

**SYLLABUS**  
**Class - B.Com. I Year****Subject - FINANCIAL ACCOUNTING (Core)**

<b>UNIT-I</b>	Ancient Indian accounting system-merits and demerits, comparison with English system, nature of initial accounting books, Basics concepts and principles of double entry system, journal entries, ledger, subsidiary books, balance sheet, final account
<b>UNIT-II</b>	Accounting for Depreciation (According to Accounting Standard -6) Royalty Accounts
<b>UNIT-III</b>	Branch Accounts, Departmental Accounts
<b>UNIT-IV</b>	Accounting of Non-Profit Organization,, Investment Account
<b>UNIT-V</b>	Computerized Accounts by using any popular accounting software e.g. Tally creating a company, configure and features setting, creating accounting ledgers and groups, creating stock items and groups, vouchers entries generating report-cash book, ledger accounts, trial balance, profit and loss account and balance sheet



## UNIT-I

### Ancient Indian accounting system

The ancient Indian accounting system is a rich and intricate subject that dates back thousands of years. India's long history of trade, administration, and economic activity fostered the development of sophisticated financial and record-keeping practices well before similar systems evolved in the West.

### Origins and Historical Context

#### 1. Vedic Period (c. 1500 – 600 BCE)

- **References in Vedas:** The Rigveda and other Vedas mention terms like "*Rina*" (debt), "*Shulka*" (tax), and "*Varta*" (trade), indicating an early understanding of economic principles.
- **Barter system** dominated, but records of transactions, land grants, and temple donations were maintained orally and sometimes inscribed on copper plates or palm leaves.

#### 2. Mauryan Period (c. 322 – 185 BCE)

- **Arthashastra by Kautilya (Chanakya)** is the most significant text, written around 300 BCE.
  - Details administration, taxation, revenue collection, and accounting procedures.
  - Differentiates between various types of income (*Aaya*) and expenditure (*Vyaya*).
  - Introduces auditing and the role of treasurers (*Samaharta*) and accountants (*Akshapataladhikrita*).

### Key Components of the Ancient Indian Accounting System

#### Terminology

Sanskrit Term	Meaning
<i>Aaya</i>	Income
<i>Vyaya</i>	Expenditure
<i>Rina</i>	Debt
<i>Dhanam</i>	Wealth
<i>Lekhaka</i> or <i>Lekhakar</i>	Accountant or Scribe



*Akshapatal*

Ledger or record of accounts

*Koshadhyaksha*

Chief Treasurer

## Practices and systems

### 1. Double-Entry Like System

- While not the same as the modern double-entry system, ancient Indian merchants practiced a **debit-credit-like method** using:
  - *Jama* (receipts/inflows)
  - *Udhar/Kharcha* (payments/outflows)
- This predates Pacioli's double-entry bookkeeping system in Italy (~1494).

### 2. Bahi-Khata System (Traditional Ledger System)

- Used by traders and accountants (*Munims*).
- Two books:
  - **Bahi** – main ledger
  - **Khata** – daily record of transactions
- Still practiced in parts of India today.

### 3. Hundi System

- Indigenous financial instruments used for remittance, credit, and bills of exchange.
- Used by merchants and bankers (*Seths* or *Shroffs*).
- Recognized for security and convenience in trade.

## Accounting Records and Media

### 1. Writing Materials

- **Palm leaves, birch bark, and cloth** for everyday accounts.
- **Copper plates and stone inscriptions** for royal grants and permanent records.

### 2. Numerical System

- India developed the **decimal system and zero**, crucial for accounting.
- Mathematical texts like *Lilavati* by **Bhaskara II** included arithmetic for commerce.

Ancient Indian accounting was not merely transactional but deeply embedded in **ethical, administrative, and cultural systems**.



## Merits of the Ancient Indian Accounting System

### 1. Highly Organized and Systematic

- Use of defined roles (e.g., *Akshapataladhikrita*, *Samaharta*, *Koshadhyaksha*) ensured structured and responsible accounting.
- Maintained daily, monthly, and annual records.

### 2. Indigenous and Adapted to Local Needs

- Systems like *Bahi-Khata* and *Hundi* were perfectly suited to local trade, lending, and remittance needs.
- Written in local scripts (Modi, Mahajani), understandable by native merchants.

### 3. Early Use of Accounting Concepts

- Concepts similar to modern income (*Aaya*), expenditure (*Vyaya*), and auditing were present.
- *Jama-Udhar* approach resembles debit-credit format.

### 4. Use of Mathematical Precision

- Use of **decimal system and zero** allowed advanced calculations and accurate financial reporting.

### 5. Trust-Based Instruments

- *Hundis* and temple accounts worked on high moral standards and trust — reduced fraud.
- Encouraged **community-based finance** and credit systems.

### 6. Integration with Governance and Religion

- Accounts were vital to running temples, states, and trade guilds.
- Ensured **accountability in revenue collection and public spending**.

### 7. Longevity and Continuity

- Traditional systems like *Bahi-Khata* still exist, showing their durability.
- Used by business communities (e.g., Marwaris, Jains) for centuries.



## Demerits of the Ancient Indian Accounting System

### 1. Lack of Standardization

- No universal accounting standards across regions and kingdoms.
- Scripts and formats varied greatly — hard to consolidate or compare.

### 2. Manual and Time-Consuming

- Entirely handwritten, which made large-scale or complex accounting slower.
- Prone to human errors and misinterpretation.

### 3. Limited Accessibility

- Only trained scribes or merchant families understood the system and local scripts.
- Illiterate traders or general public were often dependent on accountants.

### 4. No Concept of Profit & Loss Accounting

- Most systems recorded cash flows (receipts/payments) but didn't formally track net profit, depreciation, or balance sheets as in modern accounting.

### 5. No Institutionalized Education

- Accounting knowledge was passed down informally within families or guilds.
- Lack of formal training or certification led to inconsistency.

### 6. Susceptible to Tampering

- In the absence of technology and verification tools, forgery and manipulation were possible.
- Relied heavily on trust rather than legal frameworks.

### 7. Difficult Archival and Retrieval

- Cloth scrolls, palm leaves, and copper plates are fragile and hard to store over centuries.
- Loss due to fire, decay, or invasion was common.

## Comparison: Ancient Indian vs. English Accounting Systems

### 1. Origin & Historical Background

#### Aspect Indian Accounting System

#### English Accounting System

**Origin** Dates back to ancient times (around 3000 BCE); used in Kautilya's Arthashastra and Jain texts. Originated in Europe, formalized by Luca Pacioli in 1494 AD.

**Basis** Traditional, community-based practices evolved over centuries. Scientific and standardized method based on double-entry principle.

### 2. Accounting Principle



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Aspect	Indian Accounting System	English Accounting System
<b>Type</b>	Primarily Single-entry or Cash-based.	Double-entry system.
<b>Foundation</b>	Focus on cash flow and transactions; no distinction between personal and business accounts.	Based on dual aspect: Every debit has a corresponding credit.
<b>Terminology</b>	Traditional terms like <i>Rokar, Jama, Udhaar, Len-Den</i> , etc.	Formal terms like Assets, Liabilities, Expenses, Revenue, Capital.

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### 3. Books and Records

Aspect	Indian Accounting System	English Accounting System
<b>Books Used</b>	<i>Bahi-Khata, Lekha, Rokar, Jama-Udhaar</i> books.	Journal, Ledger, Trial Balance, Financial Statements.
<b>Format</b>	Handwritten, often using local scripts and languages.	Standard formats, mostly computerized today.

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### 4. Accuracy & Scope

Aspect	Indian Accounting System	English Accounting System
<b>Accuracy</b>	Less systematic, more suitable for small traders.	Highly accurate and systematic.
<b>Scope</b>	Focused on local business and individual accounts.	Global applicability with audit and tax compliance.

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### 5. Reporting & Audit

Aspect	Indian Accounting System	English Accounting System
<b>Financial Reports</b>	No formal financial statements prepared.	Balance Sheet, Profit & Loss, Cash Flow Statement.
<b>Auditing</b>	Not standardized or regulated.	Mandatory auditing under law for most businesses.

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### 6. Legal Recognition

Aspect	Indian Accounting System	English Accounting System
<b>Legal Status</b>	Not recognized under Indian corporate or tax law.	Fully recognized under Companies Act, Income Tax Act, etc.
<b>Regulation</b>	Community or family level rules.	Governed by ICAI, Companies Act, GAAP, and IFRS.

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### 7. Relevance Today

Aspect	Indian Accounting System	English Accounting System
<b>Usage Today</b>	Still used in traditional businesses, villages, moneylenders, and small shopkeepers.	Used universally across businesses, banks, and corporates.
<b>Modernization</b>	Some elements have been digitized (e.g., computerized <i>Bahi-Khata</i> apps).	Fully digitized with software like Tally, SAP, QuickBooks.



## Summary Table

Criteria	Indian Accounting System	English Accounting System
Entry Type	Single-entry	Double-entry
Accuracy	Moderate	High
Legality	Informal	Legal and Regulated
Scope	Local	National and Global
Reporting	Informal	Formal (Financial Statements)
Terminology	Traditional (Hindi/Sanskrit terms)	Technical & Universal
Preferred for	Small businesses/traders	Corporates, banks, regulated firms

## What Are Books of Original Entry?

Books of Original Entry are the initial point of entry for financial transactions into the accounting system. These books, also called daybooks or journals, record business transactions in the order they occur, capturing essential details such as the date, amount, and nature of the transaction. Once transactions are entered into the books of original entry, they are later transferred or posted to the general ledger.

## Key Functions of Books of Original Entry

- Chronological Record:** Transactions are recorded in the order in which they happen.
- Accuracy and Organization:** It ensures that all transactions are properly documented and categorized.
- Support for Ledger Entries:** Information from the books of original entry is later posted to the ledger accounts, ensuring that the financial records are complete and accurate.

## Types of Books of Original Entry

There are several types of books of original entry, each serving a different purpose and designed to handle specific types of transactions. These books are an essential part of the double-entry accounting system, ensuring that all financial events are documented accurately.

### General Journal

The General Journal is used to record transactions that do not fit into any other specialized journal. It is often referred to as the “book of first entry” because it captures a wide variety of transactions, including adjustments and corrections.

- Purpose:** Used for recording transactions such as sales, purchases, transfers, and general accounting adjustments.



- **Structure:** Typically includes columns for the date, accounts involved, amounts, and a brief description of the transaction.

## Sales Journal

The Sales Journal is used to record all credit sales made by a business. It is specifically for documenting sales of goods or services that are sold on credit, where payment is due at a later date.

- **Purpose:** Tracks credit sales to customers, helping to monitor accounts receivable.
- **Details Recorded:** Includes date, customer name, invoice number, and the total value of sales made on credit.

## Purchases Journal

The Purchases Journal records all credit purchases made by the business. Like the sales journal, it specifically tracks transactions where the payment will be made in the future.

- **Purpose:** Tracks the business's credit purchases of goods or services.
- **Details Recorded:** Includes the supplier's name, invoice number, and purchase amount.

## Cash Receipts Journal

The Cash Receipts Journal is used to record all cash inflows, including payments received from customers and any other cash receipts. This journal is essential for tracking incoming cash flow.

- **Purpose:** To keep track of all cash received by the business.
- **Details Recorded:** Includes the date, amount, payer's name, and the account credited.

## Cash Payments Journal

The Cash Payments Journal records all cash outflows, including payments made to suppliers, employees, and other expenses.

- **Purpose:** Tracks the cash paid by the business for its expenses.
- **Details Recorded:** Includes the date, amount paid, payee's name, and the account debited.

Each of these books of original entry serves a unique function and plays a critical role in ensuring that all business transactions are documented and categorized properly. Once the transactions are recorded in these books, they are then posted to the general ledger, where they are further analyzed.



### Importance of Books of Original Entry

The books of original entry are an essential component of an organization's accounting system. They help in organizing and streamlining the financial recording process and provide a clear audit trail for all transactions.

#### Accuracy and Organization

By recording each transaction systematically, the books of original entry help ensure that the financial records are accurate. Each transaction is documented with relevant details, such as amounts, dates, and accounts, making it easier to track and review. This improves the reliability of financial statements.

- **Prevents Omissions and Errors:** By documenting transactions in chronological order, businesses reduce the risk of omitting critical details or making mistakes in the accounting records.
- **Audit Trail:** These books provide an organized record that auditors can easily follow, ensuring that all financial transactions are transparent and verifiable.

#### Ease of Posting to the General Ledger

The books of original entry simplify the process of posting entries to the general ledger. By categorizing transactions in specialized journals, accountants can quickly transfer the relevant data to the ledger, ensuring accuracy and consistency.

- **Faster Reconciliation:** The detailed records in the original entry books help accountants efficiently reconcile and balance accounts.
- **Prevents Duplication:** With transactions recorded in specific journals, accountants can avoid duplication or errors when posting to the general ledger.

#### Legal Compliance

Maintaining accurate books of original entry is crucial for meeting legal and regulatory requirements. These books serve as evidence in case of audits or disputes, ensuring compliance with financial reporting standards and tax regulations.

- **Regulatory Requirements:** Accurate record-keeping is essential for businesses to comply with tax laws and financial reporting standards.
- **Audit Ready:** Proper documentation of transactions in the original entry books provides transparency, making the audit process more straightforward.

#### Facilitates Financial Analysis



The books of original entry provide a solid foundation for generating financial reports and analyzing the company's financial performance. The information collected is used to create balance sheets, income statements, and cash flow reports, which help management make informed business decisions.

- **Comprehensive Financial Reports:** The data from original entry books is crucial for preparing comprehensive financial statements, which help management assess the company's performance.
- **Tracking Trends:** These books allow businesses to track financial trends, making it easier to identify areas of improvement and growth.

## The Process of Recording Transactions in Books of Original Entry

Recording transactions in the books of original entry is a fundamental part of the accounting cycle. This process involves a few essential steps that ensure accuracy and proper categorization of financial data.

### Identifying the Transaction

The first step is to identify the nature of the transaction. This includes determining whether it is a credit sale, cash purchase, or any other type of financial event.

### Classifying the Transaction

Once identified, the transaction is classified into the appropriate book of original entry. For example, a credit sale will be recorded in the Sales Journal, while a cash payment will be recorded in the Cash Payments Journal.

### Recording the Transaction

The transaction is then recorded in the relevant journal, noting all necessary details such as the date, amount, account names, and description.

### Posting to the General Ledger

After transactions are recorded in the books of original entry, the data is posted to the general ledger. This step involves transferring the debits and credits to the relevant accounts, ensuring that the ledger reflects the accurate financial position of the business.

## FUNDAMENTAL PRINCIPLES OF FINANCIAL ACCOUNTING

According to American Institution of Certified Public Accountant Committee:-

“Accounting as the art of recording, classifying and summarizing in a significant manner and in terms of money transactions and events which are in part at least, of a financial character, and interpreting the results thereof”.



From the above definition, it can be said that “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

- 1) Accounting is science as well as an art.
- 2) The transaction and events relating to financial nature are recorded in it.
- 3) All transaction and events are recorded in monetary terms.
- 4) It maintain complete, accurate, permanent and legible records of all transaction in a systematic manner.
- 5) It analyses the results of all the transaction in detail.

### Objectives of Accounting

#### 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 statements. Once the recording is complete, the records are classified and summarized to depict the financial performance of the enterprise.

#### 2. To Ascertain the Performance of the Business

The income statement also 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 precursor to finance reporting. The vital liquidity/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.

### BOOK-KEEPING

Book-Keeping is the proper and systematic keeping or maintenance of the books of accounts. Book-Keeping starts from the identification of business transactions. These transactions must be supported by the documents and they must be financial in nature. For example, selling goods for cash in an accounting transaction, because cash is received and goods are going outside the business. The transaction will increase cash and reduce goods.

Book-Keeping involves the following process:



1. Identifying accounting transactions

2. Initial record of accounting transactions

3. Preparation of ledger accounts

4. Balance Ledger accounts

5. Preparation of trial balance

### DIFFERENCE BETWEEN BOOK-KEEPING AND ACCOUNTING

S.No	Basis of Difference	Book-Keeping	Accounting
1	Transaction	Trading transactions are recorded in primary books.	Entries written in primary books are checked and verified.
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 prepared
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 written 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.

### 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

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

$$\text{Total Liabilities} = \text{Total Assets}$$

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 purpose 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.

**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.

### Basic Accounting Terms

Every subject has got its own terminology. Accounting also, as a subject has got its own terms. These terms have their specific meaning in Accounting and used to express financial nature of the business.

#### 1. Business Transactions

The economic event that relates to a business entity is called business transaction.

Every business activity is not an Accounting activity. This is why; every activity is not recorded in the books of accounting. We record only business transactions in financial Accounting. The first step in the accounting process is the identification of business transactions. Every activity of financial nature having documentary evidence, capable of being presented in numerical, monetary term causing effect on assets, liabilities, capital revenue and expenses is termed as Business Transactions.

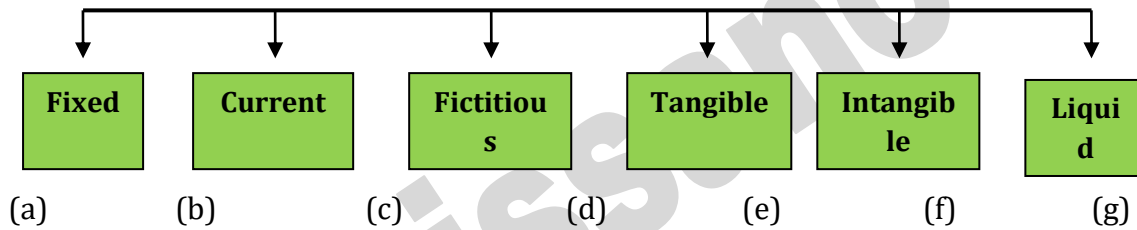
Special features of Business transactions are as above

- a. Business transactions must be financial in nature.
- b. Business transactions must be supported by documentary evidence.
- c. Business transactions must be presented in numerical monetary terms.
- d. Business transactions must cause an effect on assets, liabilities, capital, revenue and

#### 2. Assets

The valuable things owned by the business are known as assets. These are the properties owned by the business. Assets are the economic resources of a enterprise which can be expresses in monetary terms. In the words of Prof. R.N. Anthony, "Assets are valuable resources owned by a business which were acquired at a measurable money cost." These basic terms are discussed as under:

Classification of Assets



Liquid Assets = Current Assets - (Stock + prepaid expenses)

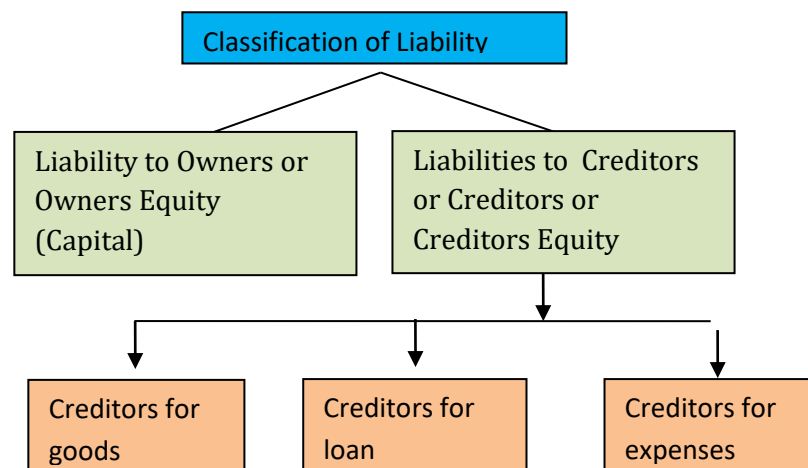
### 3. Capital

It is that part of wealth which is used for further production and capital consists of all current assets and fixed assets. Cash in hand, Cash at Bank, Building, Plant and Furniture etc. are the capital of the business. Capital should need not necessarily be in cash. It may be in kind also. Capital is classified as fixed capital and working capital:

- a. **Fixed Capital.** The amount invested in acquiring fixed assets is called fixed capital. The money is blocked in fixed assets and not available to meet the current liabilities. The amount spent on purchase or extension or addition to the fixed assets is fixed capital. Plant and machinery, vehicle, furniture and building etc. are some of the examples of fixed capital.
- b. **Floating Capital.** Assets purchased with the intention of sales, such as stock and investments are termed as floating capital.
- c. **Working Capital.** The part of capital available with the firm for day-to-day working of the business is known as working capital. Operational expenses are met with working capital. Current assets and current liabilities constitute working capital. Current assets consist of Cash in hand, Cash at Bank, Bills Receivable, Debtors, Stock in hand etc. and creditors, bills payable, short term loan, income received in advance and outstanding expenses are the current liabilities. Working capital can also be expressed as under:  
Working capital = Current Assets - Current Liabilities

### 4. Equity or Liability

Liabilities are the obligations or debts payable by the enterprise in future in the form of money or goods. It is the proprietors' and creditors' claim against the assets of the business. Creditors may be classified as creditors for goods and creditors for expenses. The business should have liability. Liabilities can be classified as under:





## 5. Financial Statement

Statements prepared by an enterprise at the end of accounting year to assess the status of income and assets are termed as Financial statement. It is categorized as Income statement and Position statement traditionally known as Profit and Loss Account and Balance Sheet.

## 6. Accounting Equation

Accounting rotates around three basic terms. These terms are assets, Liabilities and Capital. The true inter-relationship between these terms is represented as Accounting Equations i.e.,



## 7. Goods

Articles purchased for sale at profit or processing by the business or for use in the manufacture of certain other goods as raw material are known as goods. In other words, goods are the commodities, in which the business deals. Furniture will be goods for the firm dealing in furniture but it will be an asset for the firm dealing in stationery. Americans use the term 'merchandise' for goods.

## 8. Purchases

In its routine business, the firm has no either purchase finished goods for sale or purchase raw material for the manufacture of the article, being sold by the firm. The acquisition of these articles is purchases. The purchase of 10,000 metres of silk by Mohan, a cloth merchant is termed as purchases in the business. In the same way, the purchases of ten exhaust fans by Ram, a dealer in electrical appliances for use in the cooler being assembling in his factory will also be the purchases. It is immaterial whether goods have been purchased for cash or on credit. They may be purchased within the country or imported from abroad. Purchases of assets are not the purchases in accounting terminology as these assets are not meant for sale.

## 9. Sales

The ultimate end of the goods purchased for manufactured by the business is their sales. It includes both cash and credit sales. In accounting terminology, sales means the sale of goods, never the sale of assets, sales should have a regular feature. The sale of ten sets by Ahmad, a furnisher is sales but sale of old furniture by Sarin, a stationery dealer will not be a sale. Sales any be effected within the country or exported adored.

## 10. Purchases return or Return outward

It is that part of the purchases of goods, which is returned to the seller. This return may be due to unnecessary, excessive and defective supply of goods. It may also result, if the supplier violates the terms and conditions of the order and agreement. In order to calculate net purchase return is deducted from purchases. Purchases returns are also known as return outward, because it is return of goods outside the business.

## 11. Sales return or Return inward



It is that part of goods which is actually returned to us by purchasers. This return may also be due to excessive, unnecessary and defective supply of goods or violation of terms of agreement. Sales return, also known as returns inward is deducted from sales, in order to calculate net sales.

**12. Stock**

The goods available with the business for sale on a particular date is termed as stock. It varies i.e., increases or decreases and goes on changing. In accounting, we use the term stock widely as opening and closing stock. In case of business which is being carried on for the last so many years, the value of goods on the opening day of the accounting year is known as opening stock. In the same way, the value of goods on the closing day of the accounting year will be closing stock. It should always be kept in mind that stock is valued at cost price or market price, whichever is lower.

**13. Revenue**

Revenue in accounting means the amount realized or receivable from the sale of goods. Amount received from sale of assets or borrowing loan is not revenue. In wider sense, revenue is also used to mean receipt of rent, commission and discount etc. such receipts should be revenue receipts. It should be concerned with the day-to-day affairs of the business. It should also be regular in nature. Other titles and sources of revenue are common to many businesses. Revenue should not be confused with income. Revenue is concerned with receipts or receivable in the day-to-day working of the business. Income is calculated by deducting expenses from revenue.

**14. Expenses**

Expenses are cost incurred by the business in the earning revenues. Generating income is the foremost objective of every business the firm has to use certain goods and services to produce articles, sold by it. Payment for these goods and services is called 'expenses'. Cost of raw material for the manufacture of goods or the cost of goods purchased for sale, expenses incurred in manufacturing or acquiring goods, such as wages, carriage, freight and amount spent for selling and distribution goods such as salaries, rent, advertising and insurance etc. Are known as 'expenses' in accounting terminology.

**15. Expenditure**

Expenditure is the amount of resources consumed. It is long term in nature. It is the benefit to be derived in future. It is the amount spent for the purchase of assets. Expenditure can be made through cash, or exchanged for other assets or commodities or a promise to make the payment is made. Expenditure increases the profit earning capacity of the business and profit is expected from them in future. Expenditure are incurred to acquire assets of the business.

**16. Losses**

Losses are unwanted burden which the business is forced to bear. Loss of goods due to theft or fire, or flood or storm or accidents are termed as 'loss' in accounting. Losses are different from expenses in the sense that expenses are voluntary incurred to generate income where losses are forced to bear.

Losses may be classified as normal and abnormal. Normal loss is due to the inherent weakness in the commodities i.e., coal, cement, oil, ghee, ice, petrol. There will be shortage in their weight due to leakage, melt age, evaporation, spoilage and wastage during the journey. Abnormal loss



on the other hand, is an extra ordinary loss due earthquake, fire, flood, dorm, theft and accidents.

### 17. Profit

Excess of revenue over expenses is termed as profit. In other words excess of sale proceeds over cost of goods sold is income. Here, sales, means net sales i.e., sales less sales return. Cost of goods sold, also known as cost of sales is opening stock plus net purchases plus direct expenses less closing stock. Income must be regular in nature. It must concern routine activities of the business. It is always the part of revenue receipt. It must relate to the business of the current year.

### 17. Income

Increase in the net worth of the enterprise either from business activities or other activities is termed as income. Income is wider term, which includes profit also. From Accounting point of view income is the positive change in the wealth of the enterprise over a period of time.

### 18. Gain

Change in the net worth (equity) due to change in the form and place of goods and holding of assets for a long period, whether realized or unrealized is termed as gain. It may either be of capital nature or revenue nature or both.

### 19. Debtors

The term 'debtor' represents the persons or parties who have purchased goods on credit from us and have not paid for the goods sold to them. They still owe to the business. For example, if goods worth Rs. 20,000 have been sold to Mahesh, he will continue to remain the debtor of the business so far he does not make the full payment, in case, he makes a payment of Rs. 16,000, he will remain to be debtor for Rs.  $20,000 - 16,000 = 4,000$ .

### 20. Creditors

In addition to cash purchases the firm has to make credit purchases also. The seller of goods on credit to the firm is known as its creditors for goods. Creditors are the liability of the business. They will continue to remain the creditors of the firm so far the full payment is not made to them. Liability to creditors will reduce with the payment made to them.

Creditors may also be known as creditors for expenses. In case, certain expenses such as salaries, rent, repairs, etc., remain unpaid during the accounting period, it will be termed as outstanding expenses. Parties rendering these services will be our creditors. Creditors are current liability so the firm should have sufficient current assets to make their timely payment.

### 21. Receivables

Receivable means, what business has to receive from outside parties on revenue account. When we sell goods on credit, purchases are known as debtors. Certain debtors accept bills drawn by us and become part of bills receivable. The total of Debtors and Bills Receivable is known as Receivable. These are current assets realized within a year. Receivables are shown at the assets side of the Balance Sheet.

**22. Payables:** -Payable means, what the business has to pay to outside parties. When we purchase goods on credit. Sellers are known as creditors. We accept bills drawn by certain creditors, which becomes a part of Bills Payable. The total of Creditors and Bills Payable is termed as Payables. It is shown at the liabilities side of the Balance Sheet.

**23. Proprietor**

An individual or groups of persons who undertake the risk of the business are known as 'proprietor'. They invest their funds into the business as capital. Proprietors are adventurous persons who make arrangement of land, labour, capital and organization. They pay wages to labor, rent to land, interest to capital and salary to organization. After meeting all the expenses of business, if there remains any surplus, it is known as profit. The proprietor is rewarded with profit for the risk undertaken by him. If expenses exceed revenue the deficit is a loss to be borne by the proprietor.

**24. Drawings**

Amount or goods withdrawn by the proprietor for his private or personal use is termed as 'drawing'. The cost of using business assets for private or domestic use is also drawing. Solvent are those persons and firms who are capable of meeting their liabilities out of their own resources. Solvent firm have sufficient funds and assets to meet proprietors' and creditors' claim. Solvency shows the financial soundness of the business.

**25. Insolvent**

All business firms who have been suffering losses for the last many years and are not even capable of meeting their liabilities out of their assets are financially unsound. Only the court can declare the business firm as insolvent if it is satisfied that the continuation of the firm will be against the interest of the public or creditors. No firm can declare itself as insolvent. In case of solvency, the assets of the business are sold and liabilities paid with the funds realized from the sale of assets. If the funds realized fall short of the liabilities creditors are paid proportionately.

**26. Vouchers**

Accounting transactions must be supported by documents. These documents proofs in support of the transactions are termed as vouchers. It may be a receipt, cash memo, invoice, wages bill, salaries bill, deeds or any document as an evidence of transaction having taken place. The contents of vouchers are date, amount paid, purpose of the payment, payment passed by competent authority, payment made and cancelled the voucher. Vouchers are the basis of accounting records. They facilitate accounting. Vouchers are also used for verification and auditing of business records. Vouchers may also be used for detecting embezzlement and frauds.

**27. Accounting year**

Books of accounts are closed annually. From the balance of different ledger accounts we prepare income statement an position statement. Income statement shows gross and net income of the business. Position statement, traditionally known as Balance sheet is a mirror, which reflects the true value of assets and liabilities on a particular date. There is no legal restriction about the accounting year of sole proprietorship and partnership firm. They may adopt the accounting year of their choice. It may be between January 1<sup>st</sup> to December 31<sup>st</sup> of the same year or July 1<sup>st</sup> of the year to June 30<sup>th</sup> of the next year or between two Diwalis or even financial year, i.e., April 1<sup>st</sup> to March 31<sup>st</sup> of the next year. The only restriction is that accounting period must consist of 12 months. Companies must adopt financial year as their accounting year.



The main systems of Financial Accounting are as under:

**(1) Cash system** – In this system, only cash entries are recorded in the accounts. All credit entries are written in a handbook and are entered in Cash Book only when they are paid or received. This system is kept by small trades, professional persons or non-trading institutions where most of the transactions are in cash.

**(2) Mahajani system** – It is oldest method of keeping accounts in India. Long Bahis are used for recording transactions and entries can be made in Mudia, Urdu, Sarafi, Hindi and any regional language. This system is completely scientific system as it is based on certain principles.

**(3) Single entry system** – Under it, some transactions are recorded at one place, some other transactions at two places and some transactions are recorded at all. Cash book and personal accounts are kept in it. It is an incomplete and unscientific system. Hence it is rarely used.

**(4) Double entry system** – Under it, every entry is recorded at two sides of the account so that the effect on each side of the account may remain equal. There are debit and credit side in it. This system was originated in Italy. Being a complete and scientific method, it is widely used and is more popular.

### 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.

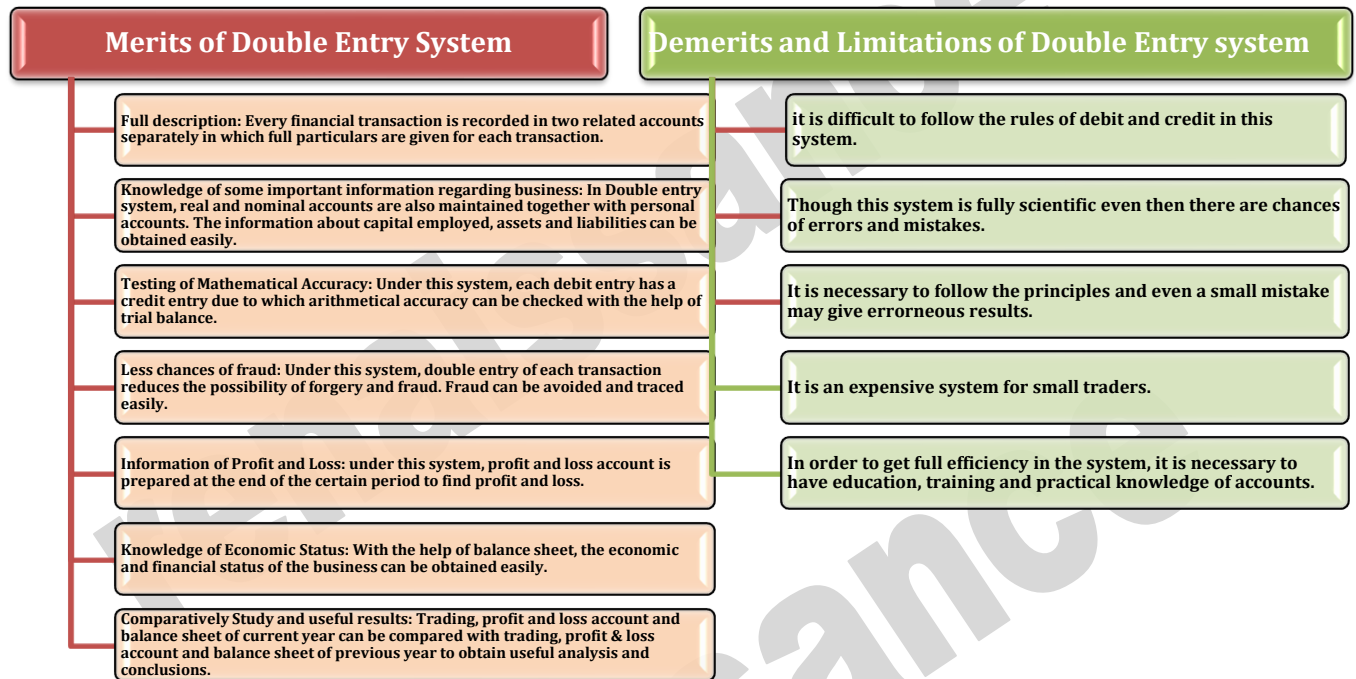
The focus of the double entry system is that every business transaction has two aspects, i.e., when we receive something, we give something else in return. This approach of writing both the aspects of the transactions is known double entry system of accounting. Of the two accounts one account is given 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 15<sup>th</sup> century. First of all in 1494 Lucas Pacioli, the famous mathematician of Venice of Venice city of Italy wrote his first book “De Computiset Scripturise’ and mentioned method of accounting in one of its part. Emphasis was given on division and utility of waste book. Journal, Ledger etc. In 1543 Hugu Old Castle 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.
- c) Closing the books and preparing the final accounts



## CLASSIFICATION OF ACCOUNTS

### 1) PERSONAL ACCOUNTS

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

- 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.
- 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.
- ii. Expenditure Account: - Such as rent paid, interest paid, commission paid, salary paid, discount received, 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**

### 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 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 of 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 revenues 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 V/s 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.

The examples of capital receipts include sale of fixed assets, capital contribution, loaned receipts, and the examples of revenue receipts include sale of stock-in-trade, revenue from services rendered in the normal course of business, revenue from permitting other to use the assets of the enterprise, such as interest, rent royalty.

**JOURNAL**

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.

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

**COMPOUND JOURNAL ENTRY**

If two or more transactions of the same nature occur on the same day and either debit account and/or credit account are common in them, instead of passing a separate entry for each such transaction, one combined entry may be passed. Such type of entry is known as compound journal entry.

Example:

Postage	a/c	dr.	
Stationary	a/c	dr.	
Cartage	a/c		dr.
	To Cash	a/c	

**DISCOUNT**

**Types of Discount :-**

- 1) Trade discount:** is allowed at the time of purchase or sale of goods by one trader 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 record 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 certain percentage the amounts due. It is allowed to a debtor by a creditor in order to induce hirt 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 certain percentage on the invoice price of goods purchased or sold.	It is calculated as 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 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.

## LEDGER

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.

### Characteristics of Ledger

1. Major or principal book of accounts.
2. Index- The initial pages of ledger are left for indexing. These pages are not numbered. With the help of index one can find on which page of ledger a particular account is opened.
3. Pages booked- For every account one separate page or pages called folio is engaged in ledger.
4. One debit one credit- For every transaction one account is debited and other account is credited.
5. Books of final entry- Ledger is the last stage of daily accounting or book keeping.
6. Classification of transactions- While journal a bunch of various accounts, ledger is the classification of these accounts.

### Utility or importance or Advantages of Ledger





**Difference between journal and Ledger**

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 us 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

**Proforma of Account**

**Name of Account**

Dr. Date	Particular	J.F.	Account	Date	Particular	J.F.	Cr. Amount
	To				By		

**Posting**

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

**Procedure for Posting**

1. Opening of separate account – Since each transaction affect two accounts. separate accounts. therefore, will be opened in the ledger in the ledger, such accounts may be personal, real and nominal.



2. Posting journal entry to the concerning side – the debit side of the journal is posted to the debit side of the account and on the side the reference is given of the fact which is put on the credit side of the journal entry.
3. Sides to the posted - The credit side of the journal entry is posted to the credit side of the account and on that side the reference is given of that fact which is put on the debit side of the credit side of the journal entry
4. use of word, "To" and "By" – The word "To" is prefixed to the posting of debit side and the word "By" is prefixed to the credit side in each account.

### Ledger posting o Opening Journal Entry

While making ledger accounts of assets and liabilities appearing in the opening journal entry opening balance as represented in the journal entry must be shown in the beginning of the ledger account a "To Balance b/d" at the debit side for assets and "by balance b/d" at the credit side of liabilities. Remaining posting in the concurred A/c will be made as usual.

### Balancing of ledger Accounts

Assets, liabilities and capital accounts have certain closing balance of the end of 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 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 forever. 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, account 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.

## 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 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 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





**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

**4. 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.
3. It can never show a credit balance the cash payments can never exceed the cash receipts.
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	Misc. items 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 :
  - a. Limited number of accounts are opened for heads of petty expenses only,
  - b. 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

1. Petty Cash Book as a part of Journal or Double Entry system
2. Petty Cash Book as a Memorandum book.

### Imprest vs. Non-Imprest System of Petty Cash Book

The amount which the main cashier hands over to the petty cashier in order to meet the petty cash expenses of a given period is known as 'Imprest' or 'Float'.

Petty cash book may be maintained on imprest system on non-imprest system.

### Features of imprest system of petty cash

1. Estimation by chief cashier: The Chief Cashier estimates the total petty cash expenses for a particular fixed period.
2. Advances by chief cashier: The Chief Cashier advance the estimated amount to the petty cashier in the beginning of the period.
3. Submission of petty cash book by petty cashier: The Petty Cashier submits the petty cash book along with supporting vouchers to the chief cashier at the end of the period.
4. Examination of petty cash bank by chief cashier: The Chief Cashier examines the petty cash book.
5. Reimbursement of amount spent: The Chief Cashier makes the reimbursement of the amount spent by the Petty Cashier.
6. Availability of same amount of petty cash: The Petty Cashier again has the same amount of petty cash in the beginning of new period.

### Subsidiary Book

#### Preparation of Purchase Day Book

This book is maintained mainly to record credit purchases of goods. The term goods refers to all such commodities and services in which we deal.

Date	Particulars (Names of suppliers)	Invoice No.	L.F.	Amount Rs.	Net Amount Rs



Posting : Each suppliers personal account is credited in the ledger with its respective amount with the words "*By purchases a/c*". The monthly total of this book is debited to purchases a/c in the ledger with the words "*To sundries as per Purchases Book*"

#### Preparation of Sales Book

This book is maintained mainly to record credit sales of goods. Hence the cash sales of goods and assets sold are not entered in this book. Entries in this book are made from the outward invoice of credit sales.

Date	Particulars (Names of Customer /Party)	Invoice No.	L.F.	Amount Rs.	Net Amount Rs

Postings : Each Customer's personal account is debited in the ledger with its respective amount with the words "*to Sales a/c*". The periodical total of this book is credited to sales a/c with the words "*By sundries as per sales book*".

#### Preparation of Returns Outward of Purchase Return Book

This book is maintained to record the return of goods purchased earlier from the suppliers on credit. When goods are returned a debit note is made out and sent to the supplier to whom goods are returned.

Date	Particulars	Debit Note No.	I.F.	Amount Rs.

Postings : Each suppliers account mentioned in the purchased earlier from the suppliers on credit. When goods are returned a debit note is made our and sent to the supplier to whom goods are returned

#### Preparation of Return inward or Sales Return Book

This Book is maintained manly the returns of goods sold to customers on credit. On receipt of the goods the firm prepares a Credit Note in the name of the customer and sends its original copy to the customer. Entries are made from credit note book into the sales returns books.

Date	Particulars	Credit Note No.	I.F.	Amount Rs.

Posting: Each customer's personal account {as given in the sales returns book} is credited with the amount of goods returned by him with the words "*By Sales a/c*". The sales return A/c in the ledger gets the debit with the periodical total of Sales Returns Book with the words "*To sundries as per Sales returns Book*"

#### Preparation of Bills Receivables Book

This books is maintained to keep a detailed record of the bills receivable received by the firm. This book provides a medium for posting bills receivable transactions. The ruling of this book is given below:



Date When received	Drawer	Acceptor	Where Payable	Date of bill	Term	Due date	I.F.	Amount Rs.	Remark

Posting: - The personal account of the person from whom the bill is received is credit with the amount of that bill and the periodical total of the Bills Receivable Book is debit to Bills Receivable a/c in the ledger.

### Preparation of Bills Payable Book

This book is maintained to keep a detailed record of all bills payable accepted by firm.

Date of Acceptance	To whom given	Payee	Where payable	Date of bill	Term	Due date	L/F	Amount Rs.	Remark

Posting: The person account of the person whose bill as accepted is debited with the amount of that bill and the periodical total of the Bills Payables Book is credited to Bills Payables in the 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 book are at least arithmetically correct.

#### 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 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.
7. It is a big help in preparation of Trading A/c, Profit and Loss A/c and Balance Sheet at the end of the period which exhibit the financial position of the firm.

#### Objects of preparing a Trial Balance



The following are the important objects or purposes of preparing a trial balance :

1. If the two sides of the trial balance are equal, it is proved that the book are at least arithmetically correct.
2. Error in casting the books of subsidiary records in immediately known.
3. Error in posting from the books of subsidiary records to ledger is found out.
4. Error in balancing the ledger accounts is found out.
5. Schedules of debtors and creditors are verified to be correct.

**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. **Errors 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.
<b>Total</b>			

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

**Trial Balance**  
( As on ..... )

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



<b>Total</b>			

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

**Trial Balance**

(As on .....)

Title of Accounts	L.F.	Debit Total Rs.	Credit Total Rs.	Debit Balance Rs.	Credit Balance Rs.
<b>Total</b>					

**ACCOUNTING STANDARDS**

Accounting as a 'language of 'business' communicates the financial performance and position of an enterprise to various interested parties by means of financial statements which have to exhibit a 'true and fair' view of financial results and its state of affairs. As a result a wide variety of accounting methods were used by different companies. It was, then, felt that there should be some standardized set of rules and accounting principles to reduce or eliminate confusing variation in the methods used to prepare financial statements. However, such accounting rules should have a reasonable degree of flexibility in view of specific circumstances of an enterprise and also in line with the changes in the economic environment, social needs, legal requirements and technological developments. The setting of accounting standards is a social decision. Standards place restrictions on behaviour and therefore they must be accepted by affected parties.

**ACCOUNTING STANDARDS ISSUED BY THE ICAI**

The Institute of Chartered Accountants of India has thus far issued the following standard effective from the date noted against them.

(i)	AS-1	Disclosure of Accounting Policies	(1-4-1991)
(ii)	AS-2	Valuation of Inventories	(1-4-1991)(Revised)
(iii)	AS-3	Cash Flow Statement	(1-6-1991)(Revised)
(iv)	AS-4	Contingencies and events occurring after the Balance Sheet Date	(1-4-1995)
(v)	AS-5	Net Profit or Loss for the period, prior items and changes in Accounting Policies	(1-4-1996)
(vi)	AS-6	Depreciation Accounting	(1-4-1995)
(vii)	AS-7	Accounting for Construction contracts	(1-4-1991)
(viii)	AS-8	Accounting for Research and Development	(1-4-1991)
(ix)	AS-9	Revenue Recognition	(1-4-1991)



(x)	AS-10	Accounting for Fixed Assets	(1-4-1991)
(xi)	AS-11	Accounting for the effects of changes in Foreign Exchange Rates	(1-4-1995)
(xii)	AS-12	Accounting for Government Grants	(1-4-1994)
(xiii)	AS-13	Accounting for Investments	(1-4-1995)
(xiv)	AS-14	Accounting for Amalgamation	(1-4-1995)
(xv)	AS-15	Accounting for retirement benefits in the financial statements of employers	(1-4-1995)
(xvi)	AS-16	Borrowing Costs	(1-4-2000)
(xvii)	AS-17	Segment Reporting	(1-4-2001)
(xviii)	AS-18	Related Party Disclosures	(1-4-2001)
(xix)	AS-19	Leases	(1-4-2001)
(xx)	AS-20	Earning per share	(1-4-2001)
(xxi)	AS-21	Consolidated Financial Statements	(1-4-2001)
(xxii)	AS-22	accounting for Taxes on Income	(1-4-2002)
(xxiii)	AS-23	Accounting for Investments in Associates in consolidated Financial Statements	(1-4-2002)
(xxiv)	AS-24	Discontinuing Operations	(1-4-2002)
(xxv)	AS-25	Interim financial Reporting	(1-4-2002)
(xxvi)	AS-26	Intangible Assets	(1-4-2003)
(xxvii)	AS-27	Financial Reporting of Interest in Joint Ventures	(1-4-2002)
(xxviii)	AS-28	Impairment of Assets	(1-4-2004)
(xxix)	AS-29	Provisions, Contingent Liabilities and Contingent Assets	(1-4-2004)

### Final Accounts

The final object of every businessman is to earn profit. He is interested to know how much profit he has earned or how much loss he has incurred during the year. For the purpose income tax payment, financial position, distribution of dividend and for the future planning it becomes necessary to ascertain the profit or loss for the year. At the end of the year a trial balance is extracted from the ledger balances and then on the basis of the trial balance, closing entries are passed and final Accounts are prepared. The process of preparing Final Accounts from the original records is as under.

Recording of transaction in Journal or Subsidiary books



Postings into ledger from Journal or subsidiary books.



Preparation of Trial balance from ledger accounts



Preparation of Final Accounts on the basis of Trial balance and other information

To know the trading results (Profit or loss) for the accounting period and the financial position as at the end of accounting period the final accounts are prepared. The final accounts consists of:

1. Manufacturing Account
2. Trading and Profit & Loss Account



3. Balance sheet

The followings points must be considered while preparing final accounts from trial balance

1. Debit items of Trial Balance:- The items of expenses or assets appear on debit side of Trial balance. The expenses (the benefit of which is derived within the accounting year in which they are incurred are called revenue expenses. These are debited either to trading account or profit & Loss Account.) Direct expenses such wages. Carriage inwards, freight etc. are debited to trading and indirect exp. such as salaries, rent repairs etc. are debited to profit & Loss account.

The expenses the benefit of which is derived in many years are called capital expenditure. These expenditure are called assets and they appear in the assets side of Balance sheet e.g. Building, Machinery, Furniture, Vehicle etc.

2. Credit items of Trial Balance: The items of incomes, gains or liabilities appear in the credit side of trial balance. The receipts are divided into two parts capital receipts and revenue receipts. Capital receipts are liabilities items they are mentioned in the liabilities side or deducted from the assets side of Balance sheet. Revenue receipts are called incomes. It is again divided into direct and indirect incomes. Direct incomes means sale proceeds of the goods which is credited to Trading Account. Indirect incomes are other incomes not directly related to the main business activities such as rent commission, interest, dividend etc received. These are credited to profit and loss account.

Trading Account

Trading Account is prepare to calculate gross profit. It can be prepared separately or combined with profit and loss account. Normally it is prepared jointly with profit and loss account. It is the first part of profit and loss account.

Trading Account A/c

For the Year ending.....

Table with 4 columns: Description, Rs. (Debit), Description, Rs. (Credit). Rows include To Opening Stock, To Purchase, Less: Ret. Outward, To Wages, To Carriage, To Fuel, To Motive Power, To Octroi, To Import Duty, To Clearing Charges, To Dock Charges, To Stores Consumed, To Royalty based on Production, To Manufacturing Exp., To Gross Profit c/d (Balancing figure), and Rs. totals.

Profit and Loss Account

Profit and loss accounts is prepared to ascertain net profit or loss. This is the second stage of ascertaining trading results. Gross Profit calculated as per trading account is credited to Profit and loss account then all the indirect expenses are debited and all the indirect incomes are



credited. The excess of credits side over debit side is called net Profit and vice versa. The format of P & L account is as under:

**Profit and Loss A/c  
(For the year ending)**

To Gross Loss	-	By Gross Profit	-
To Office Salaries & Wages	-	By Discount received	-
To Office Rent, Rates and Taxes	-	By Bad debts recovered	-
To Office Printing and Stationery	-	By Income from Investment	-
To Office Lighting	-	By Commission received	-
To Insurance Premium	-	By Interest on Deposits	-
To Repairs & Maintenance	-	By Profit on sale of fixed assets	-
To Postage & Telegram	-	By Apprenticeship Premium	-
To Legal expenses	-	By Interest on Drawings	-
To Trade expenses	-	By Net Loss (Transferred to Capital Account)	-
To Audit fees	-		
To Telephone expenses	-		
To General expenses	-		
To Bank Charges	-		
To Discount allowed	-		
To Interest on Capital	-		
To Interest on loan	-		
To Discount of Rebate on bills of exchange	-		
To Carriage outward	-		
To Freight outward	-		
To Bad debts	-		
To Entertainment expenses	-		
To Travelling Expenses	-		
To Cost of Samples	-		
To Catalogue expenses	-		
To Salesmen's salaries	-		
To Expenses and commission	-		
To Advertising expenses	-		
To Depreciation on fixed Assets	-		
To Loss on sale of fixed assets	-		
To Net Profit (Transferred to capital account)	-		
Rs.		Rs.	

**Balance Sheet**

As on 31 March .....

Liabilities	Rs.	Assets	Rs.
Capital	-	Fixed Assets:	-
Long term liabilities	-	Patent	-
Debentures	-	Goodwill	-
Bank Loan	-	Land and Building	-
Current Liabilities:	-	Plant & Machinery	-
Advance Income	-	Furniture and fixtures	-
Outstanding expenses	-	Current Assets:	-
Bank overdraft	-	Short terms Investment	-



Bills Payable	-	Prepaid expenses)	-
Creditors	-	Accrued Income	--
Unearned Income	-	Debtors	-
		Closing Stock	-
		Bank Balance	-
		Cash Balance	-

**Closing Entries**

At the end of the year after preparing trial balance a list of unrecorded items is prepared which is called list of adjustment for which adjustment entries are passed. Now closing entries will be passed. The purpose of closing entries is to closed all those accounts which comes in trading and profit & Loss and these accounts are mainly related to goods and expenses and incomes.

Procedure for closing entries- The accounts which are shown on the debit side of trading and profit & Loss account are transferred to these account by writing "By Trading account/Profit and loss account" in all those accounts. Similar in the accounts (appearing on the credit side of trading and profit and loss account) To trading or profit & Loss account is written The major closing entries are as under:

(1) For opening stock, purchase, sales return and all direct expenses

Trading A/c	Dr.
To Opening Stock A/c	
To Purchases A/c	
To Sales return A/c	
To Wages a/c	
To Carriage Inward A/c	

(2) For sales and purchase return

Sales A/c	Dr.
Purchase return	Dr.
To Trading A/c	

(3)For gross profit or loss:

(a) Profit Trading A/c	Dr.
To Profit and Loss A/c	

(b) loss Profit and loss A/c	Dr.
To Trading Account	

(4)For indirect expenses

Profit & Loss A/c	Dr.
To Salaries A/c	
To Commission a/c	
To Discount allowed a/c	
To Advertisement A/c	

(5)For indirect in comes and gains

Interest earned a/c	Dr.
Discount a/c	Dr.



Commission a/c Dr.  
 Dividend a/c Dr.  
     To Profit & Loss A/c

(6) For Net profit or net loss  
 For Net Profit  
 P & L A/c Dr.  
     To Capital A/c

For Net loss A/c  
 Capital A/c Dr.  
     To P & L Account

**Adjustments at a glance**

S.No.	Adjustments	Entry	Effects on Trading and Profit & Loss Account	Effects on Balance Sheet
1	Closing Stock	Closing Stock A/c Dr. To Trading A/c	Credited to trading A/c	Shown on assets side.
2	If closing Stock is given in trial balance	-	-	Shown on assets side.
(i)	Outstanding expenses (Expenses still un paid)	Expenses A/c Dr. To O/s Exp. A/c	Add to the concerned exp. on debit side.	Shown on liabilities side.
	O/S Exp. in trial Balance If they are of opening date i.e. of last year	O/S Exp. A/c To Expenses A/c	Deducted form the concerned expenses on debit side.	-
	If they are of closing date i.e. of current year.	-	-	Shown on liabilities side.
3	Prepaid Expenses: (Expenses of next year paid in advance this year)	P.P. Expenses A/c Dr. To Expenses A/c	Deducted from the concerned expenses on debit side.	Shown on Assets side
(i)	P.P. Exp. in trial balance. If they are of opening date i.e. of last year	Expenses A/c Dr. To P.P. Exp. A/c	Added to the concerned expenses on debit side	-
(i)	If they are of closing date i.e. of last year	-	-	Shown on assets side.
4.	Accrued, Earned or Receivable Income	Acc. Income A/c Dr. To Income A/c	Added to the concerned income on credit side of P & L A/c	Shown on assets side.
(i)	If it is of op. date i.e. of last year	Income A/c Dr. To Acc. Income a/c	Deducted from concerned income on credit side of P & L a/c.	-
(ii)	If it is of closing date i.e. of current year	-	-	Shown on assets side.



5.	Uncured, unearned or advanced income (Income of next year received in advance this year.)	Income A/c Dr. To Unacc. Income a/c	Deducted from the concerned income on the credit side of P & L a/c	Shown on liabilities side.
(i)	Unacc. Income in trial balance- If it is of op. date i.e. of last year	Unacc. Income A/c Dr. To Income a/c	Added to concerned income on credit side of P & L A/c	-
(ii)	If it is of closing date i.e. of current year	-	-	Shown on liabilities side.
6.	Depreciation	Depreciation A/c Dr. To Assets a/c	Shown on the debit side of P & L A/c	Deducted from the concerned assets side.
	Dep. in trial balance	-	Debited to P & L A/c	-
7.	Interest on Capital/Loan	Int. on Cap./loan A/c Dr. To Cap./loan A/c	Shown on the debit side of P & L A/c	Added to capital/Loan on liabilities side.
	Interest on capital/Loan in trial balance	-	Shown on the debits side of P & L a/c	-
8.	Interest on Drawings.	Drawings. A/c Dr. To Int. on Drawings	Shown on the credit side of P & L A/c	Deducted from capital on liabilities side.
9	Credit purchases not recorded	Purchase A/c Dr. To Creditor's A/c	Added to purchases on the debit side of Trading A/c	Added to creditors on liabilities side.
10.	Credit purchases return not recorded.	Creditor's A/c Dr. To P/R a/c	Deducted from purchases on the debit side	Deducted from creditors on liabilities side.
11	Credit sales not recorded	Debtor's A/c Dr. To Sales A/c	Added to sales on the credit side of Trading A/c.	Added to debtors on assets side.
12.	Credit sales returns not recorded.	S/R A/c Dr. To Debtor's A/c	Deducted from sales on the credit side of Trading A/c.	Deducted form debtors on assets side.
13.	Goods given as charity or free samples	Charity/Adv. A/c Dr. To Purchases Trading A/c	i. Deducted from purchases/credited to trading A/c	-
			ii. Shown on the debit side of P & L A/c	
14.	Drawings of goods by owner	Drawings A/c Dr. To Purchases/Trade A/c	Deducted from purchases credited to trading A/c	Deducted from capital on liabilities side.
15.	Goods stolen/damaged by fire: Example : Goods of Rs. 10,000 stolen, claim accepted 6,000	Ins. Co. A/c Dr. 6000 P & L A/c Dr. 4000 To Purchases/ Trade A/c 10,000	i. Rs. 10,000 deducted from purchases/credited to Trading A/c ii. Rs. 4,000 debited to	Rs. 6,000 shown on assets side as Insurance Co.



			P & L A/c	
16.	Goods in transit: (Goods bought yet in transit)			
	i. If it is already included in purchases	Goods in transit A/c Dr. To Trading A/c	Credited to Trading A/c	Shown on assets side.
	ii. If it is not already included in Purchases. (Note: If nothing is cleared in the sum, a note must be given.	i. Purchases A/c Dr. To Creditor's A/c ii. Goods in trans. A/c Dr. To Trading A/c	ii. Credited to Trad. A/c	ii. Shown on asse. Side.
17.	Goods sold on approval basis: Example- Goods costing Rs. 500 sold on approval for Rs. 600 which is recorded as actual sales.	i. Sales A/c Dr. 600 To Customer 600 Note- This entry is passed by sale price.	i. Rs. 600 deducted from sales on credit side of Trading A/c	i. Rs. 600 deducted from debtors on assets side.
		ii. Stock on approval a/c Dr. 600 To Trading A/c 600 Note- This entry is passed by lower of the cost or market price of the goods sold.	ii. Rs. 500 (Being lower of cost or market price) are shown on credit side of Trading A/c	ii. Rs. 500 (Being lower of cost or market price) are shown on assets side.
18.	Purchase of assets:			
a.	Not rerecorded at all	Assets A/c Dr. To vendor	-	i. Shown on assets side. ii. Shown on lib. Side
b.	Wrongly included in purchases A/c	Asset A/c Dr. To Purchases A/c	Deducted from purchases on debit side of Trad. A/c	Shown on assets side.
c.	Installation charges included in wages A/c	Asset A/c Dr. To Wages A/c	Deducted from wages on debit side of Trad. A/c	Added to the concerned asset on assets side.
d.	Depreciation on the above asset.	Depreciation A/c Dr. To Asset A/c	Debited to P & L A/c	Deducted from the asset on assets side.
19	Over/under valuation of stock:			
a.	Over valuation of Opening Stock.	Capital A/c Dr. To Op. Stock/Trad. A/c	The Difference is either deducted from op. stock or credited to Trading A/c	The Difference is deducted from capital on liabilities side.
b.	Under valuation of opening stock.	Op. stock/Trad. A/c Dr. To Capital A/c	The Difference is either added to op. stock or debited to Trading A/c	The difference is added to capital on liabilities side



c.	Over valuation of closing stock.	Trading A/c Dr. To Cost stock A/c	The Difference is either deducted from clo. Stock or debited to Trading A/c	The difference is added to closing stock.
20.	Personal use of business assets: Example- 25% of the use of business car is for personal purposes. Car exp. Rs. 2000 and depreciation Rs. 800	Drawings A/c Dr. 700 To Car Exp. A/c 500 To Car Dep. A/c 200	P & L A/c - To Car Exp. (2000×75%) 1500 To Car Dep. (800×75%) 600	i. Liab. Rs. 700 deducted from Cap. ii. Assets: Rs. 800 deducted from car.
21.	Cheque/B/R/ received from debtors:	Bank/B/R/ A/c Dr. To Debtor's A/c		Assets Side: i. Deducted from deb. ii. Added to Bank/B/R.
22.	Dishonour of Cheque/ B/R received from debtors	Debtor's A/c Dr. To Bank/B/R A/c	-	Assets Side: Add to debtor deducted from Bank.
23.	Dishonour of discounted/endorsed B/R	Debtor's A/c Dr. To Bank/Creditors'	-	i. Assets side : added to debtors ii. Deducted from bank on assets side/added to creditors on liabilities side.
24.	Discounting of a B/R due next year.	-	-	Liabilities side : shown below total in inner column as contingent liabilities.
25.	Deposit from debtor wrongly deducted from debtor's A/c	Debtor's A/c Dr. To Deposit from debtors A/c	-	i. Assets side : Added to debtors. ii. Liabilities side : Added to creditors
26.	Settlement with creditors: Example: A creditor for Rs. 400 is settled at Rs. 320.	-	-	-
a.	If it is assumed that payment of Rs. 320 is recorded but discount is not recorded.	Creditors A/c Dr. 80 To Discount 80	P & L A/c: By Discount A/c 80	Liabilities side: Rs. 400 deducted from creditors.



b.	If it assumed that whole the transaction is omitted.	Creditors A/c Dr. 400 To Bank A/c 320 To Discount 80	P & L A/c: By Discount A/c 80	Liabilities side: Rs. 400 deducted from creditors. Asset side : Rs. 320 deducted from bank
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**Numerical questions**

From the following particulars presented by Mr Prakash for the year ended 31st March, 2017, prepare profit and loss account.

Particulars	amount	Particulars	amount
Gross profit	1,00,000	Interest received	6,000
Rent paid	22,000	Bad debts	2,000
Salaries	10,000	Provision for bad debts	4,000
Commission (Cr.)	12,000	(1-4-2016)	
Discount received	2,000	Sundry debtors	40,000
Insurance premium paid	8,000	Buildings	80,000

**Adjustments:**

- ii. Outstanding salaries amounted to Rs. 4,000
- iii. Rent paid for 11 months
- iv. Interest due but not received amounted to Rs. 2,000
- v. Prepaid insurance amounted to Rs. 2,000
- vi. Depreciate buildings by 10%
- vii. Further bad debts amounted to Rs. 3,000 and make a provision for bad debts @ 5% on sundry debtors
- viii. Commission received in advance amounted to Rs. 2,000

**Solution-**

**Profit and Loss Account for the year ended 31st March, 2017**

Particulars	Amount	Amount	Particulars	Amount	Amount
To Rent	22,000	24,000	By Gross profit b/d		1,00,000
Add: Outstanding (22,000x1/11)	<u>2,000</u>		By Commission	12,000	10,000
To Salaries	10,000	14,000	Less: Received in advance	<u>2,000</u>	
Add: Outstanding	<u>4,000</u>		By Discount received		2,000
To Insurance premium	8,000	6,000	By Interest received	6,000	8,000
Less: Prepaid insurance	<u>2,000</u>		Add: Accrued	<u>2,000</u>	
To Provision for bad and doubtful debts (closing)	1,900				



Add: Bad debts	2,000				
Add: Further bad debts	<u>3,000</u>				
	6,900				
Less: Opening provision for bad and doubtful debts	4,000	2900			
To Depreciation on building (80,000x10%)		8,000			
To Net profit (transferred to capital A/c)		65,100			
		<u>1,20,000</u>			
					<u>1,20,000</u>



## UNIT-II

### DEPRECIATION ACCOUNTING'

On the basis of accounting concept of going concern, assets are classified as fixed assets and current assets. Fixed assets are used in the business to derive benefits for more than one accounting period. Periodic profit is measured by charging cost against periodic revenue. Since fixed assets are used to generate periodic revenue, an appropriate proportion of the cost of fixed assets which is believed to be used or expired for generation of periodic revenue needs to be charged as cost. Such an appropriate proportion of the cost of fixed assets is termed as 'Depreciation'.

#### Meaning

Depreciation means a fall in the value of an asset because of usage or efflux of time due to obsolescence or accident. It is the permanent and continuing diminution in the quality, quantity of value of an asset.

#### Definition

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

Thus, depreciation may be defined as continuing and gradual shrinkage in the value of fixed assets. It has a significant impact in presenting the financial position and result of operations of a business enterprise. It is charged in every accounting period as an expense/ loss to the extent of shrinkage in the value of fixed assets so that cost of production can be determined properly.

#### Features or Characteristics of Depreciation

- ➔ 1. Depreciation is charged on fixed assets except land.
- ➔ 2. Depreciation is calculated on the book value (as shown in the books after charging of depreciation) and not on market value of assets.
- ➔ 3. Depreciation is charged on permanent basis. Once the depreciation is charged, it reduces the value of the asset permanently.
- ➔ 4. Depreciation is charged on a continuous basis. Once the depreciation is charged, it must be charged on regular basis in the succeeding period also.
- ➔ 5. The charge of depreciation will decrease the value of asset gradually. In other words, it must reduce the value of assets slowly and steadily.
- ➔ 6. The process of computation of depreciation implies allocation of cost of an asset over the effective and useful life of the assets.

#### Causes of Depreciation

The principal causes of depreciation are as follows:

1. **By Constant use:** Wear and tear of an asset due to its constant use is a cause of decline in the value of an asset. A fixed asset begins to lose its value when it is used in the business e.g. plant & machinery, building, furniture etc.
2. **By expiry of time:** Certain assets get decreased in their value with the expiry of time whether they are used in the business or no. this is true in case of assets like leasehold properties, patents or copyrights etc. For example, if a lease is obtained for 25 years for Rs. 1,00,000, it will lose  $1/25^{\text{th}}$  i.e. Rs. 4,000 of its value every year whether it is used in the business or not. So at the end of 25<sup>th</sup> year, its value will be reduced to zero.



3. **By Obsolescence:** Some assets are discarded before they are worn out because of changed conditions. For example, an old machine which is still workable may have to be replaced by a new machine because of the later being more efficient and economical. Such a loss on account of new inventions or changed fashions is termed as loss on account of obsolescence.
4. **By Depletion:** Some assets like mineral mines, oil wells etc. get exhausted or depleted through working. On account of continuous extraction of minerals or oil, a stage comes when the mine or oil gets completely exhausted and nothing is left.
5. **By Accidents:** An asset may meet an accident and therefore, it may get depreciated in its value.
6. **By Permanent fall in market price:** Though the fall in the market value of fixed assets is not recorded because such assets are not resale for use in the business. Sometimes, the fall in the value of certain fixed assets is treated as depreciation e.g. permanent fall in the value of investment.
7. **Changes in economic environment:** There may be instances when slackening of demand for the services of an asset may bring about a fall in its value. Such a change in conditions arises due to a number of factors e.g. technological changes within an industry, changes in tastes and habits of consumers, changes in availability of natural resources and so on.

Thus, depreciation applies to fixed assets, depletion to wasting assets, amortization to intangible assets and damage due to dilapidations of building or other property during tenancy.

Need or Objects or Significance of Providing Depreciation

**The following are the objectives of providing depreciation:**

1. **Ascertainment of true profit or loss:** Depreciation being a loss, will certainly affect the business profits. Therefore, to arrive at the true profit or loss, depreciation must be provided for and records in the books of accounts.
2. **Presentation of true financial position:** In a balance sheet, assets must be shown at their true values. This is not possible unless depreciation is provided and deducted from the values of these assets.
3. **Replacement of assets:** Some assets used in the business need replacement after the expiry of their service life. By providing depreciation, a part of the profit of the business is kept in the business which can be used for purchase of new assets when the old fixed assets become useless.
4. **Calculation of correct cost of production:** Correct cost of production cannot be calculated unless depreciation is properly provided and accounted for an item of cost of production.
5. **Prevention to withdrawal of capital:** Capital of a business remains invested in different assets. If no depreciation is charged, assets and capital are shown at enhanced figures due to such misrepresentation; capital itself may be withdrawn in the guise of imaginary profit.
6. **Excess payment of income tax:** Depreciation accounting is required for correct computation of profit for tax purposes and for computation of tax liability, otherwise more income tax will be paid on account of excess profit.
7. **To prevent distribution of profit out of capital:** If no depreciation is charged, it will result in showing more profit. Such excess profit may either be withdrawn by the owner



or may be distributed among shareholders of the company as dividend. This will mean payment out of capital to the shareholders.

- 8. **Other objectives:** The workers may demand an increase in the wages or salary or in the payment of bonus as more profit will be shown if depreciation is not provided.

**Factors Affecting Depreciation**

Calculation of depreciation is a difficult work. Following three basic factors are of utmost importance in the calculation of depreciation:

- 1. **Total cost of the assets:** The cost of the asset includes the invoice price of the asset, less any trade discount plus all costs essential to bring the asset to a useable condition. In other words, cost includes all expenses upto the installation of the assets e.g. freight, carriage, installation charges etc.
- 2. **Estimated useful life of an asset:** This is represented by the number of years of the estimated serviceable life span of an asset. Thus, if an asset is expected to last for 15 years before completely losing its usefulness for business operations, its life is taken to be 15 years. If a machine can work for 15 years but it is likely to become obsolete in 10 years due to availability of better type of machine, its useful life will be considered as 10 years.
- 3. **Estimates scrap value of an asset:** The term scrap value means the residual or break up or salvage value which is estimated to be realized on account of the sale of the asset at the end of its useful life. An important part in this connection is that an asset may not necessarily have a scrap value e.g., leasehold property.

Example: if a machine is bought for Rs. 50,000; Rs. 3,000 are spent on its freight, Rs. 2,000 for its installation, it is estimated by the expert that its working life will be 10 years and at that time residual value will be Rs. 2,500. In such case, depreciation will be calculated as follows:

Cost of the asset = Rs. 50,000 + Rs. 3,000 + Rs. 2,000 = Rs. 55,000

Working life of the asset = 10 years

Scrap value of asset Rs. 2,500

It means Rs. 52,500 (Rs. 55,000 – Rs. 2,500) will be written off in the time span of 10 year i.e. Rs. 5,250 every year as depreciation.

**Depreciation and other Related Concepts**

- i. **Depreciation and Depletion:** Depreciation refers to a reduction in the value of all kinds of fixed assets arising from then wear and tear. Depletion is used in respect of the extraction of natural resources like quarries, mines, etc. that reduces the availability of the quantity of material or asset.
- ii. **Depreciation and Obsolescence:** Obsolescence refers to decrease in usefulness caused on account of the asset becoming out of date, old fashioned, etc, and it is one of the causes of depreciation. Depreciation is the loss in the value of an asset on account of wear and tear.
- iii. **Depreciation and Amortization:** Amortization refers to writing off of the proportionate value of the intangibles such as goodwill patents, copyrights while depreciation refers to writing off of the expired cost of the tangible assets like machinery, building, etc.
- iv. **Depreciation and Fluctuation :** The points of difference are as follows :

Depreciation	Fluctuation
1. Charged on fixed assets.	1. It appears in respect of current assets
2. It is consistent in nature	2. It is inconsistent in nature.
3. It has a virtue of continuity.	3. It has no continuity



4. It always reduces the value of the asset.	4. It may cause increase in the value of asset.
--	---

**Methods of Charging Depreciation:**

1. **Fixed Installment Method/ Original Cost Method:** In fixed installment method, a fixed part of the original cost of the asset is transferred to P & L A/c every year as depreciation. The amount transferred as depreciation is fixed or the same. In this method when the asset becomes useless, its value becomes zero.

i. When the asset has no residual value:

Original cost of asset

Each year's Dep. =  $\frac{\text{Number of years of estimated life of the asset}}{\text{Original cost of asset}}$

ii. When the asset has residual value:

Original cost of the asset - Its estimated resident value

Each years Dep. =  $\frac{\text{Number of years of estimated life of the asset}}{\text{Original cost of the asset - Its estimated resident value}}$

2. **Diminishing Balance Method/ Reducing balance method/ Written down value method:** In this method, depreciation is charged on the residual balance of the asset by a fixed rate of percentage. Thus, as the value of asset keeps going down year by year, depreciation also goes down in proportion. In this method the amount of depreciation is decreased every year.

Rate of depreciation is fixed in this method, but depreciation at this rate is calculated on the balance of the asset standing in the books on the first day of each year.

This method is suitable in case of those assets whose repair charges increase as they become old, e.g., Machinery. Also known as Reducing Balance method and written down value method.

**Difference between Fixed Installment and Reducing Balance Method**

Basis of different	Fixed Installment Method	Reducing Balance Method
1. Calculation of Depreciation	Depreciation is calculated on the original cost.	Depreciation is calculated on the remaining balance or opening book value of the asset.
2. Variation in depreciation amount	Amount of annual depreciation remains same.	Amount of annual depreciation keeps decreasing.
3. Balance at the end of life	Under this method, balance of asset account is either equal to zero or is equal to scrap value at the end of life of an asset.	According to this method balance of the asset can never be equal to zero.
4. Rate of Depreciation	Rate of depreciation is not kept high.	Rate of depreciation is normally kept high.
5. Burden on Profit & Loss	Burden of repairs and depreciation is not equitable under this method.	Burden to total cost of running the asset is almost equitable.
6. Applicability	This method is adopted on the assets which are of less value and shorter life.	This method is more suitable for those assets which lose their utility gradually and heavy repair cost is incurred on them.



7. Validity	This method is not approved by income tax laws.	This method is approved by tax laws and tax rebate is given on depreciation calculated by this method.
8. Practicability	Same depreciation is charged even when the asset is of less value.	As the utility of the asset reduces, the amount of depreciation keeps on decreasing.

### Journal entries in case of Depreciation

1. On asset purchase  
Asset A/c      Dr  
    To cash/ Bank
2. On depreciation charged  
Depreciation on asset A/c      Dr  
    To asset A/c
3. On Transfer of depreciation to P&L A/c  
P&L A/c      Dr  
    To depreciation
4. On sale of asset at profit  
Cash/ Bank A/c      Dr  
    To P&L A/c  
    To asset A/c
5. On sale of asset at loss  
Cash/ Bank a/c      Dr  
P&L A/c      Dr  
    To asset A/c

Journal entries for Depreciation when provision of Depreciation is made.

1. For providing depreciation  
Depreciation a/c      Dr  
    To provision For Depreciation A/c
  2. For transfer of depreciation to P&L A/c  
P&L A/c      Dr  
    To Depreciation A/c
  3. On sale of asset
    - a. Provision for Depreciation A/c      Dr  
    To Assets A/c
    - b. In case of profit or loss on sale of asset
- If Profit:      Asset A/c      Dr  
                    To P&L A/c
- If Loss:      P&L A/c      Dr  
                    To asset A/c

Alternately, on sale asset, an asset disposal account may be opened.

Change of Method:

- i. In case of change of method of charging depreciation from straight line method to diminishing balance method, the depreciation is charged on the reduced balance of asset on the date when change is applicable.



- ii. In case of change of method of charging depreciation from diminishing balance to straight line method, the depreciation is charged on the original cost of asset when change is applicable.

Change of method from previous date (Retrospective effect)

The change of method from straight line to diminishing balance and from diminishing to straight line can be made effective from the original/ previous date. In such a case there might be extra depreciation already charged or to be charged as change is to be made effective from previous date. The treatment of this extra of less depreciation is to be made. Such change of method is known as change of method from previous date i.e. retrospective effect. As per AS-6 when any change of method of depreciation is recommended, then the change is to be made effective from retrospective effect and not immediate effects.

3. **Annuity Method:** In annuity method the amount invested in an asset is considered as an investment and interest is calculated on such amount. Every year the amount of interest is calculated and same is transferred to debit side of the asset A/c and depreciation A/c is credited. Thus the effect of depreciation and interest keeps increasing on the P & L A/c because every year the P & L A/c is debited with the amount of depreciation and credited with the interest. Under this method amount of depreciation is found out from annuity table. When an asset is purchased, the purchaser not only loses the amount spent in purchasing the asset but he also loses the expected amount of interest which he would have earned had he invested this amount elsewhere instead of purchasing this asset. Under this method amount of depreciation includes some portion of the asset and some portion of this expected amount of interest also.
4. **Depreciation Fund Method:** In this method, Govt. Investments are purchased every year by the amount of depreciation. More securities are purchased by the return on previous securities. Thus the depreciation is invested in securities. Compound interest is received on such securities. Investments are not made in the last year; instead all securities are sold out and the return is used for renewal. Amount of depreciation is not deducted from the value of the asset; instead it is transferred to the credit side of Depreciation Fund A/c. Asset is shown on the original cost every year.
5. **Depreciation Repairs & Renewals Fund Method:** In this method, the life of the asset, depreciation thereon, scrap value at the end of its life and repairing expenses of the asset are estimated in advance. Such estimated amount is transferred to the P & L A/c in equal parts. In this method a Depreciation Repairs and Renewals Fund a/c is opened. In this account, the estimated installment calculated in the above mentioned manner is transferred to the P & L A/c every year. When the life of the asset is over, it is disposed of. The balance of Fund A/c is transferred to the asset A/c and both accounts are closed. If some balance remains in the Asset A/c it is transferred to the P & L A/c.
6. **Insurance Policy Method:** In Insurance Policy Method the amount of depreciation is not invested in external securities. Instead, an insurance policy is taken for renewal of the asset. Every year a fixed amount is paid as premium of the policy and after a certain period the insurance company pays back in lump sum, which is used for renewal.
7. **Revaluation Method:** In this method at the end of each year the asset is revalued by an expert before the preparation of final accounts and any reduction in the value of the asset is assumed as depreciation and is duly charged. If there is an appreciation in the value of such asset, it is overlooked. When the asset is revalued at a lower price, the amount by which it is reduced is assumed as depreciation. The Depreciation A/c is debited with this amount and asset A/c is credited with the same.



8. **Sum of the year digits method:** First of all the estimated cost of assets is calculated by deducting scrap value from original cost. The total of digits of the assets is made in an order. If the life of a company is five years - 5 + 4 + 3 + 2 + 1 = 15 will be sum of the digits. For calculation of depreciation assets of first year will be assumed to be equal in use of the asset throughout its life. In the following years the period will gradually be reduced. The following formula is used to calculate depreciation:

$$\text{First year} = \frac{\text{Estimated value of the asset} \times \text{Total life of asset}}{\text{Total of all years}}$$

In second and following years one year respectively will be reduced from the total number of years.

9. **Machine hour rate method:** In this method the life of machinery is estimated in hours and the whole loss on the machinery (Cost - Scrap Value) is divided by such hours. Thus the depreciation is calculated on per hour use of the machinery.
10. **Depletion Method :** In this method, an estimate of the profits which the assets is supposed to yield in the future is made and the amount invested in the asset is divided in such profit and depreciation per unit is calculated.

**Difference between Reserves & Provisions**

S. No	Basis of Difference	Reserve	Provision
1	Meaning	A reserve is meant for meeting an unanticipated situation.	A provision is created for some specific object
2	Mode of creation	A reserve is created only out of profit. If there is no sufficient profit, a reserve cannot be created.	A provision is a charge against profit. It is created even though there is no profit.
3	Time of creation	A reserve is created after ascertaining the profit	A provision is created before ascertaining the profit or loss of a business.
4	Object	The object of creating such reserves is to strengthen the financial position of the business and to increase the working capital.	The object of making provisions is arrangement made to provide funds for known liability.
5	Utilization	Reserve can be used in the payment of any liability or loss.	Provision can be utilized only for the purpose for which it is meant.
6	Distribution	General reserve are always available for distribution of profits e.g. as dividend.	A provision cannot be utilized for the distribution of profit e.g. as dividend.
7	Place in accounting	Reserves show excess of assets over liabilities.	A provision is not shown as excess of asset over liabilities but it is helpful for determining the real valuation of assets.
8	Presenting in balance sheet	Reserves are always on the liabilities side in the balance sheet.	A provision is shown as an item of deduction from its related asset or shown on liability side.

**Numerical**



Tulip Ltd. purchased a new machine on 1.4.2016 for Rs. 5,00,000. The useful life the machine was expected to be 5yrs. Tulip Ltd. plans to fully write it off in equal installments. On 1.4.2018, the company revised the expected life of the machine, which was expected to continue for further 2 yrs. Prepare machinery A/c for 4 years in the books of Tulip Ltd.

Solution:

In the Books of Tulip Ltd.

Machinery A/c

Date	Particulars	Amount (Rs.)	Date	Particulars	Amount (Rs.)
2016 Apr.1	To Bank A/c [Purchase]	5,00,000	2017 Mar 31	By Depreciation A/c [5,00,000×1/5]	1,00,000
				By Balance c/d	4,00,000
		5,00,000			5,00,000
2017 Apr.1	To Balance b/d	4,00,000	2018 Mar 31	By Depreciation A/c [5,00,000×1/5]	1,00,000
				By Balance c/d	3,00,000
		4,00,000	31		4,00,000
2018 Apr.1	To Balance b/d	3,00,000	2019 Mar 31	By Depreciation A/c	60,000
				By Balance c/d	2,40,000
		3,00,000			3,00,000
2019 Apr.1	To Balance b/d	2,40,000	2020 Mar 31	By Depreciation A/c	60,000
				By Balance c/d	1,80,000
		2,40,000	31		2,40,000

**Depreciation under WDV- Purchase and Sale of Asset**

A Ltd. purchased on 1st April, 2019 a machinery for Rs. 2,91,000 and incurred Rs. 9000 for installation. On 1st October another machinery for Rs. 1,00,000 was purchased. On 1st October 2020 the machinery purchased on 01/04/2019 having become useless was sold for Rs. 1,93,000 and on that day a new machinery was purchased for Rs. 2,00,000. Depreciation was provided on 31st March each year @ 10 percent p.a on written Down Value. You are required to prepare machinery account.



Date	Particulars	Amount (Rs.)	Date	Particulars	Amount (Rs.)
2019 Apr.1	To Bank A/c	2,91,000	2017 Mar 31	By Depreciation A/c	35,000
	To Bank A/c [Installation Charge]	9,000		By Depreciation A/c [5,00,000×1/5]	
	To Bank A/c	1,00,000		By Balance c/d	3,65,000
		<b>4,00,000</b>			<b>4,00,000</b>
2020 Apr.1 Oct. 1	To Balance b/d	3,65,000	2018 Mar 31  31	By Depreciation A/C (sold on Machinery)	13,500
	To Bank A/c [New Machine Purchased]	2,00,000		By Bank A/c	1,93,000
				By Profit & Loss A/c	63,500
		<b>5,75,500</b>	2019 Mar 31	By Depreciation A/c	19,500
			By balance c/d	2,75,500	
					<b>5,75,500</b>

**ROYALTY ACCOUNTS**

Royalty mean the sum payable by one person to another person for using right i.e. it is the periodic payment to the owner of some form of privilege or monopoly for being allowed to use such right or privilege.

**Definition of Royalty**

“Royalty refers to the amount paid by one person to another for granting the some special rights by the former to the latter”.

**Difference between Royalty and Rent**

1. Use- Consideration received from using some tangible assets like building, factory etc. is known as rent. While consideration which is received from using both tangible and intangible assets like patent, copyright etc. is known as royalty.





ACCOUNTING FOR ROYALTY

Journal Entries

In the books of Lessee	In the books of lessor
(1) For royalty and short working Royalty (Payable) A/c Dr. short working (Recoupable)A/c Dr. To Lessor [Being amount payable]	(1) For royalty and short working Lessee A/c Dr. To Royalty (Receivable) A/c To Short working (Allowable) [Being amount receivable]
(2) For short working recouped Lessor Dr. To short working A/c [Being short working recouped]	(2) For short working recouped Short working Dr. To Lessee [Being short working allowed to recouped]
(3) For Payment Lessor Dr. To Bank A/c [Being payment made]	(3) For Payment Bank A/c Dr. To Lessee [Being payment received]
(4) For transfer of royalty Manufacturing A/c P&L A/c Dr. To Royalty A/c [Being transfer of Royalty]	(4) For transfer of royalty Royalty A/c Dr. To P&L A/c [Being transfer of Royalty]
(5) For recoupable short working P&L A/c Dr, To Short working A/c [Being recoupable S.W.]	(5) For recoupable short working Short working A/c Dr. To P&L A/c [Being recoupable S.W.]

SUB-LEASE

If the lessee again leases out to other person some part of assets taken by him on lease, it is called 'sub-lease'. The other person is called sub-lease. Suppose A has given 500 acres of land to B on lease and B has given 100 acres of land (out of 500 acres) to C on lease, then A is called main lessor, B is called main lessee as well as sub-lessor and C is called sub-lessee. There will be two separate agreements, the first one is between A and B and second one is between B and C. A will receive the royalty on the total production of A and B, while B will receive the royalty on the production by Conly. Two analysis Table will be prepared accordingly.



UNIT-III

BRANCH ACCOUNT

**Branch Account:** - Account which are opened in the book Head office and branches related to Branches are called branch account. The main objective of these branches Account is to know the working ability and profit and loss of branches. The also include the financial account related to them by which their financial condition is known.

**Kinds of Branches :-**

**Dependents Branches:-** These branches do not prepare any accounts their accounts are prepared by the H.O. These braches cash book, sales boo and stock book only for money. They do not keep any journal entries of ledger accounts. Dependent branches may be any of the following three kinds (a) branches making cash sales only (b) Branches making cash and credit sales (c) Branches to when goods are sent on sale price.

**Stock & Debtors Method:-** The branches which under take both cash & credit sales and whole sale is more due to expanded business area then it is difficult to prepare branch A/c only and these are more possibilities of errors due to more transaction amount.

**When goods sent to branch at cost price:-** The following accounts are prepared under this method:-

- (1) Branch stock A/c (2) Goods sent to Branch (3) Branch Debtors A/c (4) Branch expenses (5) Branch P & L A/c

**When goods sent to Branch at invoice price:-** The following accounts as prepare under this method.

- (1) Branch stock A/c (ii) Goods sent to Branch A/c (iii) Branch Debtors (iv) Branch Expenses (v) Branch stock Reserve A/c (vi) Branch adjustment a/c

**Simple system or Debtors system:-** When branch are very small than this method is adopted in this method only branch account is prepared in the bank of H.O. whose credit balancer indicate profit and debit balance indicates the loss. The method is also called debtor method. The branch account prepared under this method is of the nature of nominal account.

**Financial account system:-** In this method branch trading account & profit & loss of H.O. along with Branch A/c. The Branch account prepared under this method is of the nature of personal a/c.

**Whole sale Branch method:-** This is method applied when the manufacturers supplier the goods to the whole seller and also to the consumer a from their own branch. The goods use transferred to the branch at the same value at which it is transferred to whole sellers.

**Multiple Account Method or Stock and Debtor Method**

In this method for ascertaining trading results many accounts are opened in the books of branch instead of only branch account.

(+)	Branch Stock A/c (I.P.)	(-)
To Bal. b/d	By B. Cash A/c (Cash Sales)	
To Goods sent to Br. A/c	By B. Debtors A/c (Credit Sales)	
To B. Debtors A/c (S.R.)	By Goods to Br. A/c (Ret. To H.O.)	
To B. Stock Res. (loading) } (Surplus)	By B. Stock Res. (loading) } (Shortage)	
To B. P & L. A/c (Cost)	By B. P & L. A/c (Cost)	
To ..... B. Stock a/c (Trans. Recd.)	By Goods in transit a/c	
To B.P. & L A/c (B.F.)	By... B Stock A/c (transfer given)	



		By Bal. c/d	
--	--	-------------	--

The converted trail balance is prepared as under:

- (i) **Fixed assets-** Fixed assets are converted at the rate prevailing at the date of its purchase. If this rate is not in the opening rate may be applied.
- (ii) **Fixed Liabilities:-** The are converted at the rate prevailing when these liabilities arose. If nothing is given, opening rate may be applied.
- (iii) **Current assets and current liabilities:-** These are converted at the closing rate.
- (iv) **Opening and closing stock:-** Opening rate is applied for opening stock and closing rate is applied for closing stock.
- (v) **Depreciation-** The rate applied for the concerned asset, is used to convert the depreciation also.
- (vi) **Provision for bad & doubtful debts-** This is converted at the rate at which debtors are converted i.e. closing rate.
- (vii) **Revenue items:-** Except, depreciation, provision for doubtful debts, opening and closing stocks, all the revenue items are converted at average rate.
- (viii) **Remittance by branch-** No rate is applied for this item, but the amount standing in the books of H.O. in this respect is considered.
- (ix) **H.O. account-** This is also not converted by any rate, but the balance of branch account in H.O.'s books is considered.

**Conversion Table**

Particulars	Rate to be applied
Fixed Assets	Opening Rate
Fixed Liabilities	Opening Rate
Current Assets	Closing Rate
Current Liabilities	Closing Rate
Goods, Expenses and Income	Average Rate

**Exchange suspense or reserve account-** When the branch trial balance is converted as per the above mentioned rules, obviously the totals of converted trial balance do not agree. So the difference in converted trial balance is transferred to a newly opened 'exchange suspense or exchange reserve account'. This account is shown in balance sheet. If it is one the credit side, it is shown on liabilities side or vice versa.

For incorporation of branch trail balance, at first the trial balance is converted and then final accounts are prepared.

**Note:-** Some authors prefer to transfer 'exchange suspense account' to profit & loss A/c if the amount of this account is more or less equal to the other revenue accounts.

**Incorporation of Branch Trial Balance in H.O. Books**

Every Branch is an integral part of the business of its Head Office. The Assets and Liabilities of the Branch are a part of the Assets & Liabilities of the Head Office. Hence it is essential that a Joint Balance Sheet be prepared for the Head Office and all its Branches which may show a clear & complete position of the business organisation. For this Joint Balance sheet, the adjustment of Trial Balances of all the Branches is to be made in the books of the Head Office. Its procedure is as follows:-

**First Method-** According to this method, the incorporation of the Trial Balance of the Branch is done once together i.e. only one entry is made for all the items of debit side and credit side as given below:



(1) All items in the Dr. side of branch Trial Balance Dr.  
To Branch A/c  
(Being all the Dr. balance of Branch incorporated)

**Specimen of Branch Account in Head Office Books**

	<u>Rs.</u>		<u>Rs.</u>
To Balance b/d:		By Balance b/d (Op. Liabilities)	
Opening Stock		By Cash A/c	
Opening Pettry Cash		By Goods Supplied to Branch	
Opening Assets		(Return)	
To Goods Supplied to Br.		By Assets (Closing Balance)	
To Cash (Exps.) A/c		Stock at Branch A/c	
To Liabilities (Closing)		Petty Cash at Branch A/c	
To General P & L A/c (if profit)		By General P & L A/c (if loss)	

**Numerical**

1. =From the following particulars relating to Delhi Branch for the year ending December 31, 2000 prepare Branch Account in the books of head office.

Stock at Branch on 1-1-2000	15,000
Debtors at Branch on 1-1-2000	30,000
Petty Cash at Branch 1-1-2000	300
Goods sent to Branch	2, 52, 000
Cash sales	60,000
Received from Debtors	2, 10,000
Credit Sales	2,28,000
Cheque sent to Branch for:	
Salaries	9,000
Rent and Taxes	1,500
Petty Cash	1,100
Goods returned by the branch	2,000
Stock at Branch on 31-12-2000	25,000
Petty cash at Branch on 31-12-2000	200
Debtors at Branch on 31-12-2000	48,000

Solution  
Head Office Ledger  
Delhi Branch Account

Dr.		Cr.	
To Balance b/d		By Cash	
Branch stock	15,000	Cash Sales	60,000
Branch debtors	30,000	Received from debtors	2,10,000
Branch petty cash	300		
To Goods sent to Branch A/c	2,52,000	By Goods sent to Branch A/c	2,000



To Bank A/c	11,600	By Balance c/d	25,000
Salaries 9,000		Branch stock	48000
Rent and Taxes 1,500		Branch Debtors	200
Petty Cash 1,100		Branch Petty Cash	
To Profit (transferred to General P/L A/c)	36,600		
	<u>3,45,200</u>		<u>3,45,200</u>

## DEPARTMENTAL ACCOUNTS

When activities of a big organization are divided into different processes or divisions or unit or functions than there process or functions are performed in different departments all though all these departments are part of a business it is necessary to that which department is earning profit and which one is suffering loss. So separate accounts are made for each department and at the end of the year their separate P&L A/c are prepared.

### Method of keeping departmental accounts:

For preparing departmental trading and profit & loss account the books of original records are also ruled out accordingly. There are two methods of departmental accounting.

- (i) **Unit wise method:** in this method each department is treated as an independent unit and separate books of accounts are maintained for each of them and final accounts are prepared at the end of the year.
- (ii) **Columnar method :** under this method entries of each department are made jointly and separate column of each department is given and one column is made for the total of all the department

**Departmental final accounts:** departmental trading and Profit & Loss account is prepared on the basis of same rules of which are followed for preparation of general trading and profit & loss a/c. under departmental trading and profit & loss account a separate column is drawn for each department on debit and credit side and a total column is also drawn on both the side. Each item of related department is shown in that column and total of those columns will be shown in total column this profit or loss of each department and total profit or loss of business can be found out.

Balance sheet: - this is not prepared departmental wise but only one B.S. is made for whole the business as usual.

Allocation of departmental expenses: -

In

Practice the following general rules are usually applied for allocation and apportionment of expenses.

Expenses directly related is a particular department should be charged to that department, but is any exp is not particularly belongs to a particular department can be apportionment on the following basis table.

Some of the expenses such as interest on debentures loan, capital, director's fees, salary of general manager office exp etc. can not be apportioned to different department on any equitable basis. Thus such expenses are debited in general profit & loss account only. These





100

(b) if the profit percentage is given on cost price-

$$\text{Stock Reserve} = \frac{\text{Percentage} \times \text{Amount of stock on which reserve is required}}{100 + \text{Rate of Profit}}$$

**Numerical**

Mr. X, the proprietor of departmental store (containing three departments named A,B, and C) decided to calculate separate profit for separate department for the month of march 2024. Stock on 31 March could not be valued for certain unavoidable reasons but his rates of gross profit on sales for the A, B and C department are 40%, 30% and 20% respectively. The following information is given:

	Departments		
	A	B	C
Stock on 1.3.2024	9000	8400	5490
Salary	5490	8520	12220
Purchase	27000	21,600	90000
Sales	42000	36000	102000

Indirect expenses for the whole business of all three departments are rs. 10,800, out of this 1/6 of the whole are to be divided in all the three departments in proportion to departmental sales, prepare trading and profit & loss Account for the departments A,B and C

**Solution:-**

**Departmental Trading and Profit and Loss Account**  
(for the month of March 2024)

	A	B	C		A	B	C
To stock	9000	8400	12000	By Sales	42000	36000	1,02,000
To purchase	27000	90000	90000	By Stocks	10,800	4800	20,400
To gross profit c/d	16800	20400	20400				
	<u>52800</u>	<u>122400</u>	<u>122400</u>		<u>52,800</u>	<u>40,800</u>	<u>1,22,400</u>
To Salary	5490	8520	12220	By Gross profit b/d	16,800	10,800	20,400
To indirect Expenses	3180	2160	5460				
To Net Profit	8130	120	2720				
	<u>16800</u>	<u>10800</u>	<u>20400</u>		<u>16800</u>	<u>10800</u>	<u>20400</u>



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**UNIT-IV**

**Accounts of non-profit organizations and professionals**

In many countries, besides profit making organization, there are many such organizations whose main motto is not to earn profit but to serve for the benefit of the society or for entertaining its members or to safeguard the interest of the society. Such type of organizations are known as 'non-profit organizations'. For example, club, education institutions, schools, trade unions, consumer co-operatives, political associations, automobile association, hospital etc.



Need for maintaining accounts of non-profit organizations and professional:

- 1) For the information
- 2) Balancing the expenditure
- 3) Calculation of surplus or deficit
- 4) To find the financial position
- 5) Information regarding assets
- 6) Calculation of tax

Final Accounts

- a) Receipts and payments accounts
- b) Income and expenditure accounts
- c) Balance sheet

Difference between receipts & payments account and cash book –

S.No.	Basis of difference	Receipts & payments accounts	Cash Book
1	Datewise	Receipts and payments are not recorded datewise.	Receipts and payments are recorded date wise.
2	Fixed date	It is prepared on some fixed date in a year.	The transaction goes on for the full year.
3	Base	Cash book is the base for the payments a/c.	It is prepared on the basis of cash transactions.
4	Form	It is a brief statement of cash book.	It is the detailed record of cash transactions.
5	Items	Analysis of each receipts & payments are made item wise & the it is written.	Each item is differently written in the book.
6	Nature	It is a memorandum book.	It is a main and most important book.

Following points are taken into consideration while preparing income & expenditure account and balance sheet of non-profit organization –

- 1) **Life membership fees** – Instead of paying membership fees annually, some members deposit a lump sum membership fees i.e. deposit the life time membership fees. This fees are not related to one year but it is related to life time of the member.
- 2) **Entrance fees** – At the time of admission of members entrance fees is taken from them. It is taken only once from the members. After that normal annual membership fees are taken from members. Since it is paid once for ever by a member, it is not f recurring nature hence it should be considered as capital receipts and will appear on the liability side of balance sheet.
- 3) **Endowment Fund** – Some people donate a huge amount for some religious or for some social purpose or donate some valuable fixed assets. Such a huge amount forms a base for the working of organizations. Since it is not a recurring amount it is treated as of capital nature and hence taken into balance sheet.
- 4) **Donation** – Gift received from any person, firm, company etc. his known as donation. It depends upon type of donation whether to credit in income & expenditure account or to treat it as capital income & take it to balance sheet. For this, following points should be kept in mind.



- a) **Specific donation** – If organization receives donation for some specific purpose then it is treated as capital income & written on the liability side of balance sheet. For example, donation for library, sports ground, building etc.
- b) **General donation** – When donation is not received for some specific purpose then it is known as general donation. If huge amount is received then it should be taken to the liability side of balance sheet as there are small changes of its recurring. But if the amount received is small then it should be credited to income & expenditure account because there are more changes of its recurring every year. Whether the amount is smaller or higher is decided by comparing this item with other items in the question or by some related circumstances.
- 5) **Legacy** – Legacy received by organization is such type of donation which is rarely received, hence it is treated as capital income and written on the liability side of balance sheet. But if the amount received is smaller in size then it is treated as revenue income and credited to income and expenditure account.
- 6) **Income or expenses from specific fund** – To fulfil certain specific object, non-profit organizations open specific funds. Like match fund, sports fund, tournament fund, prize fund, charity fund, etc. If any income is earned from such fund, then it is written on liability side of balance sheet and if any expenditure is related to it than it should be deducted.
- 7) **Subscription** – Main source of income of non-profit organization is from subscription. Total subscriptions of previous year is treated as revenue and written on the credit side of income & expenditure account.
- 8) **Sale of old assets** – Amount received on sale of old asset is debited to receipts and payments account. If there is profit on sale of assets, it should be credited and if there is a loss then it should be debited to income & expenditure account. Book value of sold asset should be deducted from the assets.
- 9) **Sale of sports equipment** – Sale of sports equipment is usually made by club. Hence it should be property accounted for.
- 10) **Sale of old newspaper** – It is an income which can occur frequently, hence it is credited to income and expenditure a/c.
- 11) **Subsidies from government and other institution** – If non-profit organization received some subsidy from government or other institution then it should be credited to income expenditure account. If it is of capital nature it should be recorded on liabilities side.

### Difference between receipts & payments account and income & expenditure account

S.No.	Basis of Difference	Receipt & Payment A/c	Income & Expenditure A/c
1	Nature	It is a cash account of a non-trading concern.	It is like a profit & loss account of a non-trading concern.
2	Account	It is a real account.	It is a nominal account.
3	Side	Receipts are debited and payments are credited to this account.	Expense are debited and income are credited to his account.
4	Capital & revenue	It records receipts & payments of both capital & revenue nature.	It records income & expenditure of only revenue nature.
5	Period of income & expenses	It shows the receipts & payments made during the year whether they belong to past, current or subsequent year.	It shows incomes & expenditure of the current year only whether received or not received/paid.



6	Opening Balance	Balance in the beginning represents cash in hand in the beginning.	There is no balance in the beginning.
7	Closing Balance	Balance at the end represents cash in hand at the end.	Balance at the end represents excess of income over the expenditure or <i>vice versa</i> .
8	Adjustment	There is no place for adjustment.	Here adjustments are made.
9	Balance sheet	It is not essential that balance sheet should accompany this account.	Balance sheet must accompany this account.

## INVESTMENT ACCOUNTS

### Meaning of Investment

When a person introduces his capital for earning more income it is known as investment. It can be done in any way like investing in business or in fixed assets or investment in such assets through which interest, dividend can be earned.

- 1) Fixed Income Bearing Securities** – It includes those types of securities from which there would be fixed source of income/interest like government securities, debentures, bonds etc.
- 2) Variable income bearing securities** – It includes those type of securities from which there is no fixed source of income like equity shares or stock of the company Dividend on shares or stock is distributed only when there is a profit in the company.

### Interest on Investments –

Interest on Government Securities, Semi government securities or securities of private sector companies are distributed twice in a year at every six months interval. Interest on investment is calculated on the face value of the securities Interest of 6 months is payable to the person whose name is registered at the time of distributing interest irrespective of the period for which he holds the security. Now if a person after receiving interest of 6 months but before receiving the interest of next 6 months, sells his securities then he will take from the buyer both value of investment as well as interest which has been accrued.

### Cum-interest and ex-interest purchase and sale

Market value of the securities may be quoted cum-interest or ex-interest. In case of cum-interest quotation, the price quoted is inclusive of interest which is accrued from the last date of payment of interest to the date of transaction, and in case of ex-interest, the price quoted is exclusive of interest from the last date of interest payment to the date of transaction i.e. in this case buyer has to pay to the seller the accrued in addition to the price paid for the investment.



In case of cum-interest quotations the accrued interest will be deducted from the price and the remaining amount will be recorded in investment account. In case of ex-interest quotations the price (without deducting accrued interest) will be recorded in investment account. But in both the cases interest account will be recorded by the same amount.

### Accounting of investments

A person who does the trading of investment, i.e. does the business of purchase and sale of investment of different types, keeps the record of transactions systematically where the investment are not many, they can be recorded in the "general ledger" itself. But where the investments are substantial, a separate ledger may be kept for recording the investments. Such a ledger is known as investment ledger. Separate account will be kept for each scrip. Traders of investment earn income from investment in two ways –

- 1) By purchasing and selling the investment and
- 2) By way of interest from holding the investment.

Profit from purchase and sale of investment is derived from investment account while income from interest is derived from interest account. Accounting for investment is done in the following manner:

### Journal entries

#### 1) Investments purchase –

Investment A/c	Dr.
Interest / Dividend A/c	Dr.
To Bank A/c	

(Being investments purchased)

#### 2) Investments Sold –

Bank A/c	Dr.
To Investment A/c	
To Interest / Dividend A/c	

(Being investments sold)

#### 3) Interest / Dividend received on due date –

Bank A/c	Dr.
To Interest / Dividend A/c	

(Being interest sold)

#### 4) Amount of interest or dividend transfer to profit & loss account at the end of year –

Interest / Dividend A/c	Dr.
To Profit and Loss A/c	

(Being Interest transferred)

#### 5) Profit or loss on sale of investment transferred to profit & loss account –

##### i) for profit –

Investment A/c	Dr.
To Profit and Loss A/c	

(Being profit transferred)





**Ledger**

**For every investment, a separate investment account is prepared as under -**

**Investments Account**

*(Interest payable on....)*

Date	Particulars	Face Value	Amount	Date	Particulars	Face Value	Amount
Closing date	To Bank A/c (purchases) To P&L A/c (Profit on sale)	Rs.	Rs.	Closing Date	By Bank A/c (Sale) (By P&L A/c) (Loss on sale) By Balance c/d (Closing balance)	Rs.	Rs.

For all the investments only one interest account is prepared as under -

**Interest Account**

Date	Particulars	Amount	Date	Particulars	Amount
Op. Date	To Accrued Interest A/c (Previous year) To Bank A/c (interest paid on purchase)	Rs.		By Bank A/c (Interest received on sale) By Bank A/c (Interest received on interest dates)	
Closing Date	To P&L A/c (Bal. fig. transferred)		Closing Date	By Accrued interest A/c (Current year)	

**Accrued Interest Account**

Date	Particulars	Amount	Date	Particulars	Amount
Opening Date	To Balance b/d	Rs.	Opening Date	By Interest A/c	Rs.
Closing Date	To Interest A/c	Rs.	Closing Date	By Balance c/d	Rs.



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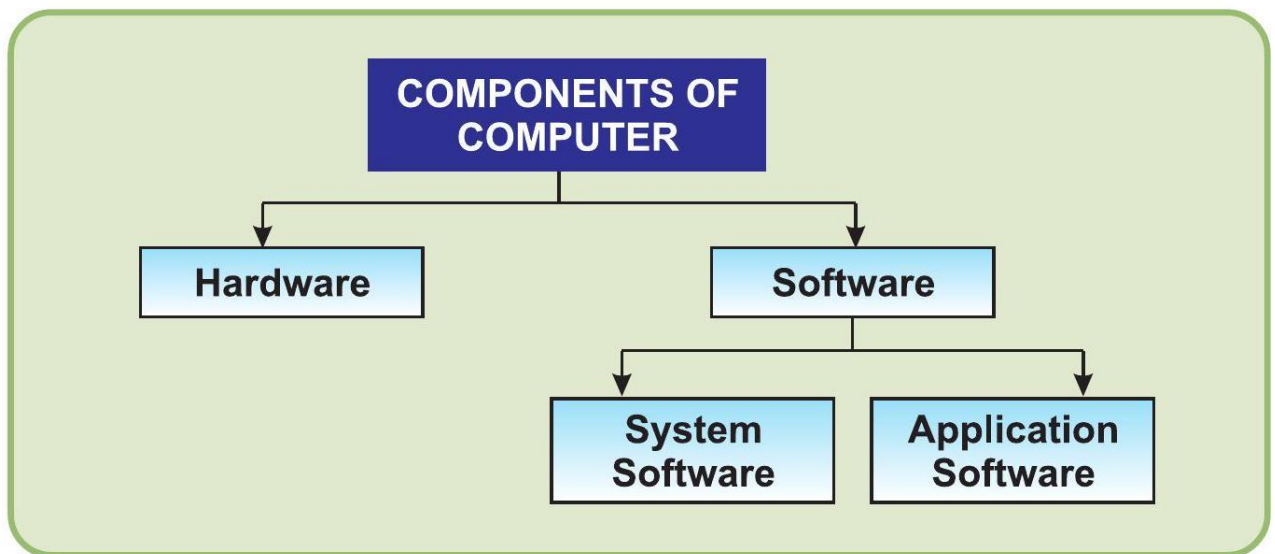
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**UNIT-V**

**COMPUTERIZED ACCOUNTING**

In modern business accounting transactions are processed through computers. Usage of computers and Information Technology (IT) enables a business to quickly, accurately and timely access the information that helps in decision-making. This sharpens the competitive edge and enhances profitability. The computer systems works with the data which is processed by the hardware commanded by the user through software.



The Computerized Accounting System (CAS) has the following components:

**Procedure** : A logical sequence of actions to perform a task.

**Data** : The raw fact (as input) for any business application.

**People** : Users.

**Hardware** : Computer, associated peripherals, and their network.

**Software** : System software and Application software.

These are the five pillars on which Computerized Accounting System rests. This chapter discusses the concept and components of CAS along with its advantages and disadvantages. It is followed by the discussion of software packages on CAS. In this chapter we will also discuss the concept about grouping of accounts and codification methods to be used for CAS.

**COMPUTERISED ACCOUNTING SYSTEM**



Computerized Accounting System refers to the processing of accounting transaction through the use of hardware and software in order to produce accounting records and reports. CAS takes accounting

transactions as inputs that are processed through Accounting Software to generate the following reports:

- Day books/Journals
- Ledger
- Trial Balance
- Position Statement (Balance Sheet)
- Statement of Profit and Loss (Profit and Loss Account)

### Advantages

The computerized accounting system provides several benefits as follows:



- **Error-Free Accounting**  
A computerized accounting system uses **artificial intelligence**. Therefore the reports generated consider every minute detail of the transactions.
- **Less Manpower**  
Preparing accounts over software requires fewer human resources. The requirement of personnel is **only for data entry and analysis**. Besides it, every process takes place automatically on the software.
- **Consistency in Records**  
This accounting system has consistency in record maintenance. The system has a systematic **pre-defined structure to store and display data**.



- **Automation**  
The software automatically creates Ledger, Trial Balance, Income Statement Balance Sheet, etc. However, the organizations just have to feed the data inside the software.
- **Time Efficient**  
The software's are easy to use and consumes less time in record maintenance. The design and development of the software are, especially for accounting purposes. Hence, it saves time and costs for the organizations.
- **Management and Control**  
Compared with manual accounting, managing and controlling financial data is easy.
- **Accessibility**  
We can access and retrieve information saved therein with a single click. In addition, this accounting system provides **security** to the data.  
Only authorized persons can access the company's accounts.
- **Improved Efficiency**  
Automation of accounting systems helps in improving efficiency.  
It enables the **optimization of time and resources** along with accuracy in account maintenance.
- **Attractive and Quality Reports**  
Report generation is **automatic** in this system. It utilizes the information saved by the user. These reports critically analyze accounting information.  
After that, present it in a consolidated form using visual tools as per user requirements.
- **Security**  
A computerized accounting system facilitates the protection of the company's accounts. The accounting software is password protected. And only allows **authorized users** to access the data.

## Disadvantages

Along with some advantages, computerized accounting has certain disadvantages too. Following are the disadvantages of computerized accounting.



## Disadvantages of Computerized Accounting



- **Data Corruption**  
The data stored in the software may get corrupted. The internal and external users can **hamper the data** in the software.  
It also has a threat from hackers who might access and leak the company's crucial information.
- **Unemployment**  
The installation of the computerized accounting system leads to unemployment. Due to automation, there is less need for accounting personnel in the organization.
- **System Failure**  
A computer is a machine and may have system failures. Consequently, the accounting process will stop until it is fixed. In the meantime, the accounts are manually managed or re-entered if required.
- **Technology Obsolescence**  
There is continuous technological advancement in the current scenario. The accounting system will get outdated after a while.  
Thus, one needs to **reinvest to get the updated version**. It unnecessarily consumes the company's precious time and resources.
- **Incorrect Data Input**  
In a computerized accounting system, the data entry is manual. Hence, there can be errors at the time of data entry. It will result in unidentifiable errors and inaccurate data.
- **Skilled Staff**  
This system demands specified skills for software operation. The organization needs to hire skilled personnel to operate the accounting software.
- **Addition to Cost**  
Acquiring, installing and maintaining software is an expensive affair. Thus, Small firms might not be able to afford these costs. And hence, continue to use manual accounting.
- **Programme Based**  
This accounting system is programme based and follows pre-defined instructions. It may not foresee unknown errors in the statements.

## Importance

1. It facilitates the availability of data to internal and external users.
2. This system helps in performing speedy and accurate accounting processes.
3. Helpful for large organizations that contain bulk transactions.
4. It enables performing payroll, creditors and debtors accounting.
5. An organized way of maintaining accounts and report generation.

## Features

1. **Digital Storage of Data**  
The recording of data is in a digital form in this system. It provides convenience in data *modification, retrieval and removal*.
2. **Quick Updating**  
Changes are reflected in all significant places as soon as we input the data. For instance, changes in stock are reflected simultaneously with data entry.



### 3. Integrated System

It is an integrated system that is faster and simple to use.

### 4. Avoids Monotony of Work

Accountants usually get bored by monotonous work. Computerized accounting is programming based. Thus, one only has to track the accounts after recording.

### 5. Prompt Decision Making

The representation of accounting information is in a simplified form. Consequently, decisions making is prompt and efficient.

### 6. Transparency

The record of day-to-day activities is systematic and organized. Leading to transparency and control over the business.

### 7. Customization

The accounting software isn't rigid. Organizations can go for customized software based on their requirements.

### 8. Scalability

Computerized accounting can be updated according to the company's structure. It is capable of managing even a large volume of transactions.

## Basic requirements for a Computerized Accounting System

- The system must fulfill the basic requirement of the business.
- The software should be easy to access and understand.
- The accounting software must be as per the current operating system.
- The software must be flexible and able to run on other platforms as well.
- One must consider the related costs and maintenance charges during software selection.
- The user interface of the accounting framework should be less complex.
- There must be ease in importing and exporting the data.
- The software must provide data security and resist unauthorized access.
- One must also consider the credibility of the vendor providing the software.

## Types of Computerized Accounting Software

Computerized accounting software can be classified in several ways depending on size, complexity, and purpose.

### 1. Based on Purpose

Ready-made Software

Pre-developed, available in the market.

Example: Tally, Busy, Marg ERP, Zoho Books

Suitable for small & medium businesses.

Customized Software

Modified according to the specific needs of a company.



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Example: A customized ERP for a manufacturing company.

Tailor-made Software

Developed entirely for a specific organization.

Example: Banking software like Finacle used by banks.

## **2. Based on Functionality**

Accounting Software

Manages financial records, ledgers, vouchers.

Example: Tally, QuickBooks

Inventory Management Software

Tracks stock, purchase, sales, warehouse.

Example: Marg ERP, Zoho Inventory

Payroll Software

Manages employee salaries, PF, tax deductions.

Example: GreytHR, Saral PayPack

Enterprise Resource Planning (ERP) Software

Integrates all business processes – accounting, inventory, HR, production.

Example: SAP, Oracle NetSuite, Microsoft Dynamics

## **3. Based on Business Size**

Small Business Software

Easy-to-use, cost effective, basic features.

Example: Tally, Wave Accounting

Medium Business Software

Advanced features like multi-user, payroll, GST, inventory.

Example: Zoho Books, Busy Accounting

Large Business / Enterprise Software



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Complex, multi-branch, integrates all departments.

Example: SAP, Oracle Financials

#### 4. Based on Deployment

##### Desktop-based Software

Installed on one computer, limited access.

Example: Tally ERP 9

##### Cloud-based Software

Accessible from anywhere, real-time collaboration.

Example: Zoho Books, QuickBooks Online, Xero

#### 2. Creating a Company in Tally

Steps to create a company:

1. Open Tally → Select Create Company.
2. Enter details such as Company Name, Mailing Address, Statutory Details (GST, PAN), Financial Year beginning & Books beginning date.

#### 3. Save using Ctrl + A.

Company Features and Configurations:

- \* F11: Features – Enable/disable accounting, inventory, statutory & taxation features.
- \* F12: Configuration – User preferences for vouchers, reports, stock, etc.

#### 3. Creating Stock Items and Groups

Stock Group: Used to classify items (e.g., Electronics, Soaps, Raw Material).

Stock Item: Actual item for sale/purchase (e.g., Laptop, Soap Bar).

Unit of Measure: Quantity, Kg, Liter, Nos.

#### Steps:

1. Gateway of Tally → Inventory Info → Stock Groups/Stock Items → Create.
2. Fill details like Name, Group, Unit, Opening Balance.



#### 4. Voucher Entries in Tally

Vouchers are documents for recording transactions.

##### Common Voucher Types:

- \* Contra (F4): Cash/Bank to Cash/Bank (e.g., Cash deposit, withdrawal).
- \* Payment (F5): Payments made (salaries, rent).
- \* Receipt (F6): Income received.
- \* Journal (F7): Adjustments (depreciation, provisions).
- \* Sales (F8): Credit/Cash Sales.
- \* Purchase (F9): Credit/Cash Purchases.

##### Example Entries:

- \* Cash Sales: Sales Voucher → Select Stock Item → Qty & Rate → Auto post to Sales A/c.
- \* Salary Payment: Payment Voucher → Dr Salary Expense, Cr Cash/Bank.

#### 5. Generating Reports

Tally auto-generates financial statements after voucher entries.

1. Cashbook – Path: Gateway → Display → Account Books → Cash/Bank Book. Shows daily cash transactions, opening & closing balance.
2. Ledger Accounts – Path: Display → Account Books → Ledger. Shows individual account details (Debits, Credits, Balance).
3. Trial Balance – Path: Gateway → Display → Trial Balance. Checks arithmetic accuracy of debit = credit.
4. Profit & Loss Account – Path: Gateway → Display → Profit & Loss A/c. Shows revenues and expenses, net profit/loss.
5. Balance Sheet – Path: Gateway → Display → Balance Sheet. Displays Assets, Liabilities, Capital.
6. Key Features of Computerised Accounts (Tally)
  - \* Real-time Reports – Trial balance, Cash flow, P&L available instantly.
  - \* Multi-user Access – Different users with controlled rights.



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- \* Inventory Management – Stock groups, stock items, batch-wise tracking.
  - \* GST & Tax Compliance – Automatic tax calculations.
  - \* Data Security – Password protection & backup.

### **7. Example Flow of Transactions in Tally**

1. Create company 'M S Associates'.
2. Enable GST, Inventory features.
3. Create Stock Group = Soap Products, Stock Item = Neem Soap 100g.
4. Pass entries:
  - Capital Introduced ₹5,00,000 (Journal)
  - Purchase of Raw Material ₹50,000 (Purchase Voucher)
  - Sales of Finished Goods ₹80,000 (Sales Voucher)
  - Expenses: Rent ₹10,000 (Payment Voucher)

### **5. Generate Reports:**

- Cashbook → Cash movement
- Ledger → Rent Expense A/c
- Trial Balance → Check Dr/Cr match
- Profit & Loss → Profit = ₹20,000
- Balance Sheet → Assets = Liabilities + Capital