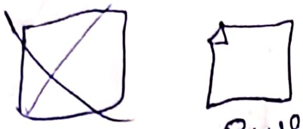
Co

Accounting

Introduction to Accounting.

Suppose a person 'A' Started Bussiness.



Bussiness.

~~Transactions~~

what is accounting to him.

Process

1. Identification of financial transactions & events.

Transactions

① 'A' Purchased goods for Business ✓

② 'A' Paid his house electricity bill ✗

First you hv to identify, what is Bussiness Transaction.

2. ~~After Ide~~ Measuring the identified transaction

$\boxed{3}$ goods → Money value ??

3. Recording

3 goods purchased → Money Rs. 10,000

I M

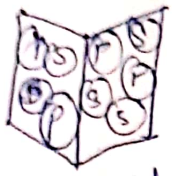
→ Journal

I → M → R

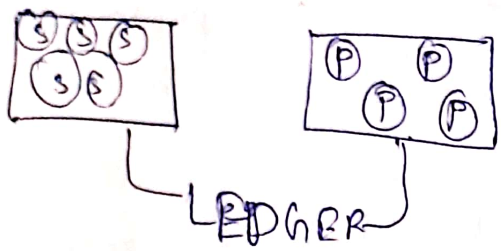
Recording is always done in Journal.

4. Classifying

goods (Purchase) (P) (P) (P) (P)
goods (Sale) (S) (S) (S) (S)



Classify

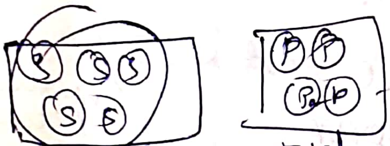


Revising (4) Steps

(I) → (M) → (R) → (C)

(5). Summarising

After Reading chapter, we will make summary,



Total Sales = Rs. 60,000

Total Purchases = Rs. 80,000

This process is called Summary.

In this summarising, we will do 3 things.

- Trial ~~ba~~ balance
- Profit & loss A/c
- Balance sheet

(I) → (M) → (R) → (C) → (S)

(6) Analysis and Interpretation

Total Sales - 60,000
Total purchases - 30,000

After analysis of all figures, Interpretation will be done,

Profit or loss??

(7) Communicating to users.

Result ✓ Profit / loss → ~~of~~ information will be communicated to ~~the general public~~ different users.

users < Internal users / External users,

Results will be communicated to users.

Business Transactions → Monetary value → Journal → Ledger → Chartered Accountant

★ (I) → (M) → (R) → (C) → (S) → (A) →

- T.B
- P&L A/c
- B/s

Result

Process of Accounting / characteristics of Attributes.

IMRC SAC - Numeric Code

A/c to the American Institute of certified Public accountants, "Accounting is the art of recording, classifying & summarising in a significant manner in terms of money transactions & events which are in part of financial character & interpreting the results thereof.".

Objectives of Accounting:

1. To maintain accounting records.
2. To calculate the result of operations.
3. To ascertain the financial position of business.
4. To communicate the information to the users.

→ Maintaining of records of business
→ Calculation of Profit & loss
→ Depiction of financial Position
→ Providing A/c ing information to its users

Advantages:

1. Permanent & reliable record
2. Net result of business operations
3. Facility of comparative study.
4. Ascertainment of financial position.
5. Control over Assets

Accounting concepts.

1. Business entity
2. Dual aspect
3. Going Concern
4. Money Measurement [Receipt of income, Payment of expenses, Purchase & Sale of assets etc.,] Machinery breakdown is not recorded, Repair of machinery is recorded)
5. Cost concept → An asset price recorded in the books to acquire it]
6. Accounting period concept → 12 Mths, A/c books closed at the end of every year, March or Dec
7. Accrual Concept
8. Matching Concept
9. Realisation Concept.

Accounting Conventions

1. Convention of Disclosure
2. Convention of Materiality
3. Convention of Consistency; and [If the organisation follows every year same a/c method then it can compare the consistency [illegible]
4. Convention of Conservatism.

Double entry Bookkeeping System:

Every business transaction has a 2 fold effect & that it effects 2 accounts in opposite direction & if a complete record was to be named of each such transaction, it would be necessarily to debit 1 & credit 1.

Types of Accounts (Classification of Accounts)

Types of Accounts

- Personal A/c
  - → Name of Persons
  - → Organisations
  - → Banks
  - → Capital
  - → Drawings
- Impersonal A/c
  - Real A/c
    - → Assets
    - → Cash
    - Tangible Assets (can be touched) (Seen)
      - ex: Land, Building, Plant & Machinery, Furniture, Fixtures
    - Intangible Assets (can't be touched but can be measured) (Seen)
      - Goodwill
      - Patent
      - Copyrights
      - Trademarks
    - – All Assets
    - – Goods
    - – Cash
  - Nominal A/c
    - → Expenses & Incomes
    - ex Rent and Int Rec
    - – All expenses & losses
    - – All Incomes & gains

Golden Rules of Accounting

Personal Account

- Debit the Receiver
- Credit the giver.

Real Account

- Debit what comes in
- Credit what goes out.

Nominal Account

- Debit all expenses & losses
- Credit all Incomes & gains.

eg:- (1) Cash Paid to Akhil
Cr Dr
R P

(2) Paid Stationary expenses
Nominal A/c Real A/c Nominal A/c

(3) Paid Salaries Cash
N - Dr R - Cr

(4) Purchased Machinery from Akhil
N - Dr R - Dr P - Cr.

Steps to Prepare a Journal Entry

1. Identify the accounts involved in the transaction
2. Determine the type of accounts involved.
3. Apply appropriate rules of accounting
4. Record the transaction along with narration of a short description.

Steps of Journal entries

1. Identify the 2 accounts
2. The identified accounts should be classified as to Real A/c or Personal A/c or Nominal A/c.
3. Find out the rules of debit & credit.
4. Identify which accounts is to be debited & which a/c's is to be ~~debit~~ credited.
5. Record the transaction along with narration or a short description.

ex.

1. Purchased machinery for Rs. 5000 in cash.

   Mac A/c ~~Dr~~ – Real A/c – Comes in – Dr.

   cash A/c – Real A/c – Goes out – Cr.

2. Sold goods of Rs. ~~2~~000 on cash.

   Sales A/c – Real A/c – Goes out – Cr.

   Cash A/c – Real A/c. – Comes in – Dr

Q. What is Journal?

Ans ~~A Journal is a~~ Every organization uses different types of books for recording their financial transactions. Journal is a book which records day to day transactions of a Business organization.

Journal is the Primary book of keeping accounts. The book wherein the transactions are recorded in a chronological order of dates after determining the debit account and credit account of transactions with narration is called Journal. The process of recording the transactions in Journal is called "Journalizing". It is known as "Book of original Entry".

The objectives of Journal are as follows:

→ To keep a Systematic record of a financial transaction.

→ To Show financial transactions in chronological order.

→ To acquire complete Information about the financial transactions.

→ To use a legal evidence of a financial transaction.

→ To facilitate the Preparation of a Ledger Book.

1. Journalize the following in the books of Mr. Satyanath.

Date		Rs.
April 01	Started business with cash	Rs. 50,000
02	Purchased goods for cash	Rs. 25,000
04	Sold goods on credit to Mr. Raghu	Rs. 35,000
06	Purchased goods for credit from Mr. Kamal (a supplier)	Rs. 8,000
08	Mr. Raghu returned goods worth	Rs. 5,000
10.	Sold goods for cash	Rs. 20,000
15	Goods returned to Mr. Kamal	Rs. 2,000
21	Srivasta paid cash	Rs. 5,000
23.	Govinda paid by cheque	Rs. 1,500
26.	Deposited into bank	Rs. 10,000
28.	Received commission	Rs. 500
29	Rent paid	Rs. 2,000
30	Furniture purchased for cash	Rs. 10,000
30	Salaries paid	Rs. 30,000

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Date	Particulars	L.F	Debit Amt Rs.	Credit Amt Rs.
April 01	Cash A/c Dr.--		50,000	
	To capital A/c			50,000
	[Being Business started with capital]			
02	Purchases A/c Dr.-		25,000	
	To Cash A/c			25,000
	[Being goods purchased]			
04	Mr. Raghu A/c Dr.--		35,000	
	To Sales A/c			35,000
	[Being goods sold on credit]			
06	Purchases A/c Dr.--		8,000	
	To Mr. Kamal A/c			8,000
	[Being goods Purchased on credit]			
08	Sales Returns A/c Dr.--		5,000	
	To Mr Raghu A/c			5,000
	[Being Sales Returns from Raghu]			
10	Cash A/c Dr.--		20,000	
	To Sales A/c			20,000
	[Being goods sold]			
15	Kamal A/c Dr.--		2,000	
	To Purchase Returns A/c			2,000
	[Being Purchase Returns of Kamal]			

21	Cash A/c Dr.-- To Srivasta A/c [Being cash received from Srivasta]	5,000	5,000
22	Bank A/c Dr.-- To Govinda A/c (Being cheque received from Govinda)	1,500	1,500
26	Bank A/c Dr.-- To Cash A/c (Being cash deposited into Bank)	10,000	10,000
28	Cash A/c Dr.-- To Commission A/c [Being Commission received]	500	500
29	Rent A/c Dr.-- To cash A/c (Being Rent Paid)	2,000	2,000
31.	Furniture A/c ~~Purchased for~~ To cash A/c (Being Furniture Purchased)	10,000	10,000
31	Salaries A/c Dr.-- To cash A/c [Being salaries Paid]	30,000	30,000

07	To Bank A/c (Being cash withdrawn from Bank)		12,...
08	Purchases goods A/c Dr – To Rahul A/c (Being goods purchased from Rahul)	20,000	20,000
09	Cash A/c Dr – To Commission A/c (Being commission rec.)	1,500	1,500
10	Cash A/c Dr – To Sales A/c (Being goods sold to Anil)	10,000	10,000

LEDGER

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

Ledger is a book with various accounts (Real, Personal & Nominal A/c's) and each account is shown on a separate page, that gives the details of the different transactions and its summary. Ledger is a book of account containing a classified summary of every transaction recorded in journal.

According to L.C. Cropper 'the book which contains a classified and permanent record of all the transactions of a business is called the Ledger.

Advantages of Ledger

-> Complete information at a glance
-> Arithmetical Accuracy
-> Result of Business operations.
-> Accounting information

Format:

Name of Account

Dr							Cr.
Date	Particulars	J.F	Amt Rs	Date	Particulars	J.F	Amt Rs
Year month Date	To (Name of Credit Account in Journal)			Year month Date	By (Name of Debit Account in Journal)		

J.F - Journal Folio

★ The page number of the Journal or Subsidiary Book from where that particular entry is transferred is entered in the Journal Folio (J.F) column.

Rules regarding Posting Ledger Account

1. Opening of separate account
2. Posting journal entry to the concerned side.
3. Use of words "To" & "By" balance.
4. Balancing an account, Balancing is the process of finding the difference between the total debit & credit of an account.
5. When posting is done many accounts have entries on debit & credit side. &
6. The net results of such debits & credits in an account is the balance &
7. By balancing we write the highest amount of ~~total~~ or debit & credit on both sides & ~~among~~ ~~of~~ ~~those~~ b/w the 2 we write the difference ~~ledger~~ lesser amt side (Smaller side). So, that columns in total of both sides become equal.
8. Debit balance - The excess of debit on credit total.
9. Credit balance - The excess of credit on debit total.

Subsidiary books or Sub-division of Journal & Types

In a small business, all transactions relat to purchase, sales, cash etc. are recorded in journal. In case of larger business organisat ~~the journal is subdivided in to 8 catego as given below.~~

1. Purchase Book
2. Purchase Returns Book
3. Sales Book
4. Sales Returns Book
5. Cash Book
6. Bills Receivable book.
7. Bills Payable book
8. Journal Proper

where the transactions are large in number, it is difficult to record all transactions in one book. There is a need to subdivide journal into Special Journals. Each journal is meant for recording the transactions of separate category. These Special journals are called 'Subsidiary Books' or 'Day Books'.

The journal is subdivided into 8 categories as given ~~below~~ above.

~~the Journal is as given below~~

* Purchase book:- the transactions of Credit Purchases are recorded in Purchase book. Purchase of assets & Cash Purchases are not recorded in Purchase book.

~~Format~~
Proforma of Purchase book

Date	Particulars	Inward Invoice No.	L.F. No.	Amt Rs

1) Prepare Purchases book from the following transactions!

		Rs
2013 Jan 2nd	Goods bought from Rama	5,000
5th	Purchased goods from Mohan (Trade discount 10%)	10,000
10th	Bought 10 boxes of goods @Rs.600 each from Ashok	
15th	Purchase of furniture from Murali	8,000
20th	Cash Purchases	5,000

Purchases Book

Date	Particulars	Inward Invoice No	L.F No	Amt Rs
2013 Jan 2	Rama	1		5,000
5.	Mohan (10,000×10%) (10,000−1000)	2		9,000
10	Ashok (600×10)	3		6,000
				20,000

~~Purchase Returns Book~~

(2) Sales Book -

In this book, Sale of goods on Credit are recorded. Cash Sale of good and Sale of assets are not to be recorded. Sales book is also called as 'Sales Day book or Sales Journal'. the Source document to record entries in this book, is Outward Invoice.

Format of Sales Book

Date	Particulars	Outward Invoice No.	L.F No.	Amt Rs

10) Enter the following transactions in the Sales Book:

2013
April 01. Sold goods to Suresh on Credit Rs. 6,500

04. Cash Sales Rs 4,000
07. Good Sold to Mahesh Rs 2,500
10. Sold old machinery to Sathish Rs 1,600
12. Sold 50 Boxes of goods @ Rs 100/- each to Ganesh
15. Sold goods to Naresh (Trade discount 10%) 3,000

Sales Book

Date	Particulars	Outward Invoice No.	L.F No	Amt Rs
2012 Apr 01.	Suresh	1		6,500
07	Mahesh	2		2,500
12	Ganesh	3		5,000
	Naresh (3,000×10%) = 3000 −300			2,700
	Total			16,700

(3) Purchase Return 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:

Date	Particulars	Debit Note No.	L.F No	Amt Rs

10) Record the following transactions in Purchase returns book

2013
Mar 01. Goods returned to Raghu Rs. 300
08. Returned good to Kiran Rs. 200
13. Good returned to Dinesh Rs. 100

Sol

Purchase Returns Book

Date	Particulars	Debit Note No.	LF No	Amt Rs
2013				
Mar 01.	Raghu	1		300
08.	Kiran	2		200
13.	Dinesh	3		100
	Total			600

Sales Returns Book :- this book is used to record the return of goods by the customers. As the goods are coming in to the firm, this book is also called as 'Returns Inward Book'.

Format:

Sales Return Book

Date	Particulars	Credit Note No	LF No	Amount Rs

10) Prepare Sales Returns Book from the following:

2012		Rs
Apr 04.	Goods returned by Mukesh	200
10.	Suresh returned goods	500

Sol. Sales Returns Book

Date	Particulars	Credit Note No.	L.F. No.	Amt Rs.
2012				
Apr 04.	Mukesh	1		200
10.	Suresh	2		500
	Total			1300

(5) Bills Receivable Book - It consists of the details of the bills to be received on a sale for a particular date. A trader draws bills on debtors for the amount due from them. Such bills which are accepted by the debtors are called Bills Receivable.

This book consists the details of the bill, date, acceptors name, amount, term & place of payment.

(6) Bills Payable book - A business organisation accepts the bills from creditors like whole-salers or manufacturers for the purch

of goods on Credit. Such bills drawn by the Creditor & accepted by trader are called bills Payable. They are recorded in a separate book called bills Payable book. It has details of the bills to be ~~to~~ paid.

(7) Journal Proper Book:- In Journal Proper, all the transactions which cannot be recorded in the other 7 Subsidiary books are recorded. The rules of Journal Proper are similar to the rules ~~of~~ of ordinary Journal. It includes the opening entries, closing entries, ~~of~~ adjustment entries (or) transfer entries.

(8) ~~At~~ Cash Book:- All transactions related to cash receipts & cash Payments are recorded in this book. All the receipts are entered on debit side & all Payments are entered on Credit side. As cash is the real account, we debit what comes in (receipts) & we Credit what goes out (Payments).