

Accounting

UNIT - I

The American Institute of Certified Public Accountants (AICPA)

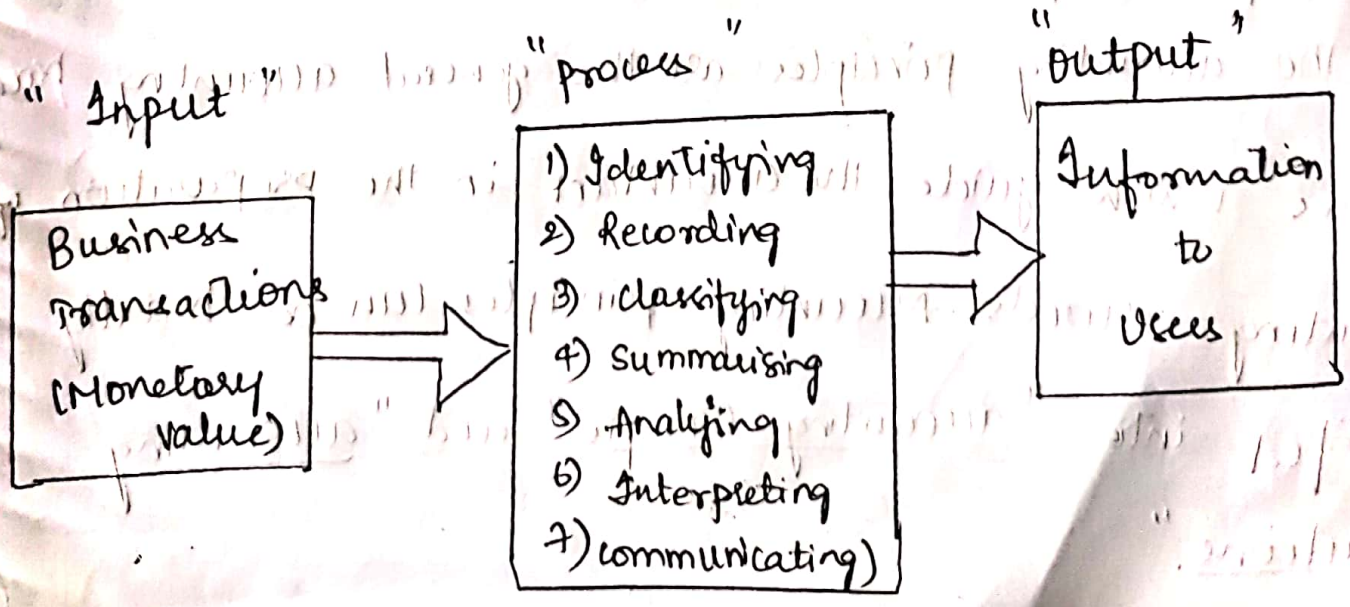
has defined the accounting as "the art of recording, classifying and summarizing in a significant manner in terms of money transactions and events which in part, at least of a financial character and interpreting the results thereof"

Objectives of Accounting

The main objectives of accounting are :

- 1) TO maintain accounting records
- 2) TO calculate the result of operations.
- 3) TO ascertain the financial position.
- 4) TO communicate the information to Users.

Accounting Process

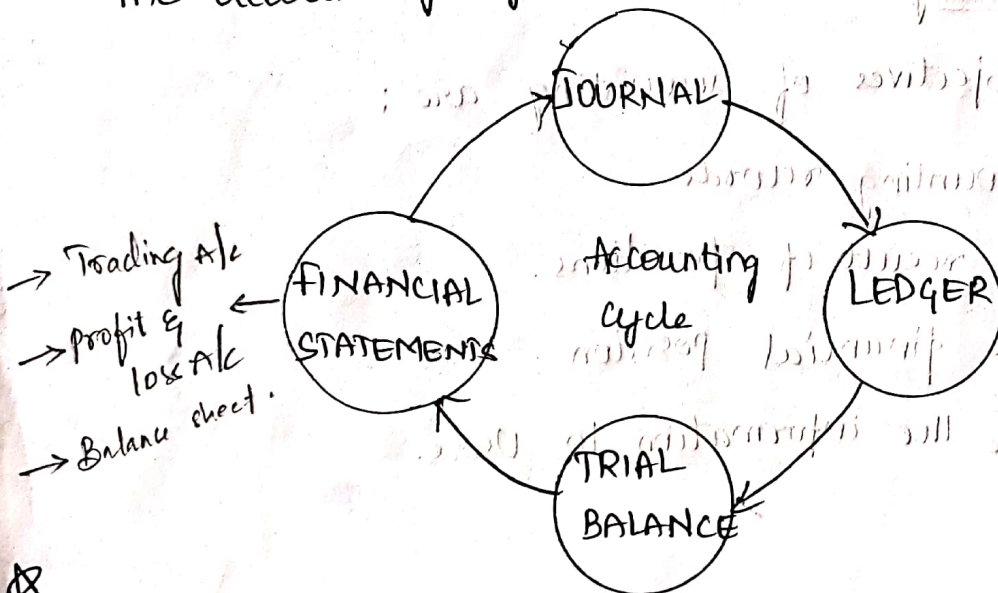


Accounting cycle

An Accounting cycle is a complete sequence of accounting process that begins with the recording of business transactions and ends with the preparation of final accounts.

These include Journal, ledgers, trial balance and financial statements such as, trading account, profit & loss account, Balance sheet.

The accounting cycle is depicted in the following diagram:



UNIT-1

DOUBLE ENTRY BOOK KEEPING SYSTEM

There are numerous transactions which are to be recorded in a business concern. Each transaction, reveals two important aspects: One aspect is "receiving aspect" or "incoming aspect" or "expenses / loss aspect", termed as the "DEBIT ASPECT". The other aspect is "giving aspect" or "outgoing aspect" or "income / gain aspect", termed as the "CREDIT ASPECT".

forms the basis of Double entry system. Hence, the double entry system involves the recording of both of the aspects of a transaction i.e., Debit and credit.

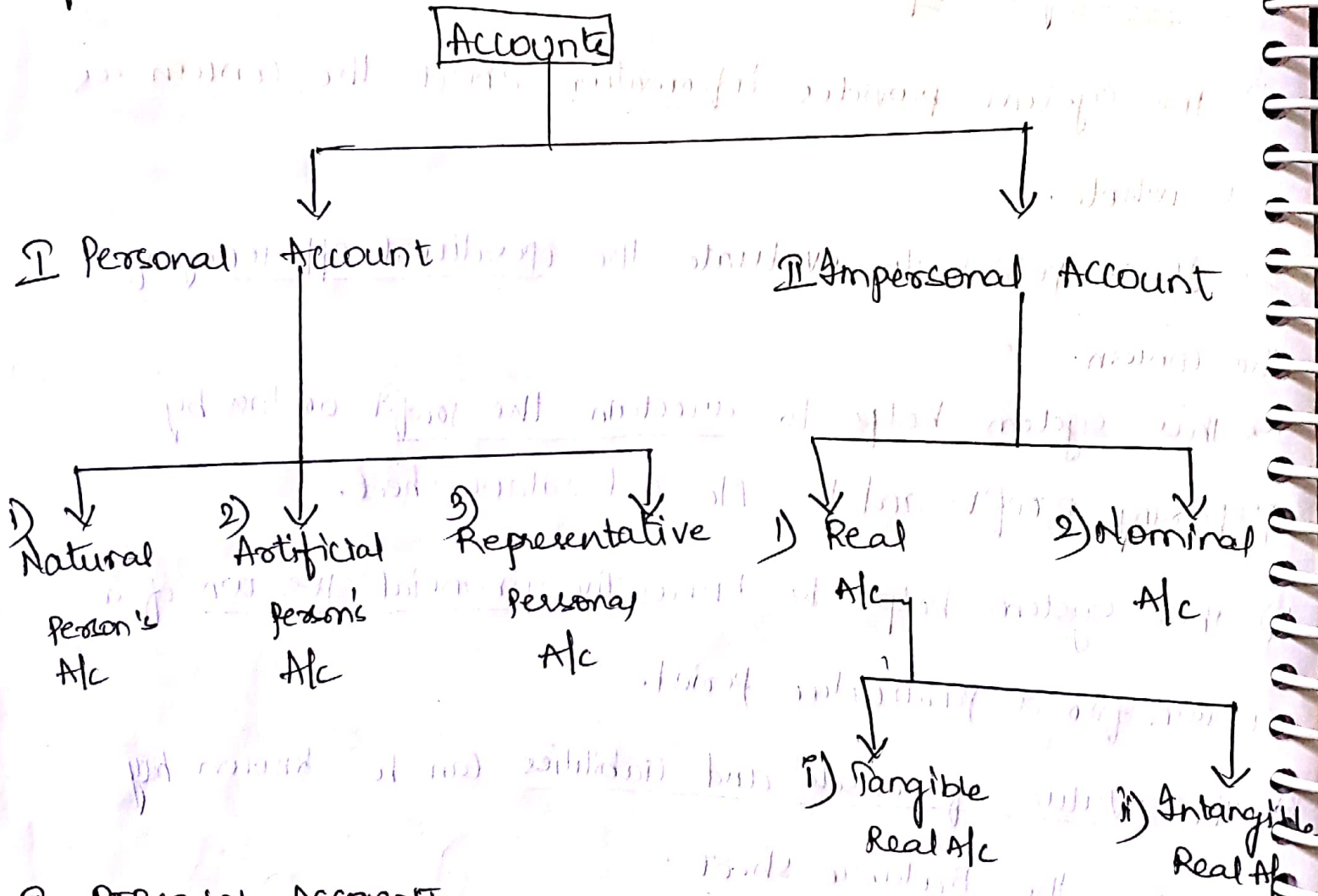
The fundamental rule under double entry Book keeping System is that, "for every Debit there must be corresponding value of credit"

Advantages of Double-Entry system

- 1) This system provides information about the concern as a whole.
- 2) It is possible to evaluate the operational efficiency of the concern.
- 3) This system helps to ascertain the profit or loss by preparing profit and loss A/c and Balance sheet.
- 4) This system helps to know the financial position of a concern for a particular period.
- 5) The value of assets and liabilities can be known by preparing the Balance sheet.
- 6) It has a complete record of transaction.
- 7) The accuracy of accounting work can be established by the preparation of trial Balance.
- 8) This system provides sufficient information to the management for making decisions.

Classification of Accounts

In order to keep a complete record of all transactions in the business the following are the important types of accounts.



PERSONAL ACCOUNT

The accounts which relate to individuals or persons are known as personal accounts. Personal A/c include the following.

1) Natural persons A/c:- Accounts which relate to individuals
e.g. -> Vinu's A/c, Ramu's A/c --- etc

1) Artificial persons A/c :- Accounts which relate to a group of persons or firms or institutions are known as artificial persons A/c
ex Infosys Ltd, Andhra Bank etc. --

2) Representative A/c :- An account indirectly representing a person or persons is known as representative A/c.
ex :- outstanding expenses, P/P Expenses, Old salaries is a representative personal account representing salaries payable to the staff.

II) IMPERSONAL ACCOUNT

All these accounts which are not personal accounts are impersonal accounts.

1) Real Account :- Accounts relating to properties and assets which are owned by the business concern are

Real A/cs, which includes

i) Tangible Assets :- refers to an account relates to an asset which can be touched, felt and measured
ex :- Buildings, furniture, stock etc.

ii) Intangible Assets :- refers to an account which cannot be touched, felt and measured
ex :- Goodwill, copy rights, patents etc.

2) Nominal Account

These accounts do not have any existence, form or shape. They relate to incomes and expenses or gains and losses of a business concern.

ex:- salary A/c, Rent A/c, discount A/c.

Principles | Rules of Accounting

According to double entry system of accounting every transaction of the business has two aspects.

The transactions should be recorded in the books of accounts according to the two aspects.

- * 1) 'Receiving Aspect' otherwise known as 'Debit Aspect'
- * 2) 'Giving Aspect' otherwise known as 'Credit Aspect'

Thus every transaction involves two aspects

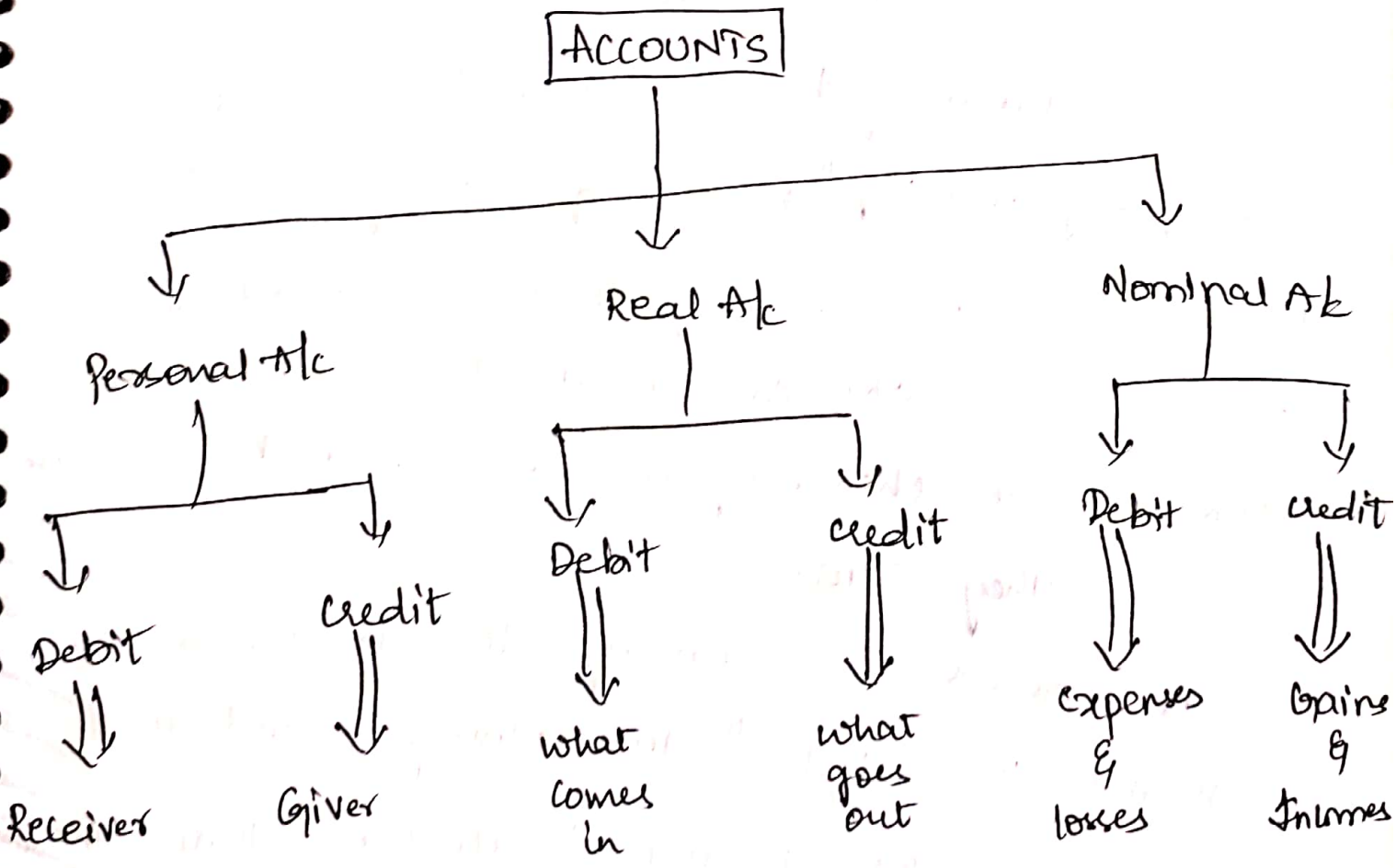
→ 1) Debit Aspect

→ 2) Credit Aspect.

There are three different rules for making entries under Double entry system. in respect of Personal Account, Real Account and Nominal Account.

RULES

- 1) PERSONAL A/c — a) Debit the Receiver
b) Credit the giver
- 2) REAL A/c — a) Debit what comes in
b) Credit what goes out
- 3) Nominal A/c — a) Debit all expenses & losses
b) Credit all incomes & gains



21
ex: furniture purchased for cash Rs 10,000/-

The two aspects involved in this transaction are furniture and cash.

furniture & cash Both are Real A/c in nature

Under Real A/c "Debit what comes in & Credit what goes out"

∴ Furniture A/c ----- Dr
TO Cash A/c

JOURNAL

A Journal is a book in which an accounting transaction is written in accounting terms. Journal is called as "Book of original entry." or "Book of primary entry" as all the transactions pertaining to a business are first entered in this book. In Journal, transactions are entered in the chronological order i.e., in the sequence in which they occur.

* The process of recording the transaction in the Journal is called "Journalising" and the entry made in the Journal is called as "Journal entry".

PROFORMA

The proforma of the Journal is as follows:-

Date	Particulars	L.F No	Debit Amt	Credit Amt

Note - According to the principles of double entry system both ~~debit~~ debit and credit aspects of the transaction are recorded in the JOURNAL.

Problems :- [Text Book]

LEDGER

Accounting involves recording, classifying and summarising financial transactions. Recording is done in the Journal and classification of the recorded transactions is done in the ledger.

The Journal doesn't provide all the information regarding a particular account at one place and it does not show the net effect of various transactions affecting a particular person, assets, revenue and expense. "Hence, to know the summary of individual accounts the ledger is prepared."

After recording a transaction in the Journal, the next stage is the transfer of transactions in the respective accounts in the form of ledgers.

According to L.C. Cooper, "the book which contains a classified and permanent record of all the transactions of a business is called the ledger."

Advantages

- 1) Complete Information at a glance
- 2) Arithmetical Accuracy.
- 3) Result of Business operations
- 4) Accounting Information.

Rules Regarding Posting

- A) opening a separate Accounts
- B) Posting Journal entry to concerned side
- C) Use of word "TO" and "By"
- D) Balance in Account

FORMAT FOR LEDGER

		NAME OF ACCOUNT					
Date	Particulars	IF	Amount	Date	Particulars	IF	Amount
Year/ Month/ Date	To (Name of the credit A/c in Journal)	no	xxx	Year/ Month/ Date	By (Name of Debit A/c in Journal)	no	xxx

PROBLEMS - [Great Book]

SUBSIDIARY BOOKS

Separate book which are maintained to record a particular category of transactions are known as "subsidiary books."

Need / Advantages of subsidiary books

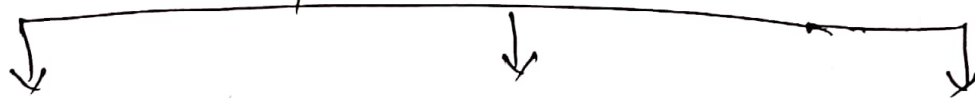
- 1) Saving of Time
- 2) Division of work
- 3) Easy recording
- 4) Improves efficiency
- 5) Detection of errors

TYPES OF SUBSIDIARY BOOKS

There are eight subsidiary books :-

- 1) Purchase Book :- Purchase of goods on credit
- 2) Purchase Returns Book :- Goods returned to suppliers
- 3) Sales Book :- sales of goods on credit
- 4) Sales Returns Book :- Goods returned by customers
- 5) Cash Book :- cash receipts & cash payments
- 6) Bills receivable book :- B/R from debtors
- 7) Bills payable book :- B/P to creditors
- 8) Journal proper :- other transactions which cannot be recorded in above seven books.

1) PURCHASE BOOK



Only credit purchase of goods are to be recorded

cash purchase of goods are not to be recorded

Purchase of Assets are not to be recorded

Note:- If any transaction involve trade discount, deduct the discount from purchases & enter the net purchase amt.

FORMAT

PURCHASE BOOK.

Date	Particulars	Inward Invoice No.	LF No	Amount (₹)
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Example:-

Prepare purchase book from the following particulars/transactions

2013 Jan 2 nd	Goods bought from Rama	5000		
5 th	Purchased goods from Mohan (Trade Discount 10%)	10,000		
10 th	Bought 10 boxes of goods @ ₹600 each from Ashok			
15 th	Purchase of furniture from Murali	8000		
20 th	Cash purchases	5000		

Refer to Introduction of P.B

Ignored while preparing Purchase book

Sol:-

PURCHASE BOOK

Date	Particulars	Inward Invoice No.	LF No.	Amt.
2013.01.2 nd	Rama	1		5000
5 th	Mohan (10000 - 1000)	2		9000
10 th	Ashok (600 x 10) $\frac{1}{2}$	3		6000
	TOTAL			20,000

2) PURCHASE RETURNS BOOK

This book is used to record the return of goods to the suppliers. As the goods are going out from the firm the book is called as "Return outward Book"

FORMAT

PURCHASE RETURNS BOOK

Date	Particulars	Debit Note No	LF No	Amt (₹)

example

Record the transactions in purchase returns book

2013.03.1 st	Goods returned to Raghu			300
" 6 th	Returned goods to Kiran			200
" 13 th	Goods returned to Dinesh			100

Ans:

PURCHASE RETURNS BOOK

Date	Particulars	Debit Note No	LF No	Amount (₹)
2013 March. 1 st	Raghu	1		300
6 th	Kiran	2		200
13 th	Dinesh	3		100
				600

SALES BOOK

SALES BOOK

only credit sales of goods are to be recorded

Cash sale of goods are not to be recorded

Sale of Assets are not to be recorded

FORMAT :

SALES BOOK

Date	Particulars	Outward Invoice No.	IF No	Amount (₹)
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Prepare sales Book

2013.04.1	Sold goods to Suresh on credit			6500
" 4	Cash sales — Ignored			4000
" 7	Goods sold to Mahesh			2500
" 10	Sold old Machinery to Suresh — Ignored			16000

SALES BOOK

Date	Particulars	Outward Invoice No.	IF No	Amt
1	Suresh	1		6500
7	Mahesh	2		2500
	Total ⇒			9000

SALES RETURN BOOK

4) This book is used to record the return of goods by the customers. As the goods are coming into the firm, this book is also called as "Returns Inward book."

Sometimes, customers may return a part of the goods purchased from the trader, which is called as sales return.

example :-

Prepare sales return book from the following :-

2012 '4' 10th Goods returned by Mukesh 800
 " " 12th Suresh returned goods 500

SALES RETURN BOOK

<u>Date</u>	<u>Particulars</u>	<u>Credit Note No.</u>	<u>LF NO</u>	<u>Am't (£)</u>
2012 April 10 th	Mukesh			800
" " 12 th	Suresh	2		500
	<u>Total</u>			<u>1300</u>

FORMAT

<u>Date</u>	<u>Particulars</u>	<u>Credit Note No.</u>	<u>LF NO</u>	<u>Am't</u>

G) Bills Receivable Book.

→ It consists of the details of the bills to be received on a sale on a particular date.

→ A trader draws bills on the debtor for the amount due from them, such bills drawn by the trader and duly accepted by the debtor are called bills receivable.

→ The amount on bills to be received is entered in

Bills Receivable book.

→ This book contains the details of the bill date, acceptor's name, amount, term, place of payment etc.

F) Bills Payable Book.

→ A business organisation accepts the bills to the creditors, like whole sellers or manufacturers for the purchase of goods on credit. Such bills drawn by

creditor and accepted by traders are called bills payable

and they are recorded in a separate book called

Bills payable Book.

→ It has the details of the bills to be paid.

8) Journal Proper

→ In Journal Proper, all those transactions which cannot be recorded in the other seven subsidiary books, are recorded.

→ The ruling/rules of Journal Proper is similar to the ordinary Journal.

→ The examples of entries of Journal Proper are, opening entries, closing entries, Adjustment entries, Transfer entries, entries of error rectification, etc.

5) Cash Book

All transactions relating to cash receipts and cash payments are recorded. All the receipts of cash are entered on the debit side and the payments of cash are entered on the credit side.

As Cash is a real account, principle for real account is applied i.e., Debit what comes in

credit what goes out

Various Kinds of Cash Book

(Single Column Cash Book)

There are different kinds of cash books maintained by the organisations, business depending on the need, size of business. They are as follows:-

- 1) Simple Cash Book
- 2) Double Column Cash Book
- 3) Triple Column Cash Book
- 4) Petty Cash Book.

Simple Cash Book

⇒ In single column cash book all cash transactions of the business are recorded in a chronological order.

⇒ This ^{cash} book contains only one amount column on each side (Debit side and credit side)

⇒ Cash receipts are to be debited and cash payments are to be credited.

FORMAT

SINGLE COLUMN CASH BOOK

Date	Particulars	LA No	Amount	Date	Particulars	CR No	Amount

Problems [Text Book]

2) Double column Cash Book

→ In this cash book, there are two columns of amount on each side of the cash book. One is for cash / Bank and other is for discount.

→ In fact this cash book is an extension of simple cash book

→ In double column cash book, an additional column is provided for discount.

→ on the 'Debit' side discount allowed column and on the credit side discount received column is provided along with cash column.

→ This cash book is also called as 'two column cash book'

3) Triple column Cash Book

The cash book which contains 3 columns for amount on both the sides in addition to the Date, Particulars and

LC column is called as 'Triple column cash book' or 'Cash book with cash, Bank and Discount columns'

It contains three columns for amount on both

Debit and Credit side

The main three columns, in which the amounts to be recorded are:-

- 1) Cash column
- 2) Bank column
- 3) Discount column

4) Petty Cash Book

The cash book which is maintained to record all small (petty) expenses in a column form is called as petty cash book.

In every organisation a large number of small (petty) payments such as postage, cartage, telegram, travelling expenses, stationery and other expenses are incurred. To record all such payments of repetitive nature, a separate ^{cash} book is prepared which is called petty cash book.

Under this method, a definite sum (amount) is given to the petty cashier at the beginning of a certain period as an advance. This amount is called as 'Imprest Amount' _{Advance}

The petty cashier goes on making small ~~expenses~~ payments out of this imprest amount and get reimbursement from the head cashier to the extent of the amount spent by him.

Prblm :- Rent Book

TRIAL BALANCE

All the businessmen after completion of postings from Journal or subsidiary books to the ledgers need to verify accuracy of such posting. For this purpose, a statement is prepared where the balances of all the accounts in the ledgers are incorporated. The statement so prepared is called 'TRIAL BALANCE'.

"Trial Balance is a statement, prepared with the debit and credit balances of ledger accounts to test the arithmetical accuracy of the books." — J.R. Batliboi.

PROFORMA

TRIAL BALANCE OF ---- as on ----

Sl No	Particulars	LF	Debit Balance (Amount)	Credit Balance (Amount)

"KEYPOINTS" While preparing Trial Balance

- 1) Draw the proforma of trial balance with the title
- 2) We need not use the words 'to' or 'by'

- 8) Show All ^{types of} Assets in Debit column
- 9) show All types of Liabilities in Credit column
- 10) show all types of Incomes in Credit column
- 11) show all types of expenses in Debit column
- 12) show reserves & surpluses | Reserve funds) provisions in Credit column
 ex: provision for doubtful debts
 General reserve
 Reserve fund etc
- 13) show Intangible Asset is Debit side ex:- Goodwill, patents, Royalties.
- 14) show purchases and Sales returns in Debit column
- 15) show Sales and purchase returns in Credit column.

⇒ Sometimes, inspite of Best efforts of an accountant, all the errors are not located and the trial balance does not tally. In such a situation, to avoid delay in the preparation of final accounts, difference in the trial balance is placed to a newly opened account known as 'Suspense Account'

[Problems - Refer Text book]