



SYLLABUS

Class–BBA I Year

Subject–Financial Accounting (Core)

Units	Content of Course
Unit 1	Accounting and its place in business and relationship with other financial areas, Double Entry System shop/business must be having in its books of account, Book Keeping, Cost Accounting and Management Accounting.
Unit 2	Type of books of accounts and their preparation Journal, Ledger, Trial balance and Computerized Accounting software (Cloud books, Wave and Tally).
Unit 3	Preparation of Final Account: Trading Account, Profit & Loss Account, Balance Sheet.
Unit 4	Bank Reconciliation Statement, Royalty Accounts.
Unit 5	Branch Accounts, Depreciation Accounting – Fixed Installment Method and Written Down Value Method.



Unit I

Introduction to Accounting

Definition of Accounting

Accounting is the process of **recording, classifying, summarizing, and interpreting** financial transactions to provide stakeholders with relevant financial information for decision-making.

Accounting serves as the **language of business**, providing critical information that underpins virtually every financial decision. Its interrelationship with areas like finance, costing, auditing, and taxation makes it an **indispensable tool** in the management and operation of any organization.

From the above definition, it can be said that Accounting is both Art as well as science:

“Accounting is science of recording and classifying trading transaction of financial nature and is an art in which financial results are summarized and interpreted.”

Characteristics of Accounting

- Accounting is science as well as an art.
- Accounting rearranges the figure of book keeping in accordance with final accounts.
- Accounting is historical in nature as it records past event.
- Accounting records only monetary transaction.
- Accounting provides factual and interpretative information about the transactions.

Objectives of Accounting

- Recording transactions systematically:
- Determining profit or loss through the income statement.
- Determining financial position via the balance sheet.
- Providing financial information to users (management, investors, creditors, etc.)
- Complying with legal requirements.

Explanation of objectives:

1. **To Maintain a Systematic Record** Accounting is done to maintain a systematic record of the monetary transactions of the firm which is the initial step leading to the creation of the financial



2. To Ascertain the Performance of the Business: The income statemental so known as the profit and loss account is prepared to reflect the profits earned or losses incurred. All the expenses incurred in the course of conducting the business are aggregated and deducted from the total revenues to arrive at the profit earned or loss suffered during the relevant period.

3. To Protect the properties of the Business : The information about the assets and liabilities with the help of accountancy, provides control over the resources of the firm, because accounting gives information about how much the business has to pay to others ? And how much the business has to recover from others?

4. To Facilitate Financial Reporting Accounting is the pre cursor to finance reporting. The vitalliquidity/solvency position is comprehended through the Cash and Funds Flow Statement elucidating the capital transactions.

5. To Facilitate Decision making : Accounting facilitates in decision making. The American Accounting Association has explained this while defining the term accounting, it says accounting is, the process of identifying measuring and communicating economic information to permit informed judgments and decisions by users of the information.

Branches of Accounting

1. **Financial Accounting** – Focuses on the preparation of financial statements.
2. **Management Accounting** – Assists management in planning and decision-making.
3. **Cost Accounting** – Helps in controlling and reducing business costs.
4. **Tax Accounting** – Deals with tax planning and compliance.
5. **Auditing** – Ensures accuracy and fairness of financial records.
6. **Forensic Accounting** – Used in legal matters, fraud detection, and investigations.

Accounting As Science and Art

Accounting is both a science and an art. Science as well we know is the systematical body of knowledge establishing relationship between causes and their effects. In other words, science has its own concepts, assumptions and principles which are universal and verifiable. Accounting as discipline has also its own assumptions, concepts and principles, which have got universal application. Accounts have systematically and scientifically developed accounting equation and rules of debit and credit. It makes accounting Science.

Art is the practical application of the knowledge. Accounting as discipline is used in the maintenance of books of accounts practically in the real life situations and day-to day affairs of the business, so it is an art also. It can now be safely concluded that Accounting is both science and an art.



Users of Accounting Information

A. Internal Users

- **Management:** Strategic planning and operational control.
- **Employees:** Job security, performance incentives.

B. External Users

- **Investors:** To assess profitability and risk.
- **Creditors:** To evaluate creditworthiness.

S.N	Basis of Difference	Book-Keeping	Accounting
1	Transaction	Trading transactions are recorded in	Entries written in primary books
2	Posting	Entries are posted in ledger from journal and subsidiary books	Posting are checked whether correctly posted or not.
3	Total and Balance	It includes totaling of journal and finding of balances of ledger.	On the basis of balances of ledger final accounts are
4	Objects	The object of Book-keeping is to write all trading transactions in a Reasonable manner.	The object of accounting is to analyse the transactions in the books.
5	Adjustments and Rectification of Errors	In Book-keeping entries of adjustments and rectification of errors are not included.	Accounting includes entries of adjustments and rectification of errors.
6	Scope	Scope of Book-keeping is narrow.	Scope of Accounting is wide.
7	Final Accounts	Final Account is not prepared in Book-Keeping.	Final account preparation is must.

- **Government:** For taxation and compliance.
- **Public:** For CSR and environmental impacts.
- **Regulatory Authorities:** Ensure fair practices.

Difference between book keeping and Accounting

Introduction to Bookkeeping

Definition:

Bookkeeping is the systematic recording of daily business financial transactions in a chronological manner.



Objective:

- To maintain accurate financial records.
- To keep track of all incomes and expenses.
- To provide a basis for preparing accounts.

Difference between Financial Accounting and Cost accounting:

Comparison Points	Cost Accounting	Financial Accounting
Definition	Cost accounting seems to be an accounting method that allows a firm to keep a record of the many expenses involved in its manufacturing activities.	Financial accounting seems to be an accounting process that gathers recordings of a corporation's economic data in order to illustrate the company's correct financial situation at a given point in time.
The cost type has been utilized for recording	Costs are both historical and predetermined.	There is just the historical cost.
Mandatory	Except for industrial enterprises, it is not required.	Financial accounting has been required for all businesses.
Type of information	Cost accounting is the process of recording the labour, material, plus overhead information utilised in the manufacturing process.	Financial accounting records information within monetary terms.
Users	Cost accounting data is exclusively utilised by the company's inner management, which includes directors, workers, supervisors, managers, and so on.	Customers, lenders, stockholders, and other external parties utilise financial accounting data.
Valuation of Stock	At a cost	Net realised value or price, whichever is lower.
Forecasting	In terms of cost accounting. Prediction is feasible with the use of budgeting strategies.	Forecasting is indeed not feasible within financial accounting.
Purpose	The goal of cost accounting would be to regulate and reduce expenses.	Financial accounting's objective is to preserve a complete record of all financial activities.
Profit Assessment	Usually, within cost accounting, net profit is calculated for a certain task, batch, product, procedure, etc.	Financial accounting analyses spending, profit, and revenue for a certain time of the complete unit at the same time.

Accounting Concepts

Meaning and Significance: - Accounting concepts are those basic assumptions or conditions upon which the accounting system is based. Some of the important accounting concepts are as follows :



1) **Business Entity Concept:** As per this concept, business is treated as a separate entity or unit distinct from that of the proprietor. The significance of this concept is that without such a distinction the affairs of the business will be mixed up with the private affairs of the proprietor and the true picture of the business will not be available. The transactions between the proprietor and the business will be recorded in the business books separately and shown separately under the heading capital account. For example, if when the proprietor invests Rs. 50000 in this business, it will be assumed that the owner has given that much money to the business and will be shown as a liability for the business. When he withdraws, say Rs. 10000 from the business it will be charged to his capital account and the net amount due to him will be only Rs. 40000.

2) **Going Concern Concept:** As per this concept it is assumed that a business unit has a perpetual succession or continued existence and transactions are recorded from this point of view. Hence, while valuing the business assets, the accountant does not take into account the realizable or market values of

the assets. Assets are valued at cost at which they were originally purchased less depreciations till date, which is calculated on the basis of the original cost only.

The concept presumes that the business will continue in operation long enough to charge the cost of fixed assets over their useful life against the business income. It is only on the basis of this concept that a distinction is made between capital expenditure and revenue expenditure. If it is expected that the business will exist only for a limited period, the accounting records will be kept accordingly.

3) **Dual Aspect Concept:** Each business transaction has two aspects, i.e., the receiving of a benefit [debit] and giving of a benefit [credit]. For example, if a business purchases furniture, it must have given up cash or have incurred an obligation to pay for it in future. Technically speaking, for every debit, there is a credit this concept is the core of accountancy and upon this the whole superstructure of Double entry system of book keeping has been raised. As each transaction has giving account and receiving account equally, the total assets of a business firm will always be equal to its total equities [i.e. liabilities]. That is

$$\text{External liabilities} + \text{Capital} = \text{Total Assets} \quad \text{Total Liabilities} = \text{Total Assets}$$

This is called the Accounting or Balance Sheet equation.



- 4) **Historical Cost Concept:** This concept is based on the going concern concept. According to this concept, assets purchased are normally entered in the accounting books at the cost at which they are purchased and this cost is the basis for all subsequent accounting for asset. The market value is immaterial for accounting purposes since the business is not going to be liquidated but is to be continued for a long time to come. This concept also prevents arbitrary values being used for recording purposes, mainly those resulting in the acquisition of assets.
- 5) **Money Measurement Concept:** According to this concept, accounting records only those transactions, which can be expressed in terms of money. Events or transactions, which cannot be expressed in terms of money cannot find place in the books, however important they may be. Qualitative or non monetary transactions are either omitted or recorded separately. For example a strained relationship between production manager and sales manager, which may affect directly the operating results of the business, does not find place in accounting records.
- 6) **Realization Concept :** According to this concept, the revenue is recognized only when the sale is made. But the sale is a gradual process, which starts with the purchase of raw materials for production and ends with the sale. If no sale is effected, no revenue is recognized. This is important to stop business firms from inflating their profits. However, there are certain exceptions to this concept like hire purchase sale, or contract etc.
- 7) **Accrual Concept:** This concept is based on the economic that all transactions are settled in cash but even if cash settlement has not yet taken place, it is proper to bring the transaction or event concerned into the books. Expenditure incurred during the year but not paid and Income earned but not received is called as accrued items. According to this concept these items will be taken into consideration while arriving at profit or loss. This concept enables to define income and expense.
- 8) **Matching Concept:** The matching concept provides the guidelines as to how the expense be matched with revenues. In other words, costs are reported as expenses in the period in which the associated revenue is reported. Note that costs are matched with, revenues, not the other way round. The expense shown in an income statement must refer to the same accounting period, production units, division or department of business unit to which revenue refers.
- 9) **Accounting Period concept:** - It is also known as periodicity concepts or time period assumption. According to this assumption, the economic life of an enterprise is artificially split into periodic intervals which are known as accounting periods, at the end of which financial position. The use of this assumption further requires the allocation of expenses between capital and revenue. That portion of capital expenditure which is consumed during the current period



is charged as an expense to income statement and the unconsumed portion is shown in the balance sheet as an asset for future consumption. Truly speaking, measurements since, actual income can be determined only on the liquidation of the enterprise. It may be noted that the custom of using a twelve-month period applied only for external reporting. For internal reporting, accounts can be prepared even for shorter periods, say monthly, quarterly or half yearly.

10) **Verifiable Objective Concept**:- according to this principle, the accounting data should be definite, verifiable and free from personal bias of the accountant. In other words, this principle requires that each recorded transaction/event in the books of accounts should have an adequate evidence to support it. In historical cost

accounting, the accounting data are verifiable since the transactions are recorded on the basis of source documents such as vouchers, receipts, cash memos, invoices, and the like. The supporting documents form the basis for their verification by auditors afterwards.

Accounting Conventions

Meaning and Significance :- Accounting conventions, are those customs, usage and traditions that are being followed by the accountant for a long time while preparing the accounting statements.

1) **Convention of Conservatism**: According to this convention, financial statements are usually drawn up on a conservative basis. While preparing accounts and statements, the accountants are expected not to take into account anticipated profits but to provide for all possible anticipated losses. It is only on the basis of this convention, the inventory is valued at cost or market price whichever is lower. Similarly provision for bad and doubtful debts is made in the books before ascertaining profits.

2) **Convention of Consistency**: According to this convention, accounting practices should remain unchanged for a fairly long time. And they should not be changed unless it becomes absolutely essential to change them. For example, if a particular method of charging depreciation on a particular asset is followed, it should be followed consistently. However, consistency does not prevent the introduction of new improved accounting methods or techniques. If any change is required, such change and its effects should be stated clearly. The aim of this convention is to provide for continuity in accounting practices and methods and



enable meaningful comparison of accounting statements over a period or between different firms.

3) **Convention of Material Disclosure:** Apart from the legal requirements, good accounting practice demands that all vital information should be disclosed. For example, in addition to asset values, the mode of valuation should also be disclosed. The practice of giving footnotes, references, and parentheses in the statements is in accordance with this convention only. Accountants should report only material information and ignore insignificant details while preparing the accounting statements. What is material depends upon the circumstances and the discretion of the accountant.

CONCEPT OF DOUBLE ENTRY SYSTEM

There are many systems of presenting business transactions in accounting books e.g., Mahajani system,

Cash system, Double entry system etc. The use of these systems depends upon the size and type of business and nature of transactions. But in modern business world, double entry system of book-keeping is more popular and widely used.

The focus of the double entry system is that every business transaction has two aspects, i.e., when we receive something, we give something else in return. This approach of writing both the aspects of the transactions is known as double entry system of accounting. Of the two accounts one account is given debit while the other is given credit with an equal amount. Thus, on any date the debits must be equal to the credits.

Evolution of Double Entry System:

The double entry system was originated in Italy in 15th century. First of all in 1494 Lucas Pacioli, the famous mathematician of Venice of Venice city of Italy wrote his first book "De Computis et Scripturis" and mentioned method of accounting in one of its parts. Emphasis was given on division and utility of waste book, Journal, Ledger etc. In 1543 Hugo Oldcastle translated it in English and after that many learned persons showed their views and gave it a new shape.

The following are the three distinct stages of a complete system of double entry:

a) Recording the transactions in the journal.

b) Classifying the transactions in the journal by posting them to the appropriate ledger accounts and then preparing a trial balance.



Merits of Double Entry System

1. Full description: Every financial transaction is recorded in two related accounts separately in which full particulars are given for each transaction.
2. Knowledge of some important information regarding business: In Double entry system, real and nominal accounts are also maintained together with personal accounts. The information about capital employed, assets and liabilities can be obtained easily.
3. Testing of Mathematical Accuracy: Under this system, each debit entry has a credit entry due to which arithmetical accuracy can be checked with the help of trial balance.
4. Less chances of fraud: Under this system, double entry of each transaction reduces the possibility of forgery and fraud. Fraud can be avoided and traced easily.
5. Information of Profit and Loss: under this system, profit and loss account is prepared at the end of the certain period to find profit and loss.
6. Knowledge of Economic Status: With the help of balance sheet, the economic and financial status of the business can be obtained easily.
7. Comparatively Study and useful results: Trading, profit and loss account and balance sheet of current year can be compared with trading, profit & loss account and balance sheet of previous year to obtain useful analysis and conclusions.

Demerits and Limitations of Double Entry System

1. It is difficult to follow the rules of debit and credit in this system.
2. Though this system is fully scientific even then there are chances of errors and mistakes.
3. It is necessary to follow the principles and even a small mistake may give erroneous results.
4. It is an expensive system for small traders.
5. In order to get full efficiency in the system, it is necessary to have education, training and practical knowledge of accounts.



Unit II

CLASSIFICATION OF ACCOUNTS

1) PERSONAL ACCOUNTS

a) Natural Personal Account : The term Natural persons means persons who are created by the almighty. For example : Shyam's Account, Gopals's Account etc.

b) Artificial Personal Account : These accounts include accounts of institutions or companies which are recognized as persons in business dealings. For example, the account of a Club, the account of an Insurance Company, Banking Company.

c) Representative Personal Account : These are accounts which represent a certain person or group of persons. For example, if the rent is due to the landlord, an account for the outstanding amount will be opened. Likewise for salaries due to the employees (not paid) an outstanding salaries account will be opened. The outstanding rent account represents the account of the landlord to whom the rent is to be paid while the outstanding salaries account represents the account of the person to whom the salaries have to be paid therefore such accounts are called as representative personal accountant.

2) REAL ACCOUNTS

a. Intangible Assets: These accounts represent things which cannot be touched. However, they can be measured in terms of money, for example goodwill account, patents accounts.

b. Tangible Accounts: Tangible accounts are those which relate to things which can be touched, felt, measured etc. Examples of such accounts are furniture account, stock account, building account etc.

3) Nominal Accounts:-

Accounts related to income and gain or expenditure and loss are known as Nominal Accounts, e.g. Rent A/c, Interest A/c, Salary A/c, discount A/c, etc.

Nominal Accounts are divided into two parts as:

i. Revenue Account:- Such as rent received, interest received, commission paid, salary paid, discount allowed, etc.



At the end of each financial year, the balances of nominal accounts are transferred to Trading A/c or Profit & Loss A/c

RULES OF DOUBLE ENTRY SYSTEM

The rules related to debit and credit of any account in double entry system are as under:

Personal accounts :- Debit the receiver, and credit the giver.

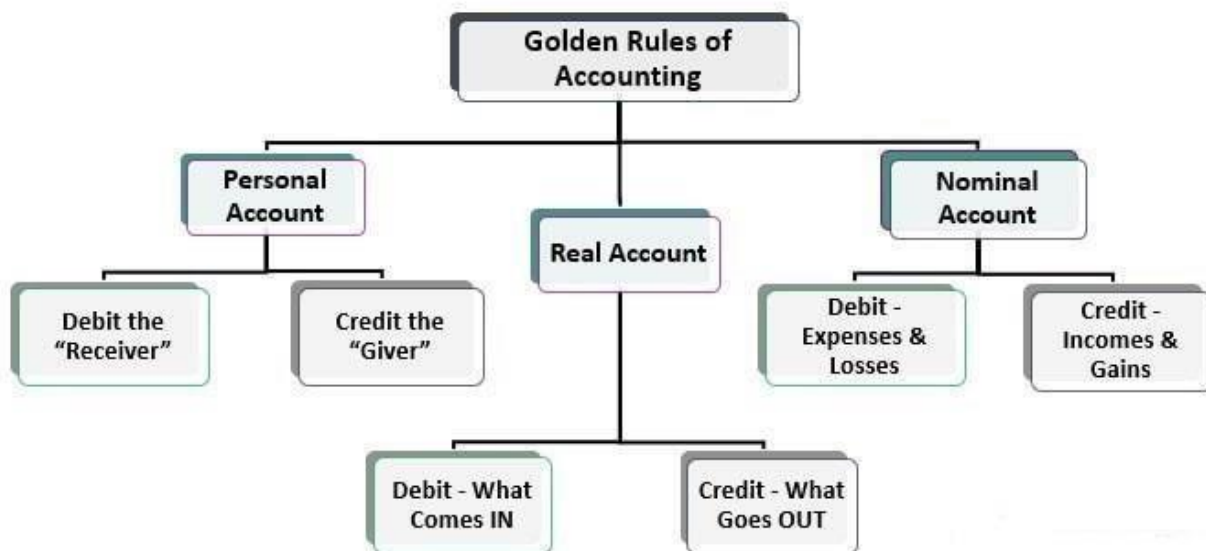
Real accounts :- Debit what comes in, and credit what goes out

Nominal accounts :- Debit all expenses and losses and credit all incomes and gains.

Capital and revenue

Flowchart of Golden rules of Accounts:

Accounting Rules





Classification of capital and revenue

The Going Concern Assumption allows the accountant to classify the expenditure and receipts as Capital expenditure, Revenue expenditure, Deferred Revenue expenditure, Capital Receipts, Revenue Receipts. The expenditure and receipts may be classified as follows:

Capital Expenditure: Capital Expenditure is that expenditure which is incurred (a) for acquiring or bringing into existence an asset or advantage of an enduring benefit or (b) for extending or improving a fixed asset or (c) for substantial replacement of an existing fixed asset. An asset or advantage of an enduring nature does not mean that it should last forever, it should not at the same time be so transitory and ephemeral that it can be terminated at any time. Basically, the capital expenditure is incurred with a view to bringing in improvement in productivity or earning capacity. The examples of capital expenditure include cost of land and building, plant and machinery, furniture and fixtures etc. Such expenditure normally yields benefits which extended beyond the current accounting period.

Revenue Expenditure: Revenue Expenditure is that expenditure which is incurred for maintaining productivity or earning capacity of a business. Such expenditure yields benefits in the current accounting period. The examples of revenue expenditure include Office and Administrative expenses such as Salaries, Rent, Insurance, Telephone Exp., Electricity Charges, etc. Selling and Distribution Expenses such as Advertising, Travelling expenses, Commission to Salesman, Sales Promotion Expenses etc. Non-operating expenses and losses such as interest on loan taken, loss by theft etc.

Deferred Revenue Expenditure: Deferred Revenue Expenditure is that expenditure which yields benefits which extend beyond a current accounting period, but to relatively a short period as compared to the period for which a capital expenditure is expected to yield benefits. Such expenditure should normally be written-off over a period of 3 to 5 years. The examples of such expenditure include heavy Advertising Campaign, Research and Development Expenditure.

Capital Receipts Vs Revenue Receipts There is no specific test to draw a clear cut demarcation between a capital receipt and a revenue receipt. In order to determine whether a receipt is capital or revenue in nature, one has to look into its true nature and substance over the form in the hands of its receipts. For example, sale proceeds of a land in the hands of a dealer in real estate is revenue receipt whereas the same in the hands of a dealer in cars is a capital receipt.



rendered in the normal course of business, revenue from permitting other to use the assets of the enterprise, such as interest, rent royalty.

Types of Books of Accounts

Books of accounts are classified into **two categories**:

A. Primary Books (Books of Original Entry)

These are used to record transactions **as they occur**.

Common Types:

1. **Journal (General Journal)** – Records all non-cash and adjusting transactions.
2. **Cash Book** – Records all cash and bank transactions.
3. **Purchase Book** – Records all credit purchases of goods.
4. **Sales Book** – Records all credit sales of goods.
5. **Purchase Returns Book** – Records return of goods to suppliers.
6. **Sales Returns Book** – Records return of goods by customers.
7. **Bills Receivable Book** – Records promissory notes and bills receivable.
8. **Bills Payable Book** – Records bills issued to creditors.

B. Secondary Books (Books of Final Entry)

Also known as Ledger Books, where transactions from the primary books are classified account-wise.

Journal

➤ Definition:

The **Journal** is the **book of original entry**, where transactions are recorded **in chronological order** with proper debit and credit accounts.

It is the fundamental book of account which is necessarily used by each organization whether it is a small or large institution. It can be known as foundation stone of accounting palace.

A journal may be defined as the book of original entry containing a chronological record of the transactions. The process of recording the transactions in a journal is called Journalizing.

L/F : Ledger folio



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Date	Particulars	L/F	Debit amount	Credit Amount
2009 July, 25	 A/c Dr To A/c (.....)			

Rules for Journal Entries (Golden Rules):

Type of account	Debit the.....	Credit the.....
Personal	Receiver	Giver
Real	What comes in	What goes out
Nominal	All expenses and losses	All incomes and gain

Example:

Transaction: 2009 July.25 Purchased goods for ₹10,000 cash

Journal Entry:

Date	Particulars	L/F	Debit amount	Credit Amount
2009 July, 25	Purchase A/c Dr, To Cash A/c (being goods purchased for cash)		10,000/-	10,000/-

Ledger

➤ **Definition:**

A **Ledger** is the principal book of accounts, where **all transactions are classified** under their respective account heads (e.g., cash, sales, capital).

Ledger is the principal book or final book under double entry system of accounting in which the transactions recorded in subsidiary books are classified in various accounts chronologically with a view to knowing the position of business account-wise in a particular period.

➤ **Features:**

- Final posting of journal entries.
- Helps in preparation of Trial Balance.
- One ledger account for each item.



Difference between journal and Ledger

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S. No.	Basic of Differences	Journal	Ledger
1	Nature of book	It is the book of first or original entry	It is the book of final entry
2	Record	It is the book for chronological record	It is the book of analytical record
3	Weight in legal evidence	It is the book of source entry and has a greater weight as legal evidence	It has a lesser weight as legal evidence as it is based on journal
4	Unit of classification of data	The unit of classification of data within the journal is transaction	The unit of classification of data within the ledger is account
5	Process of recording	The process of recording in the journal is called 'journaling'	The process of recording in the ledger is called 'posting'
6	Place	More than one transactions regarding one account are written at different places date-wise	More than one transaction regarding one account are written at one place

Posting

When the transactions entered in journal are recorded in the ledger, it is called posting. In other words, posting is the process of transferring the debits and credits of journal entries to the ledger account. The subject of such posting is to have a fixed classified record of various transactions pertaining to each account.

Balancing of ledger Accounts

Assets, liabilities and capital accounts have certain closing balance at the end of the accounting period, so their values are to be carried forward to the next accounting period. This is why they are closed as "By Balance b/d" or "To Balance c/d". The balance of those accounts is carried forward to the next accounting period, because the firm has to carry on its business with these assets, liabilities and capital in hand. While closing these accounts we write the 'Balance c/d' to show the closing balance of the account.

While closing nominal accounts or those accounts which are either an expense or revenue, we do not use the word balance c/d because the balance of these accounts need be carried forward to the next period. Whatever has been paid on account of expenses has been paid once and for all. This is the expense of the business, so it should be directly posted to the debit side of the profit and loss account or trading account. In the same way, accounts relating to income or gain or revenues are also closed by transfer to profit and loss account. Receipts i.e. rent, interest and discount are revenue of the business, so while closing these accounts their balance will be transferred to profit and loss account.



Format

Dr. Account name Cr.

Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount

➤ Posting Process:

- Identify the debit and credit accounts from the journal.
- Enter the debit in the respective account's debit side.
- Enter the credit in the respective account's credit side.

DISCOUNT

Types of Discount:-

1) **Trade discount:** is allowed at the time of purchase or sale of goods by one trader to another in order to promote sales. For example, a manufacturer may allow discount on sale goods to wholesaler or wholesaler may allow discount to a retailer. It is always allowed a certain percentage on sale price i.e., invoice price. The trade discount is not normally recorded in the books of account. In other words, only the net amount of purchase or sale i.e., invoice price minus trade discount is recorded in the journal.

2) **Cash discount:** is a discount allowed at the time of making payments or receipts of cash. It is allowed as a certain percentage of the amounts due. It is allowed to a debtor by a creditor in order to induce him to pay on time. As the cash discount is calculated on the amounts already recorded in the books, it is shown in the book. Cash discount allowed to a debtor is a loss and it should be debited to discount a/c. Cash discount received from a creditor is a gain and it should be credited to discount a/c.



DISTINCTIONS BETWEEN TRADE DISCOUNT AND CASH DISCOUNT

S.No.	Trade Discount	Cash Discount
1.	It is allowed at the time of making purchases or sales.	It is allowed at the time of making payments or receipts of cash.
2	It is calculated as a certain percentage on the invoice price of goods purchased or sold.	It is calculated as a certain percentage on the amounts due to creditors or amounts due from debtors.
3	It is not shown in the books of accounts. Only the net amount of purchase or sale is recorded in the books.	It is shown in the books: discount allowed as a debit entry and discount received as a credit entry.
4	It is allowed in order to promote more sales of purchases	It is allowed in order to encourage parties to make payments on time.

Cash Book

Meaning of Cash Book

Cash book may be defined as the record of transactions concerning cash receipts and cash payments. In other words, in the Cash Book, all transactions (i.e., receipts and payments of cash) are recorded as soon as they take place.

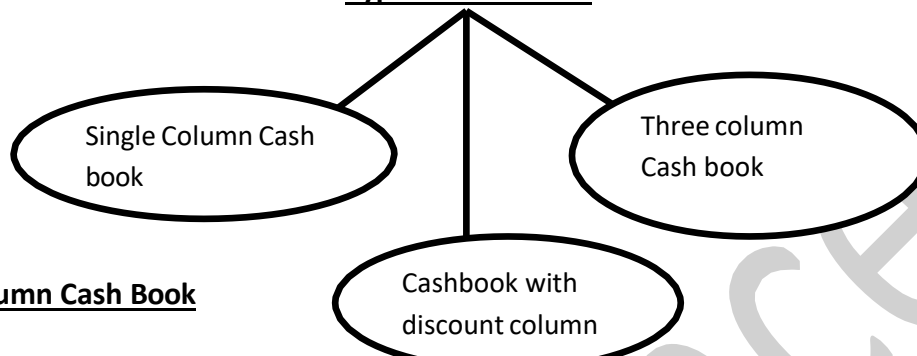
Cash Book is in the form of an account and actually it serves the purpose of a Cash Account also. It has two sides—debit and credit side. On the debit side, all receipts of cash are recorded while on the credit side, all the payments of cash are recorded. Items on the debit side of the cash book are posted on the credit side of the ledger accounts and items on the credit side are posted on the debit side of the ledger accounts.

Features of cash book:

- Only cash transactions are recorded in the cash book.
- It performs the functions of both journal and ledger at the same time.
- All cash receipts are recorded in the debit side and all cash payments are recorded in the credit side.



Types of Cash Book



1. Single column Cash Book

Single Column Book has one amount column on each side. All cash receipts are recorded on the debit side and all cash payments on the credit side. In fact, this book is nothing but a Cash Account. Hence, there is no need to open this account in the ledger.

Format of Single Column Cash Book:

Dr. Single Column Cash Book Cr.

Date	Particulars	L.F.	Amount Rs	Date	Particulars	L.F.	Amount Rs

2. Cash Book with Discount Column

Cash book with discount Column has two amount columns (one for cash and another for discount) on each side. All cash receipts and cash discount allowed are recorded on the debit side and all cash payments and cash discount received are recorded on the credit side.

Format of Cash Book with Discount Column:

Dr. Double Column Cash Book Cr.

Date	Particulars	L.F.	Dis.	Cash	Date	Particulars	L.F.	Dis.	Cash
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renaissance

college of commerce & management

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3. Three Column Cash Book

Three Column Book has three amount columns (one for cash, one for Bank, and one for Discount) on each side. All cash receipts, deposits into bank and discount allowed are recorded on debit side and all cash payments, withdrawals from bank and discount received are recorded on the credit side. In fact, a three-column cash book serves the purposes of Cash Account and Bank Account. Hence, there is no open these two accounts in the ledger.

Contra Entries

Format of Cash Book with Discount Column.

Dr.

Three Column Cash Book

Cr.

Date	Particulars	L.F.	Dis.	Cash Rs	Bank Rs	Date	Particulars	L.F.	Dis.	Cash Rs	Bank Rs

Petty Cash Book (Imprest System)

Petty Cash Book is the book which is used for the purposes of recording the payment of petty cash expenses.

Meaning of Petty Cashier

Petty Cashier is the person who is authorized to make payments of petty cash expenses and to record them in petty cash book.

Features of Petty Cash Book

1. The amount of cash received from the main cashier is recorded on the left hand side column.
2. The payments of petty cash expenses are recorded on the right hand side in the respective columns.



4. Its balance represents unspent petty cash in hand.

5. Recording is done on the basis of internal as well as external vouchers.

6. All the column of expenses are totaled periodically and such periodic totals are individually posted.

7. Petty Cash Book is both a book of original entry as well as a book of final entry.

Receipts				Payment								
Date	Particular	Cash Book Folio	Total Rs.	Date	Particular	Voucher No.	Postage Rs.	Conveyance Rs.	Cartage Rs.	Printing & Stationery Rs.	Miscellaneous Rs.	Total Rs.

Advantages of Petty Cash Book

1. Economy of time: The time of chief cashier is saved when petty expenses are recorded in petty cash book.

2. Saving of labour in posting: There is saving in labour in posting because:

- Limited number of accounts are opened for heads of petty expenses only,
- Periodical totals (say monthly) of each column of expenses are posted to the debit of the respective ledger accounts.

3. Lesser chance of mistakes: The chances of mistakes are reduced since the chief cashier regularly examines the petty cash book.

4. Control over petty expenses: Petty expenses are kept within the limits of imprest since the petty cashier can never spend more than the available petty cash.

5. Control over fraud: Misappropriation if any, is always kept within the limits of imprest.

6. Benefits of specialization: The benefits of specialization are available since recording of cash transactions is divided between main cash book and petty cash book.

Posting of Petty Cash Book in ledger



TRIAL BALANCE

Meaning

When all the accounts of a concern are balanced off they are put in a list, debit balances on one side and credit balances on the other side. The list so prepared is called trial balance. The total of the debit side of the trial balance must be equal to that of its credit side. This is based on the principle that in double entry system. For every debit there must be a corresponding credit. The preparation of a trial balance is an essential part of the process because if totals of both the sides are the same then it is proved that books are at least arithmetically correct.

A Trial Balance is a statement showing the balances of all ledger accounts on a particular date to test arithmetical accuracy.

➤ Objectives:

- To verify if **total debits = total credits**.
- To prepare **final accounts**.
- To locate errors in recording/posting.

➤ Main Characteristics and uses of a Trial Balance

Following are the main characteristics of a trial balance:

1. It is a statement prepared in a tabular form. It has two columns- one for debit balance and another for credit balances.
2. Closing balance, i.e., balance at the end of the period as shown by ledger accounts, are shown in the statement.
3. Trial balance is not an account. It is only a statement of balance.
4. It can be prepared on any date provided accounts are balanced.
5. It is a consolidated list of all ledger balances at the end of a period at one place.



6. It is a method of verifying the arithmetical accuracy of entries made in the ledger. The

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agreement of the trial balance means that the total of the debit column agrees with the total of the credit column of the trial balance.

Limitations of a Trial Balance

A trial balance is not a conclusive proof of the absolute accuracy of the accounts books. If the trial balance agrees, it does not mean that now there are absolutely no errors in books. Even if trial balance agrees, some errors may remain undetected and will not be disclosed by the trial balance. This is the limitation of a trial balance. The errors which are not disclosed by a trial balance are as under :

Errors of Omission: - If an entry has not been recorded in the original or subsidiary book at all, then both the aspects of the transaction will be omitted and the trial balance will not be affected.

1. **Error of Commission:** - Posting an item on the correct side but to the wrong account.

2. **Error in subsidiary books:** - Wrong amount entered in the subsidiary book.

3. **Compensating errors:** - These are errors arising from the excess-debits on under debits of accounts being neutralized by excess credit or under credit to the same extent of some other accounts.

4. **Error of principle:** - Whenever any amount is not properly allocated between capital and revenue or some double entry principles are violated the error so made is known as error of principle.

5. **Compensatory Errors:** - Under it, the errors on one side of the ledger account are compensated by errors of the same amounts on the other side or on the same side.

Methods of Preparation of Trial Balance–

1. **Total Method** – Under this method debit and credit total of each account of ledger are recorded in trial balance.

Trial Balance

(As on)

Title of Accounts	L.F.	Debit Total Rs.	Credit Total Rs.
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Total

2. Balance Method- Under this method only balance of each account of ledger is recorded in trial balance.

Trial Balance

(Ason)

Title of Accounts	L.F.	Debit Balance Rs.	Credit Balance Rs.
Total			

3. Total Cum Balance Method- This method is a combination of Total method and Balances method.

Trial Balance

(Ason)

Title of Accounts	L.F.	Debit Total Rs.	Credit Total Rs.	Debit Balance Rs.	Credit Balance Rs.
Total					

Computerized Accounting Software

Definition:



Computerized Accounting Software revolutionizes how businesses handle accounting by making the process faster, more reliable, and data-driven. It is a must-know concept for every business student and professional in today's digital world.

Objectives of Computerized Accounting

- To ensure speedy and accurate recording of transactions.
- To automate calculations and reduce errors.
- To generate financial reports and statements quickly.
- To ensure better data management and storage.
- To support decision-making using real-time data.

Components of Computerized Accounting System

- Input – Source documents (invoice, bills) entered into the system.
- Processing – Software processes entries based on defined rules.
- Storage – Data is stored in digital formats.
- Output – Reports such as journal, ledger, trial balance, balance sheet.

Manual vs. Computerized Accounting

Aspect	Manual Accounting	Computerized Accounting
Speed	Slow	Fast
Accuracy	Prone to errors	Highly accurate
Reports	Time-consuming	Instant
Backup	Manual copies needed	Automatic backups
Cost	Low upfront cost	High software investment