

D) Added in liabilities

Answer: B

COMPUTERISED ACCOUNTING

1. What are the features of a computerized accounting system.
    1. It facilitates off-line input and storage of accounting data
    2. This system never fails
    3. It generates a print-out of purchase and sale invoices
    4. None of the above

2. What is not an advantages of a computerized accounting system.
    1. High Speed
    2. High Reliability
    3. Reduced training cost
    4. None of the above

3. What are the types of a computerized accounting system.
    1. Ready to use Software
    2. Customized Software
    3. Tailor-made Software
    4. All of the above

4. What are the advantages of tailor-made software.
    1. These are ready made software's
    2. Low cost
    3. High secrecy of data
    4. None of the above

5. What are the factors to be considered while source accounting software?

1. Flexibility
2. Adaptability
3. Interest of management
4. Both a & B
5. All of the above

6. Ram want to install a computerized accounting system but his budget is low. Which software he should opt for
    1. Ready to use Software
    2. Customized Software
    3. Tailor-made Software
    4. He can buy any of above, all cost same

7. If an organisation want to develop a computerised accounting system according to its need as the business of organisation is complex. Which software it should opt for
    1. Ready to use Software
    2. Customized Software
    3. Tailor-made Software
    4. Any of above

8. What are the features of computerized accounting software?
    1. storage of accounting data and on-line input
    2. instantly produces different reports
    3. group different account
    4. All of the above

9. The ……….of a vendor is also an important factor to consider while opting for a computerized accounting software

    1. Level of profit
    2. Honesty
    3. Capability
    4. None of the above

10. Software must be easy to…….

    1. Install
    2. Adapt
    3. Understand
    4. All of the above

1. C 2. (c) 3. (d) 4. (c) 5. (d) 6. (a) 7. (c) 8. (d) 9. (c) 10. (d)

TALLY:

1. What is TAN?

    A. Tax Absorb Number

    B. Tax Assign Number

    C. Tax Account Number

    D. Tax Assessment Number

2. How many formats are available while Exporting?

    A. 2

    B. 3

    C. 4

D. 5

3. How many types of Measurement Units we can create in Tally?

A. 5
B. 4
C. 3
D. 2

4. Tally package is developed by

A. Microsoft
B. Apple Software
C. Adobe Software
D. Tally Solutions

5. The shortcut key to quit from Tally is

A. Ctrl + P
B. Ctrl + Q
C. Ctrl + M
D. Ctrl + L

6. Manufacturing Journal creates based on

A. Journal
B. Purchase Quotation
C. Stock Journal
D. Receipt Note

7. We can create multiple users in Tally activating

A. Maintain VAT
B. Tally Audit
C. Use Security Control
D. Both a and b

8 Sales Tax Ledger falls under which Group?

A. Sales
B. Purchases
C. Duties and Taxes
D. Indirect Expenses

9. Single Entry mode is applicable for

A. Receipt Voucher
B. Payment Voucher
C. Contra Voucher
D. All of these

10. To change Current Date from Gateway of Tally press the key

A. F1
B. F2
C. F5
D. F9

Important long ques:

1 Briefly explain he concepts which form the backbone of accounting.
2. Briefly explain accounting assumptions.
3. What do you mean by the term conventions? Briefly explain accounting conventions.
4. Explain the double entry book keeping. What are its advantages?
5. Briefly explain the features and limitations of double entry system.
6. Distinguish between single entry system and double entry system.
7. Briefly explain the accounting cycle.
8. Explain the rules of journalizing.
9. Explain the ledger. What are its advantages?
10. Explain the method of preparing trial balance.

REFERENCE:

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Usol notes