



**SYLLABUS**

**Class–BBA I Year**

**Subject–Financial Accounting (Core)**

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



## UNIT I

### Introduction to Accounting

#### **Definition of Accounting**

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

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

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

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

#### **Characteristics of Accounting**

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

#### **Objectives of Accounting**

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



**Explanation of objectives:**

1. **To Maintain a Systematic Record** Accounting is done to maintain a systematic record of the monetary transactions of the firm which is the initial step leading to the creation of the financial 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 statemental so known as the profit and loss account is prepared to reflect the profits earned or losses incurred. All the expenses incurred in the course of conducting the business are aggregated and deducted from the total revenues to arrive at the profit earned or loss suffered during the relevant period.

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

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

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

**Branches of Accounting**

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



## Accounting As Science and Art

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

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

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 poste din ledger from journal and subsidiary books	Posting are checked whether correctly posted or not.
3	Total and Balance	It includes to taling 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	The object of accounting is to analyse the transactions written
5	Adjustments and Rectification of Errors	Reasonable manner. In Book-keep in gentries of adjustments and rectification of errors are not included.	In the books. Accountings include sentries of adjustments and rectification of errors.



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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.

## Users of Accounting Information

### A. Internal Users

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

### B. External Users

- **Investors:** To assess profitability and risk.
- **Creditors:** To evaluate creditworthiness.
- **Government:** For taxation and compliance.
- **Public:** For CSR and environmental impacts.
- **Regulatory Authorities:** Ensure fair practices.

## Difference between book keeping and Accounting

### Introduction to Bookkeeping

#### Definition:

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

#### Objective:

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

## Difference between Financial Accounting and Cost accounting:

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

## Accounting Concepts



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

1) **Business Entity Concept:** As per this concept, business is treated as a separate entity or unit distinct from that of the proprietor. The significance of this concept is

that without such a distinction the affairs of the business will be mixed up with the private affairs of the proprietor and the true picture of the business will not be available. The transactions between the proprietor and the business will be recorded in the business books separately and shown separately under the heading capital account. For example, if when the proprietor invests Rs. 50000 in this business, it will be assumed that the owner has given that much money to the business and will be shown as a liability for the business. When he withdraws, say Rs. 10000 from the business it will be charged to his capital account and the net amount due to him will be only Rs. 40000.

2) **Going Concern Concept:** As per this concept it is assumed that a business unit has a perpetual succession or continued existence and transactions are recorded from this point of view. Hence, while valuing the business assets, the accountant does not take into account the realizable or market values of the assets. Assets are valued at cost at which they were originally purchased less depreciations till date, which is calculated on the basis of the original cost only.

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

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



~~External liabilities + Capital = Total Assets~~ ~~Total Liabilities = Total Assets~~

This is called the Accounting or Balance Sheet equation.

4) **Historical Cost Concept:** This concept is based on the going concern concept. According to this concept, assets purchased are normally entered in the accounting books at the cost at which they are purchased and this cost is the basis for all subsequent accounting for asset. The market value is

immaterial for accounting purposes since the business is not going oblique dated but is to become in use for a long time to come. This concept also prevents arbitrary values being used for recording purposes, mainly those resulting in the acquisition of assets.

5) **Money Measurement Concept:** According to this concept, accounting records only those transactions, which can be expressed in terms of money. Events or transactions, which cannot be expressed in terms of money cannot find place in the books, however important they may be. Qualitative or non-monetary transactions are either omitted or recorded separately. For example, a strained relationship between production manager and sales manager, which may affect directly the operating results of the business, does not find place in accounting records.

6) **Realization Concept:** According to this concept, the revenue is recognized only when the sale is made. But the sale is a gradual process, which starts with the purchase of raw materials for production and ends with the sale. If no sale is effected, no revenue is recognized. This is important to stop business firms from inflating their profits. However, there are certain exceptions to this concept like hire purchase sale, or contract etc.

7) **Accrual Concept:** This concept is based on the economic that all transactions are settled in cash but even if cash settlement has not yet taken place, it is proper to bring the transaction or event concerned into the books. Expenditure incurred during the year but not paid and Income earned but not received is called as accrued items. According to this concept these items will be taken into consideration while arriving at profit or loss. This concept enables to define income and expense.

8) **Matching Concept:** The matching concept provides the guidelines as to how the expense be matched with revenues. In other words, costs are reported as expenses in the period in which the associated revenue is reported. Note that costs



~~are matched with, revenues, not the other way round. The expense shown in an~~  
income statement must refer to the same accounting period, production units, division or department of business unit to which revenue refers.

9) **Accounting Period concept:** - It is also known as periodicity concepts or time period assumption. According to this assumption, the economic life of an enterprise is artificially split into periodic intervals which are known as accounting periods, at the end of which financial position. The use of this assumption further

requires the allocation of expenses between capital and revenue. That portion of capital expenditure which is consumed during the current period

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

10) **Verifiable Objective Concept:**-according to this principle, the accounting data should be definite, verifiable and free from personal bias of the accountant. In other words, this principle requires that each recorded transaction/event in the books of accounts should have an adequate evidence to support it. In historical cost accounting, the accounting data are verifiable since, the transactions are recorded on the basis of source documents such as vouchers, receipts, cash memos, invoices, and the like. The supporting documents form the basis for their verification by auditors afterwards.

### Accounting Conventions

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

1) **Convention of Conservatism:** According to this convention, financial statements are usually drawn up on a conservative basis. While preparing accounts



~~and statements, the accountants are expected not to take into account anticipated~~  
profits but to provide for all possible anticipated losses. It is only on the basis of this convention, the inventory is valued at cost or market price whichever is lower. Similarly provision for bad and doubtful debts is made in the books before ascertaining profits.

2) **Convention of Consistency:** According to this convention, accounting practices should remain unchanged for a fairly long time. And they should not be changed unless it becomes absolutely essential to change them. For example, if a

particular method of charging depreciation on a particular asset is followed, it should be followed consistently. However, consistency does not prevent the introduction of new improved accounting methods or techniques. If any change is required, such change and its effects should be stated clearly. The aim of this convention is to provide for continuity in accounting practices and methods and

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

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

### CONCEPT OF DOUBLE ENTRY SYSTEM

There are many systems of presenting business transactions in accounting books e.g., Mahajani system, Cash system, Double entry system etc. The use of these systems depends upon the size and type of business and nature of transactions. But in modern business world, double entry system of book-keeping is more popular and widely used.

The focus of the double entry system is that every business transaction has two aspects, i.e., when we receive something, we give something else in return. This approach of writing both the aspects of the transactions is known as double entry system of accounting. Of the two accounts one account is given debit while the



~~other is given credit with an equal amount. Thus, on any date the debits must be equal to the credits.~~

### **Evolution of Double Entry System:**

The double entry system was originated in Italy in 15th century. First of all in 1494 Lucas Pacioli, the famous mathematician of Venice of Venice city of Italy wrote his first book "De Computis et Scripturis" and mentioned method of accounting in one of its part. Emphasis was given on division and utility of waste book, Journal, Ledger etc. In 1543 Huge 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

### **Merits of Double Entry System**

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



7. Comparatively Study and useful results: Trading, profit and loss account and balance sheet of current year can be compared with trading, profit & loss account and balance sheet of previous year to obtain useful analysis and conclusions.

### **Demerits and LimitationsofDoubleEntrysystem**

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



## Unit II

### CLASSIFICATION OF ACCOUNTS

#### 1) PERSONAL ACCOUNTS

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

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

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

#### 2) REAL ACCOUNTS

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

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

#### 3) Nominal Accounts:-

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

Nominal Accounts are divided into two parts as:



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

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.

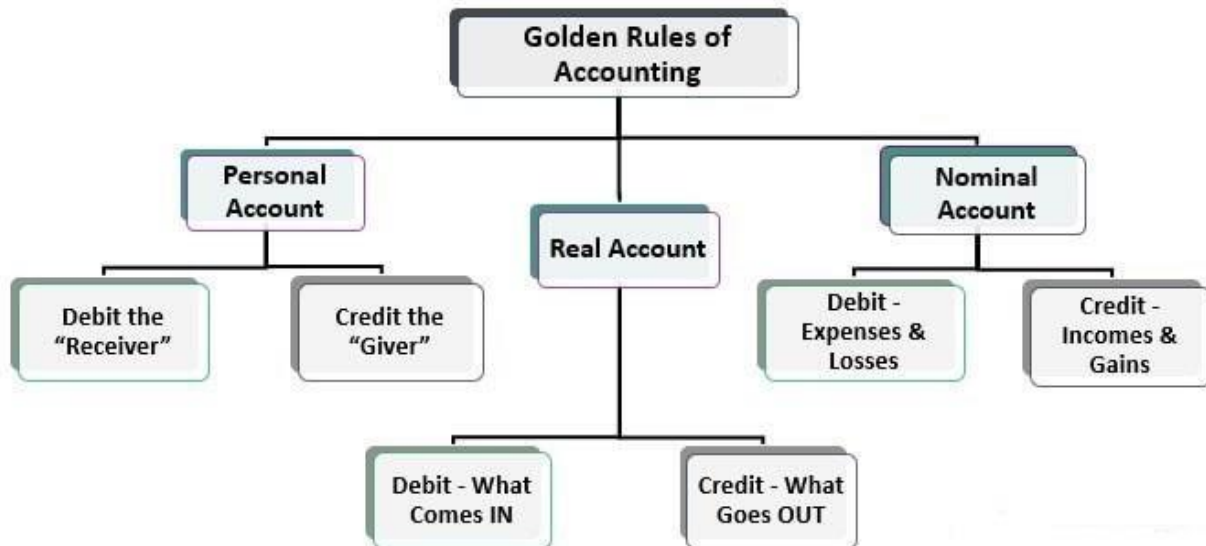
**Real accounts** :- Debit what comes in, and credit what goes out

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

Capital and revenue

### Flowchart of Golden rules of Accounts:

## Accounting Rules



### Classification of capital and revenue

The Going Concern Assumption allows the accountant to classify the expenditure and receipts as Capital expenditure, Revenue expenditure, Deferred Revenue



~~expenditure, Capital Receipts, Revenue Receipts. The expenditure and receipts~~  
may be classified as follows:

**Capital Expenditure:** Capital Expenditure is that expenditure which is incurred (a) for acquiring or bringing into existence an asset or advantage of an enduring

benefit or (b) for extending or improving a fixed asset an asset or advantage of an enduring benefit or (b) for extending or improving a fixed asset or (c) for substantial replacement of an existing fixed asset. An asset 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 revenue expenditure include Office and Administrative expenses such as Salaries, Rent, Insurance, Telephone Exp., Electricity Charges, etc. Selling and Distribution Expenses such as Advertising, Travelling expenses, Commission to Salesman, Sales Promotion Expenses etc. Non-operating expenses and losses such as interest on loan taken, loss by theft etc.

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

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

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.

## Types of Books of Accounts

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

### A. Primary Books (Books of Original Entry)

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

Common Types:

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

### B. Secondary Books (Books of Final Entry)

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

## Journal

### ➤ Definition:

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

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



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

L/F : Ledger folio

Date	Particulars	L/F	Debitamount	CreditAmount
2009 July,25	.....A/cDrTo .....A/c (..... ...)			

**Rules for Journal Entries (Golden Rules):**

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

**Example:**

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

Journal Entry:

Date	Particulars	L/F	Debitamount	CreditAmount
2009 July,25	se A/c Dr, To Cash A/c (being goods purchased for cash)		10,000/-	10,000/-

**Ledger**

**➤ Definition:**

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

Ledger is the principal book or final book under double entry system of accounting in which the transactions recorded in subsidiary books are classified in various



~~accounts chronologically with a view to knowing the position of business account-~~  
wise in a particular period.

➤ **Features:**

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

**Difference between journal and Ledger**

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

**Posting**

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

**Balancing of ledger Accounts**

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



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~~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.

**Format**

**Dr.**

**Account name**

**Cr.**

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

**➤ Posting Process:**

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

**DISCOUNT**

Types of Discount:-

1) **Trade discount:** is allowed at the time of purchase or sale of goods by one trader 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 a certain percentage on the invoice price of goods purchased or sold.	It is calculated as a certain percentage on the amounts due to creditors or amounts due from debtors.
3	It is not shown in the books of accounts. Only the net amount of purchase or sale is recorded in the books.	It is shown in the books: discount allowed as a debit entry and discount received as a credit entry.
4	It is allowed in order to promote more sales of purchases	It is allowed in order to encourage parties to make payments on time.

### Cash Book

#### Meaning of Cash Book

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

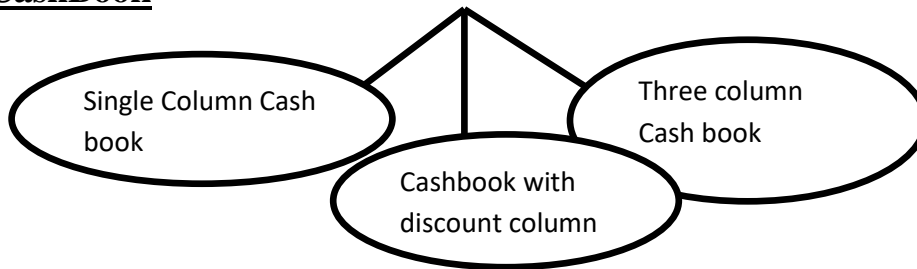


~~Cash Book is in the form of an account and actually it serves the purpose of~~  
Cash Account also. It has two sides-debit and credit side. On the debit side, all receipts of cash are recorded while on the credit side, all the payments of cash are recorded. Items on the debit side of the cash book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

**Features of cash book:**

- a. Only cash transactions are recorded in the cash book.
- b. It performs the functions of both journal and ledger at the same time.
- c. All cash receipts are recorded in the debit side and all cash payments are recorded in the credit side.
- d. It records only one aspect of transactions i.e. cash.
- e. All cash transactions are recorded chronologically in the cash book.

**Types of Cash Book**



**1. Single column Cash Book**

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

Format of Single Column Cash Book:

Dr. Single Column Cash Book  
Cr.

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

**2. Cash Book with Discount Column**



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

Format of Cash Book with Discount Column:

Dr. Double Column Cash Book  
Cr.

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

**3. Three Column Cash Book**

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

Contra Entries

Format of Cash Book with Discount Column.

Dr. Three Column Cash Book  
Cr.

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

**Petty Cash Book (Imprest system)**

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

Meaning of Petty Cashier



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

**Features of Petty Cash Book**

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

**Advantages of Petty Cash Book**

1. Economy of time: The time of chief cashier is saved when petty expenses are recorded in petty cash book.
2. Saving of labour in posting: There is saving in labour in posting because:
  - Limited number of accounts are opened for heads of petty expenses only,
  - Periodical totals (say monthly) of each column of expenses are posted to the debit of the respective ledger accounts.
3. Lesser chance of mistakes: The chances of mistakes are reduced since the chief cashier regularly examines the petty cash book.



4. Control over petty expenses: Petty expenses

are kept within the limits of imprests 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.

**TRIAL BALANCE**

**Meaning**

When all the accounts of a concern are balanced off they are put in a list, debit balances on one side and credit balances on the other side. The list so prepared is called trial balance. The total of the debit side of the trial balance must be equal to that of its credit side. This is based on the principle that in double entry system. For every debit there must be a corresponding credit. The preparation of a trial balance is an

essential part of the process because if totals of both the sides are the same then it is proved that books are at least arithmetically correct.

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

➤ **Objectives:**

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

➤ **Main Characteristics and uses of a Trial Balance**

Following are the main characteristics of a trial balance:

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



5. It is a consolidated list of all ledger balances at the end of a period at one place.

6. It is a method of verifying the arithmetical accuracy of entries made in the ledger. The agreement of the trial balance means that the total of the debit column agrees with the total of the credit column of the trial balance.

**Limitations of a Trial Balance**

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

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

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

2. **Errors 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.	dit Total Rs.
<b>Total</b>			



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

TrialBalance  
(Ason..... )

TitleofAccounts	L.F.	DebitBalance Rs.	Credit BalanceRs.
<b>Total</b>			

3.

Total

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

TrialBalance  
(Ason..... )

TitleofAccounts	L.F.	Debit TotalRs.	Credit TotalRs.	Debit Balance Rs.	Credit Balance Rs.
<b>Total</b>					

**Computerized Accounting Software**

**Definition:**

Computerized Accounting refers to using accounting software to record, store, and analyze financial data electronically instead of maintaining books manually.

Computerized Accounting Software revolutionizes how businesses handle accounting by making the process faster, more reliable, and data-driven. It is a



~~must know concept for every business student and professional in today's digital world.~~

**Objectives of Computerized Accounting**

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

**Components of Computerized Accounting System**

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

**Manual vs. Computerized Accounting**

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

**Unit III**

**FINAL ACCOUNTS WITH ADJUSTMENTS**

Final accounts, also known as financial statements, are crucial summaries of a Business's financial activities and position. These documents provide a comprehensive overview of a business's financial performance during a specific period, usually a fiscal year. Final accounts serve as essential tools for assessing the company's profitability, liquidity, and overall financial health. Final accounts are the end results of the whole accounting process.

Final accounts are an essential element of any business's financial accounting year. In other words, it is the ultimate result of the whole year's accounting procedure. Every firm must prepare them on or before the 31st of March of each fiscal year since these marks the end of the year.



Final A/c's or annual accounts includes the following statements:

- Trading Account
- Profit & Loss Account
- Balance Sheet.

In case of manufacturing concerns the final a/c's may include the following statements.

- Manufacturing A/c.,
- Trading, Profit & Loss A/c.,
- Balance Sheet.

The above final a/c's are prepared with the help of trial balance and additional information/adjustments.

**Trading and Profit & Loss A/c** shows the result of the operation (performance) that is profits earned or loss incurred during that year. Therefore all Expenses and Incomes related to that period should come in the P&L A/c, whether it is paid/received or not is not important i.e. expense should be recognized when incurred means services/benefits are received and income should be recognized when earned i.e. when services/benefits are given. This is also referred as mercantile system of accounting or recognition of accrual principle. Due to this we make adjustments for outstanding expenses, Outstanding Incomes, prepaid expenses, Advance Incomes, closing stock etc.

**Balance sheet** shows the Assets & Liabilities of the organization as on a particular date. It is not an account. It is not for any period or year. It shows the financial position of the entity as of a particular date (rather at a point of time).

**Manufacturing account** if prepared shows the cost of goods manufactured during that period. This cost is transferred to Trading A/c.

## **2. Components of Final Accounts & Their Meanings**

### **2.1 Trading Account**

Trading account shows the profit/loss made on a gross basis that is including only the direct cost of the goods.

In trading a/c, we credit the trading income like sale and debit the cost of goods sold (opening stock + purchases (-) closing stock).

Alternatively Opening Stock & purchases is debited & Closing stock is credited to trading account.



~~Other direct expenses related to purchase or manufacture of goods like carriage~~  
inward, wages, etc. are also debited here.

Purchase return & Sales returns will be deducted/adjusted from the purchases & sales respectively.

The balance is known as the gross profit or gross loss, which is transferred to profit and loss a/c.

Non-corporate entities usually prepare trading a/c so as to know the gross margin available in its sale.

But at corporate level usually it is not prepared. In those cases the items of trading account gets incorporated in profit & loss account.

### **2.2 Profit and Loss Account**

It shows the performance of the entity i.e. profit earned or loss suffered considering all indirect expenses and incomes.

Gross profit or gross loss from trading account is transferred to P&L a/c.

Other incomes like discount, interest, etc. are credited.

Administrative expense, selling and distribution expense, financial expense, income tax, losses, etc. are debited to it.

The net profit/net loss is transferred to P&L appropriation a/c (if made) otherwise to capital a/c.

If trading a/c is not prepared then in place of gross profit/gross loss all items of trading a/c will come in P&L a/c itself.

Although not necessary, but usually full profit/loss is transferred to proprietor/partners' capital account, hence profit & loss account does not appear in balance sheet.

### **2.3 Profit & Loss Appropriation Account**

The net profit/net loss is transferred to P&L appropriation A/c.

Interest charged on drawings is credited to it.

Interest allowed on capital, salary/commission to proprietor/partner and transfer to reserves are debited to it.

The net balance then left is transferred to capital a/c.

Expenses incurred to earn income is treated as charge against profit and are debited to P&L a/c whereas items which are division of this profit earned are known as appropriation of profit and charged to P&L appropriation a/c.

Trading account, P&L a/c and P&L app. a/c are period statements, showing the result (performance) of that period, usually an accounting year.



~~In case of corporate organization like companies balance after all appropriations including dividend, remains in P&L/P&L appropriation a/c and hence appears in balance sheet.~~

### **2.4 Manufacturing Account**

A manufacturing concern may prepare Manufacturing a/c to ascertain cost of goods manufactured.

Raw material consumed (Op. stock + Purchases – Closing stock), carriage inward, wages, power, depreciation of factory building, machinery, etc. and other manufacturing (factory) expense are debited to it.

Opening stock is debited and closing stock is credited.

Balance is the cost of goods manufactured and is then transferred to trading account.

When manufacturing a/c is not prepared, these items will come in trading a/c. Sometimes depreciation a/c may be directly taken to P&L a/c instead of trading a/c.

Manufacturing a/c is also a period statement.

A manufacturer is one who purchases raw material and process it into finished goods with the help of labour and machines at his factory and sells the finished goods. Whereas a trader purchases goods and sells it as it is.

### **2.5 Balance Sheet**

Balance sheet shows the financial position of the entity as at a particular point of time.

It shows what and how much entity owns (i.e. its assets) and how much it owes to others (i.e. its liabilities), the balance (i.e. asset – liability) is the owners' equity.

It is not an account, hence does not have debit and credit side.

On one side assets like fixed assets (building, machinery, furniture, etc.), current assets (like stock, debtors, cash bank balance, advances, prepared a/c) and investments if any are shown.

On the other side in addition to owner's capital and reserves, the outside liabilities like loans taken, creditors, expenses payable etc. are shown.

The two sides total must be same.

On the asset side of balance sheet we start with most permanent to least permanent i.e. fixed assets, investments and then current assets. It is known as permanency preference. In case of manufacturer/trader this sequence is followed.

When asset side starts with most liquid asset to least liquid like cash bank balance and ends with fixed assets is known as liquidity preference generally followed by institutions like banks.



~~Liability side is mostly same in all cases we have first owner capital and reserves,~~  
then loans and thereafter current liabilities and provisions.

Balance sheet is a point of time statement, when stated as at 31.3.2024 it means as at close of that date i.e. after considering all transactions of that day.

Even though balance sheet does not have debit and credit side, student should remember that asset side represent debit and capital and liability side represent credit. It will help in correctly preparing final accounts.

### **List of adjustments to be done while preparing final accounts**

- Closing Stock
- Outstanding Expenses
- Prepaid or Unexpired Expenses
- Accrued or Outstanding Income
- Income Received In Advance or Unearned Income
- Depreciation
- Bad Debts
- Provision for Doubtful Debts
- Provision for Discount on Debtors
- Manager's Commission
- Interest on Capital
- Goods Distributed among Staff Members for Staff Welfare
- Drawing of Goods for Personal Use
- Abnormal or Accidental Losses

## **UNIT IV**

### **Bank Reconciliation**

#### **Meaning**

Bank reconciliation is a critical financial process that involves comparing the transactions and balances on a bank statement with the corresponding records in a



~~company's accounting books. This procedure is essential for identifying~~  
discrepancies between the two sets of records, ensuring the accuracy of financial statements, and maintaining the integrity of a company's financial health.

At its core, bank reconciliation aims to verify that every transaction recorded in an organization's cash account matches those listed on the bank statement. This includes deposits, withdrawals, bank fees, and other financial transactions. Discrepancies can arise due to timing differences in recording transactions, errors by the bank or the company, or unauthorized transactions. By reconciling these differences, companies can correct errors, detect potential fraudulent activities early, and accurately report their financial position.

### **Causes of Difference in Bank Reconciliation Statement**

Reconciliation statement is a record book which lists the changes that appear in either book (cashbook or passbook). Two broad terms cover up major challenges due to which differences may appear:

#### **Errors committed by Firm**

Wrong totaling of notes while depositing, omission or wrong recording of amounts of cheques issued, etc. are some major drawbacks. The reconciliation addresses this major issue and resolves it.

#### **Errors committed by Bank**

Wrong recording of transactions related to cheque while posting it or wrong totaling results in a difference in cashbook and passbook.

#### **Time Difference in Recording Entry**

When a bank cross checks bank statement and business cash book, there are innumerable errors present due to the time gap. The factors affecting this time gap are as follows:

#### **Cheque issued by the bank but not yet presented for payment**

The bank works in advance to provide faster services. It adds money to the beneficiary's account as it encounters a cheque. Afterward, it looks for the credited amount in the supplier's account. If it is unable to find the balance amount, it deducts from the beneficiary's account and returns the cheque with fault charges.

The bank statement excludes it but the cash book might have recorded it. Therefore, it becomes a time discrepancy.

#### **Cheque deposited but not collected by the bank**

When a firm receives a cheque, the cash book posts the entry for the business firm. Whereas a bank takes 3 to 4 days to clear a cheque and the entry then finds a place in the bank statement.

#### **Direct debits made by Bank**



~~The services provided by bank require a nominal fee. The bank deducts money~~  
from the firm's account without them knowing it. The firm gets to know this directly through the bank statement.

For example, interest on overdraft, cheque bounced or stopped charges, incidental charges, etc. As a result, the balance in passbook will be less than the balance in cash book.

### **Amount directly deposited in the bank**

There may be a situation where a debtor submits an amount to a firm's account and the firm receives no message regarding the same. In this situation, the passbook balance rises and the cashbook balance doesn't.

### **Interests collected by the bank**

The bank directly adds interest to a firm's account and the only medium of its knowledge is bank statement. The firm jots down the interest after issuing the bank statement. They are noted in the final balance additions in the cash book.

## **Royalty ACCOUNTING**

### **MEANING**

A royalty is compensation paid in exchange for the use of intellectual property or natural resources. The royalty is typically computed as a percentage of the sales or profit proceeds generated from the use of these assets. The terms of the arrangement are contained within a license agreement, which is entered into by the asset owner and the party wanting to use the asset. The license agreement sets the royalty rate and limits the extent to which the asset can be used.

### **Concept**

There are two parties to a royalty agreement—the party granting the right to use an asset or resource is the licensor and the party who accepts the right to use and pays for the right is the licensee. Royalty agreements are often meant for commercial exploitation of assets or resources.

The person paying royalty generally pays it as a percentage of the turnover or gross receipt. Royalty agreements are legal in nature and can involve elaborate negotiations on the terms and conditions of the grant of right to use. The

commonly known royalty agreements are music rights or publishing rights of books in return for a percentage of the sales.

Royalty is a passive income stream, providing benefit to people who create intangible assets or work of art. Musicians owning music rights, cinema rights, and authors often grant the right to use their copyrighted material and earn income.



~~Royalty agreement includes licence agreements to use assets or properties in return for a payment.~~

### **Examples of Royalties**

A cell phone manufacturer pays a royalty to the holder of a patent relating to the technology within the phone.

A franchisee pays a royalty to a franchisor in exchange for the use of the franchisor's business model, processes, and trademarks.

A publisher pays a royalty to an author in exchange for the right to print and distribute the author's books.

An oil & gas firm pays a royalty to a landowner in exchange for the right to drill on his land.

### **Terms of Royalty**

#### **Royalty**

Royalty is a periodical sum based on output or sale payable by the lessee to the lessor for having utilized the rights of the lesser.

#### **Lessee**

The person who makes the payment to the owner of the asset is known as lessee.

#### **Lessor**

The owner of the asset to whom the payment is made is known as lessor.

#### **Minimum Rent/Dead Rent/ Fixed Rent**

Royalty agreements are usually associated with a clause that the lessee must pay a minimum amount irrespective of the volume of output or sales are a particular period.

Such minimum amount is called as minimum rent or dead rent or fixed rent.

#### **Short Working**

The excess of minimum rent over actual royalty is called short working. The excess is called short working for the lessee and called short working suspense for the lessor.

#### **Recoupment or Recovery of short working**

It refers to recovering the short working of any year, from the surplus royalty of the succeeding years it is also called as recoupment of short working.

#### **1. Fixed recoupment:**

When recoupment is permitted only over a fixed period it is called fixed recoupment.

#### **2. Floating recoupment:**



~~When recoupment is permitted over a subsequent period following the year of~~  
short working it is called floating recoupment.

### 3. Recoupment within life of the lease:

When recoupment is permitted over the life time of the lease there is no restriction on the time for recoupment of short working. If the short working cannot be recouped within the permitted period, they become irrecoverable and would be transfer to profit and loss A/c.

#### Accounting Treatment in the Books of Lessee

##### When the Royalty is to be paid –

Royalty A/C .... Dr

Short Workings A/C ... Dr

To Lessor A/C

(The payment is due in this regard)

##### For paying the Lessor

Lessor A/C ... Dr

To Bank A/C

(Amount Being paid)

##### For transferring the royalty

Trading/Profit and Loss A/c/ Manufacturing/ Production A/C ... Dr

To Royalty A/C

(Amount being recorded in relevant account)

##### When short workings are recouped

Royalty A/C .... Dr

To Short Workings A/C

To lessor A/C

(Recoupment done)

##### For irrecoverable short workings

Trading/Profit and Loss A/c/ Manufacturing/ Production A/C ... Dr

To Short Working A/C

(Being amount changed to relevant account)

#### Accounting Treatment in Books of Lessor

Royalty is the sum that is payable by the lessee to the lessor for the use of his rights vested in the lessor. Royalty is a type of periodic payment, which is



~~generally paid on grounds of sale or output. Example: Royalty is paid for~~  
extraction of mines from the minefield, for use of patents, for using the technical know-how, also to an author for the sale of his books.

The accounting treatment used here is - Royalty received by the lessor is credited to Trading or Manufacturing Account as it is considered as regular business income in the books of the lessor. While, the royalty received on the basis of sales is credited to the Profit and Loss Account. Again, minimum rent is the amount that is paid by the lessee to the lessor irrespective of any benefit derived from the asset. Thus, this rent payable is known as Dead Rent.

The Landlord also may allow the lessee the right to recoupment of short-workings. Here, the lessor will receive only the minimal rent until the period of recoupment.

## **Hire Purchase**

### **Meaning**

The term hire purchase refers to an arrangement for buying expensive goods. In a hire purchase agreement, the buyer makes an initial down payment and pays the remaining balance plus interest in installments. The term is commonly used in the United Kingdom and it's more commonly known as an installment plan in the United States, although there are subtle differences between the two.

### **Characteristics of Hire Purchase System.**

**1. Hire purchase allows you to spread the cost of an expensive item over some time, making it more affordable.**

With hire purchase, you pay an initial deposit followed by monthly instalments. The amount of the deposit and the length of the repayment period will be agreed upon upfront. This can make an expensive item more affordable, as you can spread the cost over some time.

**2. You are usually only asked for a small deposit when you take out a hire purchase agreement.**

The deposit on a hire purchase agreement is usually much lower than if you were to buy the item outright. This means you can get the item you want without having to pay a large upfront sum.

**3. The monthly payments on a hire purchase agreement are usually lower than if you were to buy the item outright.**

The monthly payments on a hire purchase agreement are usually lower than if you were to buy the item outright, and this is because you are only paying for the item over some time rather than in one lump sum.

**4. You do not own the item until you have made the final payment.**



You do not own the item with hire purchase until you have made the final payment. This means that if you default on the agreement, the lender can repossess the item.

**5. You may be able to negotiate a lower interest rate on a hire purchase agreement than if you were to take out a personal loan.**

Hire purchase agreements are usually subject to a lower interest rate than personal loans. This is because the item is used as security for the loan, which reduces the risk for the lender.

**6. You can usually cancel a hire purchase agreement at any time, although you may be charged a penalty for doing so.**

Most hire purchase agreements can be cancelled anytime, although you may have to pay the penalty for doing so. It is important to check the terms and conditions of your agreement before you sign it so that you are aware of any penalties that may apply.

**Advantages of Hire Purchase System.**

There are several advantages of a hire purchase agreement.

1. It provide a way for people to buy expensive items that they may not be able to afford outright.
2. It is more flexible way of financing than other methods such as loans, as the monthly payments can be tailored to suit the buyer's budget.
3. A hire purchase agreement can be a good way to build up a credit history, as timely payments can help to improve a person's credit rating.

**Disadvantages of Hire Purchase System.**

1. If the buyer misses a payment or defaults on the agreement, they may lose the item they purchased.
2. Hire purchase agreements can be expensive, as the buyer usually pays more than the item is worth due to interest and other charges.
3. Hire purchase agreements can be inflexible, as the buyer is often tied into the agreement for a set period.

**Accounting Methods for Hire Purchase Transaction**

For accounting point of view both hire purchase and installment payment system are same. Before accounting, we should know following things

a) Cash price is that price which will be paid if any asset is purchased on cash without installment.

b) Hire price = cash price + interest for risk of giving asset on installment.

c) Down payment = Payment at the beginning of deal of hire purchase.



There are four methods of accounting for hire purchase.

### **1 Cash Price Method**

Under cash price method, we are deal hire purchase transactions just like normal transactions. When transactions or event happen, we record them.

### **Journal Entries in the books of Purchaser**

1) For buying assets on hire purchase

Asset on hire purchase account Dr.

TO Vendor account Cr.

2) For paying the down payment to vendor

Vendor account Dr.

TO Cash/ bank

3) When Interest is Due on unpaid installments

Interest on Hire Purchase account Dr.

TO Vendor Account Cr.

4) For Installment Payment ( Interest payment will be also included in it)

Vendor Account Dr.

TO Cash / Bank account Cr

5) For transferring interest to profit and loss account

Profit and Loss account Dr.

TO Interest on hire purchase account Cr.

6) For depreciation charge

Depreciation account Dr.

TO Assets on hire purchase account Dr.

7) If Asset is returned

Hire Vendor account Dr.

TO Asset on hire purchase account Cr.

### **In the books of Hire Vendor**

1) For giving assets on hire

Hire purchaser account Dr.

TO H.P. Sale Cr.

2) For down payment received

Bank account Dr.

TO H.P. Sales Cr.

3) For Interest receivable

Hire purchaser account Dr.

TO Interest account Cr.



4) For installment due

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Installment due account Dr.

TO H.P. Sales Cr.

5) For installment received

Bank account Dr.

TO Hire purchaser account Cr.

6) For installment not due at the year

Hire purchase stock account Dr.

TO Trading account Cr.



## Unit V

### Branch Accounting

#### MEANING

Branch accounting is a bookkeeping system. It separates accounts into different branches, each of which is maintained separately. This is a system that is typically found in corporations that are geographically dispersed, as well as chain operators. It allows for greater transparency when it comes to transactions and calculating cash flow, as well as helping accountants track the overall performance and financial position of each branch.

Branch Accounting is defined as a bookkeeping system of accounting that allows a business with multiple locations or branches to keep track of financial transactions at each branch individually, while also consolidating them at the main or head office. This helps in monitoring the performance and financial position of each branch separately. These branches are divided by geographical location, and each department has its profit and cost centers. In this accounting system, separate Trial Balance, Profit and Loss Statements, and Balance Sheets are prepared by each branch. Branches operate independently in terms of day-to-day transactions but still are part of the larger organizational structure, so the financial results of each branch are consolidated at the head office to prepare overall financial statements for the entire organization.

Branch accounting method split in two categories:

- Dependent branch
- Independent branch

#### **Methods of Branch Accounting**

- Debtor system
- Stock and debtor system
- Final accounts system
- Wholesale branches system

#### **Debtor System**

In the debtor system, a branch account is debited in the head office's books with the goods supplied by the head office. The branch account will then be credited



~~with all of the returns and remittances. This can be used to find out the profit or loss of each branch.~~

### **Stock and Debtors System**

This system is ideal for smaller branches. It is where goods are shipped to the branch at the sale price. The branch doesn't have the authorization to vary that selling price.

### **Final Accounts System**

In this method, trading and profit and loss accounts are prepared. This is for calculating the gross profit or gross loss, alongside the net loss or net profit. Opening goods and stock that are sent to the branch are debited in the trading account. Any closing stock, goods, and sales that are returned by the branch are credited to the trading account.

### **Wholesale Branches System**

For this system, the invoicing of goods is done at the wholesale price. This is to a retail branch. The opening and closing stock of the branch in question is shown at the wholesale price. Plus any unrealized profits in the closing stock are debited as a stock reserve. This is to the profit and loss account of the corporate headquarters. A stock reserve of opening stock is also then credited to the same account.

### **Objectives of branch accounting:-**

- To know the profit or loss of each branch separately.
- To ascertain the financial position of each branch separately on a particular date .
- To know the cash & goods requirements of the various branches.
- To calculate commission for payment to the managers.
- To give concrete suggestions for the improvement in the working of the various branches .
- To meet the requirements of specific enactments as all branches of a company must keep the accounts for audit purpose
- To evaluate the progress and performances of each branch .

### **Accounting Entries:**

Transactions Journal Entries

1. Goods sent to branch by head office Or any other branch

Branch A/c

To Goods sent to branch A/c

(Being value of goods sent to the branch)

2. Goods returned by branch to head Office or to any other branch

Goods sent to branch A/c

To Branch A/c



~~(Being value of goods returned by branch)~~

3. Cash remitted to branch or paid to others

Branch A/c

To Cash/Bank A/c

(Being amount sent to branch for payment /exp)

4. Expenses in respect of branch paid by Head office

Branch A/c

To Cash/Bank A/c

(Being payment for expenses relating to branch)

5. Provision for expenses relating to Branch

Branch A/c

To outstanding Exp. A/c

(Being provision of unpaid expenses)

6. Charging depreciation on assets used at branch not included in branch

Account

Branch A/c

To asset A/c

(Being dep. on asset used at branch provided)

7. Cash remitted by branch to head Office

Cash/Bank A/c

To Branch A/c

(Being amount remitted by branch)

8. Amount received from customer & other sundry income of branch by Head office

Cash/Bank A/c

To Branch A/c

(Being amount received from third party in respect of branch sales/income.

9. Goods received from customer of branch by head office

Goods sent to branch A/c

To Branch A/c

(Being goods sold by branch returned by customer directly)

10. Goods sent to branch account transferred to trading account at the end of accounting year

Goods sent to branch A/c

To Purchase or (Trading) A/c

(Being value of goods sent to branch transferred to trading)

11. Profit or loss at branch (balancing figure in branch account)



To Profit & Loss A/c

(Being Profit/loss for the year at the branch) (for loss entry will be reversed)

12. Assets at the end of the accounting year

Branch Assets A/c

To Branch A/c

13. Liabilities at the end of the accounting year

Branch A/c

To Branch liabilities A/c

### **Departmental Accounting**

#### **Definition:**

Departmental accounting is an accounting system used by organizations to manage the accounts of their various departments in separate books, i.e., for every department separate trial balance and profit and loss account is prepared, and at the end of the year balances of each department gets transferred to general profit and loss account, prepared to find out the profitability of a firm as a whole.

If a business consists of several independent activities, or is divided into several departments, for carrying on separate functions, its management is usually interested in finding out the working results of each department to ascertain their relative efficiencies. This can be made possible only if departmental accounts are prepared.

#### **Methods of Departmental Accounting**

##### **Separate Departmental Accounting:**

In general, this method is adopted by large organizations having various departments or if the law has asked to prepare separate department accounts. In this method, accounts of each department are kept independently, and each department is considered as a separate unit of an organization.

This method is a more expensive method than the columnar method of departmental accounting.

##### **Columnar Books Departmental Accounting:**

This method is adopted by the small business organizations in which they do not maintain a full book-keeping system; however, it only maintains records of some transactions such as purchases, sales, stock details and expenses incurred by the departments.

Trading and profit & loss account contain different columns for each department, and expenses pertaining to respective departments are recorded in their particular



~~column, and if the expenses are of common nature, they get distributed amongst all~~  
departments according to the concerned ratios.

## Objectives of Departmental Accounting

**The main objectives of departmental accounting are:**

- (1) To know the financial position of each and every department separately, it is helpful to make a comparison.
- (2) To check out the interdepartmental performance. Unprofitable departments will be revealed.
- (3) To evaluate the performance of the department with the previous period result. The gross profit of each department can be ascertained.
- (4) To help the owner formulating the right policy for the future. The progress of each department can be monitored for appropriate actions to be taken.
- (5) To assist the management in making the decision to drop or add a department. The result of operations can be used to determine the remuneration of managers of each department.
- (6) To provide detail information about the entire organization. It can help the management in deciding which department should be developed more and which should be closed in order to maximize the profitability of the whole company.
- (7) To assist management for cost control. It helps in determining the commission of the department manager when it is linked to profit achieved by their department.

### Advantages of Departmental Accounting

Following are the advantages of a department accounting –

- It is helpful in evaluating the result of each department.
- It helps to know the profitability of each department.
- Investors and outsiders may know the detailed information.
- It is helpful in making comparison of each expenses (same department) of the different accounting years and different expenses (other departments) of the same accounting year.

### Allocation of Department Expenses

Some expenses, which are specially incurred for a particular department may be charged directly to the respective department. For example, hiring charges of the transport for delivery of goods to customer may be charged to the selling and distribution department.



~~Some of the expenses may be allocated according to their uses. For example,~~  
electricity expenses may be divided according to the sub meter of each department.  
Following are the examples of some expenses, which are not directly related to any particular department may be divide as –

**Cartage Freight Inward Account –**

Above expenses may be divided according to purchase of each department.

**Depreciation –**

Depreciation may be divided according to the value of assets employed in each department.

**Repairs and Renewal Charges –**

Repair and renewal of the assets may be divided according to the value of the assets used by each department.

**Building Repair, Rents & Taxes, Building Insurance, etc. –**

All the expenses related to the building should be divided according to the floor space occupied by each department.

**Selling and Distribution Expenses –**

All the expenses relating to selling and distribution expenses should be divided according to the sales of each department, such as freight outward, travelling expenses of sales personals, salary and commission paid to salesmen, after sales services expenses, discount and bad debts, etc.

**Insurance of Plant & Machinery –**

The value of such Plant & Machinery in each department is the basis of the insurance.

**Employee/worker Insurance –**

Charges of a group insurance should be divided according to the direct wage expenses of each department.

**Power & Fuel –**

Power & fuel will be allocated according to the working hours and power of the machine (i.e. Hours worked x Horse power).

**Managerial Salary –**

Managerial salary should be divided according to the time spent by the manager in each department.

**‘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 falling 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 1/25th i.e. Rs. 4,000 of its value every year whether it is used in the business or not. So at the end of 25th 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.

**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 their 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:

Use of word per annum for calculation of amount of depreciation

In case the word "per annum" is given with the rate of depreciation then the amount of depreciation is calculated for the number of months the asset is used in business. When sale or purchase of asset takes place in between the year the depreciation is calculated for the period for which the asset was used.

In case per annum word is not given then the concept of number of months for which asset is used is overlooked and depreciation is charged for whole year irrespective of asset being purchased in between the year and in case of sale of asset in between the year no depreciation is charged in selling year.

### 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. =  $\frac{\text{Number of years of estimated life of the asset}}{\text{Number of years of estimated life of the asset}}$

ii. When the asset has residual value:

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

#### 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.

<b>Basis of difference</b>	<b>Fixed Installment Method</b>	<b>Reducing Balance Method</b>
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 dep. amount	Amount of annual depreciation remains same.	Amount of annual depreciation keeps decreasing.
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 on 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.

### 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	The object of making provisions is an arrangement made to provide funds for known liability.



## Question 1

Pass the necessary journal entries related to the 'Opening Entry'.

(a) On 1st April 2023, Ram started a business with cash ₹5,00,000.

### Journal Entry

Date	Particulars	L.F.	Amount(Dr.)	Amount(Cr.)
2023 April 1	Cash A/c  To Capital A/c  (Being a business started with cash)	Dr.	5,00,000	5,00,000

b) On 1st April 2023, Vinod started business with cash ₹1,00,000, furniture ₹2,00,000, and Building ₹10,00,000.

### Journal Entry

Date	Particulars	L.F.	Amount(Dr.)	Amount(Cr.)
2023 April 1	Cash A/c  Furniture A/c  Building A/c  To Capital A/c  (Being a business started with assets)	Dr. Dr. Dr.	1,00,000 2,00,000 10,00,000	13,00,000

(c) On 1st April 2023, Mohan's Books of Account shows Cash ₹16,000, Stock ₹54,000, Debtors ₹47,000, Furniture ₹42,000, Creditors ₹37,000, and Capital ₹1,22,000.



Date	Particulars	L.F.	Amount(Dr.)	Amount(Cr.)
2023 April 1	Cash A/c Dr.		16,000	
	Stock A/c Dr.		54,000	
	Debtor A/c Dr.		47,000	
	Furniture A/c Dr.		42,000	
	To Creditor A/c			37,000
	To Capital A/c			1,22,000
	(Being assets and liabilities brought forward)			

(d) On 1st April 2023, Amit's Books of Account shows Cash ₹4,000, Bank ₹10,000, Stock ₹27,000, Debtors ₹23,500, Land and building ₹30,000, Creditors ₹10,000, and Capital ₹1,00,000.



Journal Entry

Date	Particulars	L.F.	Amount(Dr.)	Amount(Cr.)
2023 April 1	Cash A/c Dr.		4,000	
	Bank A/c Dr.		10,000	
	Stock A/c Dr.		27,000	
	Debtor A/c Dr.		23,500	
	Land and Building A/c Dr.		30,000	
	Goodwill A/c (balancing fig) Dr.		15,500	
	To Creditor A/c			10,000
	To Capital A/c			1,00,000
	(Being assets and liabilities brought forward)			

(e) On 1st April 2023, Vikas's Books of Account show, Cash ₹30,000, Bank ₹10,000, Stock ₹80,000, Debtors ₹48,000, Furniture ₹7,200, Creditors ₹25,000, and Bank Loan ₹20,000.

Journal Entry

Date	Particulars	L.F.	Amount(Dr.)	Amount(Cr.)
2023 April 1	Cash A/c Dr.		30,000	
	Bank A/c Dr.		10,000	
	Stock A/c Dr.		80,000	
	Debtor A/c Dr.		48,000	
	Furniture A/c Dr.		7,200	
	To Creditor A/c			25,000
	To Bank Loan A/c			20,000
	To Capital A/c (balancing fig)			1,30,200
	(Being assets and liabilities brought forward)			



**Question 2**

Pass the necessary journal entries in the books of Reshi Raj,

- (a) On 1 April 2023, Cash Purchases ₹20,000.
- (b) On 9 April 2023, Sold goods to Rama at the list price of ₹60,000 at a trade discount of 10%.
- (c) On 11 April 2023, Vinod sold goods to us worth ₹30,000 at a 10% trade discount.
- (d) On 18 April 2023, Returned goods to Vinod at the list price of ₹2,000.
- (e) On 22 April 2023, Paid cash to Vinod ₹24,000 in full settlement.
- (f) On 25 April 2023, Rama returned goods of list price ₹10,000.
- (g) On 28 April 2023, Rama paid ₹43,000 in full settlement of his account.



**renaissance**

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B.B.A. I Year

Subject: Financial Accounting

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Journal Entry

Date	Particulars	L.F.	Amount(Dr.)	Amount(Cr.)
2023 April 1	Purchases A/c To Cash A/c (Being goods purchased for cash)	Dr.	20,000	20,000
April 9	Rama A/c To Sales A/c (Being goods sold to Rama on credit at a 10% trade discount)	Dr.	54,000	54,000
April 11	Purchase A/c To Vinod A/c (Being goods purchased at a 10% trade discount)	Dr.	27,000	27,000
April 18	Vinod A/c To Purchase Return A/c (Being returns made on purchases)	Dr.	1,800	1,800
April 22	Vinod A/c To Cash A/c To Discount Received A/c (Being payment made in full settlement)	Dr.	25,200	24,000 1,200
April 25	Sale Return A/c To Rama A/c (Being goods worth ₹10,000 returned by Rama)	Dr.	9,000	9,000
April 28	Cash A/c Discount Allowed A/c To Rama A/c (Being cash received in full settlement)	Dr. Dr.	43,000 2,000	45,000



Journalise the following transactions in the books of Moon and post them into the ledger for the month of August

Aug 10<sup>th</sup> : Moon commenced business with a capital of 1,50,000

11<sup>th</sup> : Cash deposited into bank 50,000

12<sup>th</sup> : Bought equipment for 15,000

13<sup>th</sup> : Bought goods worth 20,000 from Star and payment made by cheque

14<sup>th</sup> : Sold goods to Sun for 15,000 and payment received through cheque

16<sup>th</sup> : Paid rent by cheque 5,000

17<sup>th</sup> : Took loan from Mr. Storm 25,000

18<sup>th</sup> : Received commission from Mr. Air by cheque 5,000

19<sup>th</sup> : Wages paid 15,000

20<sup>th</sup> : Withdrew from bank for personal use 3,000

21<sup>st</sup> : Withdrew from bank for office use 10,000

22<sup>nd</sup> : Bought goods for 25,000

23<sup>rd</sup> : Cash paid into bank 30,000

24<sup>th</sup> : Interest paid through cheque 2,000

25<sup>th</sup> : Gave loan to Mr. Wind 10,000

26<sup>th</sup> : Amount paid to Mr. Storm on loan account 15,000

27<sup>th</sup> : Salary paid to Manager Mr. Liquid 5,000

28<sup>th</sup> : Postage paid 1,000

29<sup>th</sup> : Received cheque from Mr. Wind on loan account 3,000

30<sup>th</sup> : Sold part of the equipment for 2,000

**Solution:**

Journal in the books of M/s Rama & Sons for the period from August 10<sup>th</sup>, \_5 to August 30<sup>th</sup>, \_5



Date	V/R No.	Particulars	L/F	Amount (Dr)	Amount (Cr)
August 10 <sup>th</sup>	–	Cash a/c Dr To Capital a/c [Being the amount received from Mr. Moon, the proprietor as his capital contribution vide receipt no:___ dated:___]	– –	1,50,000	1,50,000
11 <sup>th</sup>	–	Bank a/c Dr To Cash a/c [Being the amount of cash deposited into bank vide bill no:___ dated:___]	– –	50,000	50,000
12 <sup>th</sup>	–	Equipment a/c Dr To Cash a/c [Being the value of equipment purchased from M/s___ for cash vide bill no:___ dated:___]	– –	15,000	15,000
13 <sup>th</sup>	–	Goods/stock a/c Dr To Bank a/c [Being the payment made for stock purchased vide Cheque no:___ dated:___]	– –	20,000	20,000
14 <sup>th</sup>	–	Bank a/c Dr To Goods/stock a/c [Being the amount received for stock sold to Mr. Sun vide Cheque no:___ dated:___]	– –	15,000	15,000
16 <sup>th</sup>	–	Rent a/c Dr To Bank a/c [Being the amount paid for rent vide voucher no:___ dated:___]	– –	5,000	5,000
17 <sup>th</sup>	–	Cash a/c Dr To Loan from Storm a/c [Being the cash received from Mr. Storm as loan vide receipt no:___ dated:___]	– –	25,000	25,000
18 <sup>th</sup>	–	Bank a/c Dr	–	5,000	



B. P. A. 1 Year

Subject: Financial Accounting

Date	V/R No.	Particulars	L/F	Amount (Dr)	Amount (Cr)
		To Commission a/c [Being the amount received for commission vide cheque no: __ dated: __]	–		5,000
19 <sup>th</sup>	–	Wages a/c Dr To Cash a/c [Being the amount paid for wages vide voucher no: __ dated: __]	– –	15,000	15,000
20 <sup>th</sup>	–	Drawings a/c Dr To Bank a/c [Being the amount withdrawn from bank for personal use vide cheque no: __ dated: __]	– –	3,000	3,000
21 <sup>st</sup>	–	Cash a/c Dr To Bank a/c [Being the amount withdrawn from bank for office purpose vide cheque no: __ dated: __]	– –	10,000	10,000
22 <sup>nd</sup>	–	Goods/stock a/c Dr To Cash a/c [Being the amount of cash paid for stock purchases vide voucher no: __ dated: __]	– –	25,000	25,000
23 <sup>rd</sup>	–	Bank a/c Dr To Cash a/c [Being the amount deposited into bank vide voucher no: __ dated: __]	– –	30,000	30,000
24 <sup>th</sup>	–	Interest a/c Dr To Bank a/c [Being the amount of interest paid vide cheque no: __ dated: __]	– –	2,000	2,000
25 <sup>th</sup>	–	Loan to Mr. Wind a/c Dr To Cash a/c [Being the amount of cash given to Mr. Wind as loan vide voucher no: __ dated: __]	– –	10,000	10,000



B. P. A. M. Year \_\_\_\_\_ Subject: Financial Accounting

Date	V/R No.	Particulars	L/F	Amount (Dr)	Amount (Cr)
26 <sup>th</sup>	–	Loan from Strom a/c Dr To Cash a/c [Being the amount paid to Mr. Storm for repayment of loan vide voucher no:___ dated:___]	– –	15,000	15,000
27 <sup>th</sup>	–	Salary a/c Dr To Cash a/c [Being the amount paid for salary to Mr. Liquid vide voucher no:___ dated:___]	– –	5,000	5,000
28 <sup>th</sup>	–	Postage a/c Dr To Cash a/c [Being the amount paid for purchase of postage vide voucher no:___ dated:___]	– –	1,000	1,000
29 <sup>th</sup>	–	Bank a/c Dr To Loan to Mr. wind a/c [Being the Cheque no:___ date___ received from Mr. Wind for repayment of loan]	– –	3,000	3,000
30 <sup>th</sup>	–	Cash a/c Dr To Equipment a/c [Being the amount received on sale of equipment vide receipt no:___ dated:___]	– –	2,000	2,000

General Ledger  
[Books of M/s Rama & Sons]

Cash a/c  
DrCr



B.B.A. I Year

Subject: Financial Accounting

Date	Particulars	J/F	Amount	Date	Particulars	J/F	Amount
10/10/_5	To Capital a/c	–	1,50,000	11/10/_5	By Bank a/c	–	50,000
17/10/_5	To Loan from	–	25,000	12/10/_5	By Equipment	–	15,000
21/10/_5	Storm a/c	–	10,000	19/10/_5	a/c	–	15,000
30/10/_5	To Bank a/c	–	2,000	22/10/_5	By Wages a/c	–	25,000
	To Equipment			23/10/_5	By Goods/stock	–	30,000
	a/c			25/10/_5	a/c	–	10,000
				26/10/_5	By Bank a/c	–	15,000
				27/10/_5	By Loan to Mr.	–	5,000
				28/10/_5	Wind a/c	–	1,000
				31/08/_5	By Loan from	–	21,000
					Strom a/c		
					By Salary a/c		
					By Postage a/c		
					By Balance c/d		
	Tl		1,87,000		tl		1,87,000
01/09/_5	To Balance b/d	–	21,000				

Capital a/c

DrCr

Date	Particulars	J/F	Amount	Date	Particulars	J/F	Amount
31/08/_5	To Balance c/d	–	1,50,000	10/10/_5	By Cash a/c	–	1,50,000
	tl		1,50,000		tl		1,50,000
				01/09/_5	By Balance b/d	–	1,50,000

Bank a/c

DrCr

Date	Particulars	J/F	Amount	Date	Particulars	J/F	Amount
11/10/_5	To Cash a/c	–	50,000	13/10/_5	By	–	20,000
14/10/_5	To Goods/stock	–	15,000	16/10/_5	Goods/stock	–	5,000
18/10/_5	a/c	–	5,000	20/10/_5	a/c	–	3,000
23/10/_5	To Commission	–	30,000	21/10/_5	By Rent a/c	–	10,000
29/10/_5	a/c	–	3,000	24/10/_5	By Drawings	–	2,000
	To Cash a/c			31/08/_5	a/c	–	63,000
	To Loan to Mr.				By Cash a/c		
	wind a/c				By Interest a/c		
					By Balance c/d		



Bank a/c

DrCr

Date	Particulars	J/F	Amount	Date	Particulars	J/F	Amount
	Tl		1,03,000		tl		1,03,000
01/09/_5	To Balance b/d	-	63,000				

Equipment a/c

DrCr

Date	Particulars	J/F	Amount	Date	Particulars	J/F	Amount
12/10/_5	To Cash a/c	-	15,000	30/10/_5	By Cash a/c	-	2,000
	tl		15,000	31/08/_5	By Balance c/d	-	13,000
01/09/_5	To Balance b/d	-	13,000		tl		15,000

Goods/stock a/c

DrCr

Date	Particulars	J/F	Amount	Date	Particulars	J/F	Amount
13/10/_5	To Bank a/c	-	20,000	14/10/_5	By Bank a/c	-	15,000
22/10/_5	To Cash a/c	-	25,000	31/08/_5	By Balance c/d	-	30,000
	tl		45,000		tl		45,000
01/09/_5	To Balance b/d	-	30,000				

Rent a/c

DrCr

Date	Particulars	J/F	Amount	Date	Particulars	J/F	Amount
16/10/_5	To Bank a/c	-	5,000	31/08/_5	By Balance c/d	-	5,000
	tl		5,000		tl		5,000
01/09/_5	To Balance b/d	-	5,000				

Loan from Storm a/c

DrCr

Date	Particulars	J/F	Amount	Date	Particulars	J/F	Amount
31/08/_5	To Balance c/d	-	25,000	17/10/_5	By Cash a/c	-	25,000
	tl		25,000		tl		25,000
				01/09/_5	By Balance b/d	-	25,000

Commission a/c



DrCr

Date	Particulars	J/F	Amount	Date	Particulars	J/F	Amount
31/08/_5	To Balance c/d	–	5,000	18/10/_5	By Bank a/c	–	5,000
	tl		5,000		tl		5,000
				01/09/_5	By Balance b/d	–	5,000

Wages a/c

DrCr

Date	Particulars	J/F	Amount	Date	Particulars	J/F	Amount
19/10/_5	To Cash a/c	–	15,000	31/08/_5	By Balance c/d	–	15,000
	tl		15,000		tl		15,000
01/09/_5	To Balance b/d	–	15,000				

Drawings a/c

DrCr

Date	Particulars	J/F	Amount	Date	Particulars	J/F	Amount
20/10/_5	To Bank a/c	–	3,000	31/08/_5	By Balance c/d	–	3,000
	tl		3,000		tl		3,000
01/09/_5	To Balance b/d	–	3,000				

Interest a/c

DrCr

Date	Particulars	J/F	Amount	Date	Particulars	J/F	Amount
24/10/_5	To Bank a/c	–	2,000	31/08/_5	By Balance c/d	–	2,000
	Tl		2,000		tl		2,000
01/09/_5	To Balance b/d	–	2,000				

Loan to Mr. Wind a/c

DrCr

Date	Particulars	J/F	Amount	Date	Particulars	J/F	Amount
25/10/_5	To Cash a/c	–	10,000	31/08/_5	By Balance c/d	–	10,000
	tl		10,000		tl		10,000
01/09/_5	To Balance b/d	–	10,000				

Loan from Strom a/c

DrCr



B.B.A. I Year

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Date	Particulars	J/F	Amount	Date	Particulars	J/F	Amount
26/10/_5	To Cash a/c	–	15,000	31/08/_5	By Balance c/d	–	15,000
	tl		15,000		tl		15,000
01/09/_5	To Balance b/d	–	15,000				

Salary a/c

DrCr

Date	Particulars	J/F	Amount	Date	Particulars	J/F	Amount
27/10/_5	To Cash a/c	–	5,000	31/08/_5	By Balance c/d	–	5,000
	tl		5,000		tl		5,000
01/09/_5	To Balance b/d	–	5,000				

Postage a/c

DrCr

Date	Particulars	J/F	Amount	Date	Particulars	J/F	Amount
28/10/_5	To Cash a/c	–	1,000	31/08/_5	By Balance c/d	–	1,000
	Tl		1,000		tl		1,000
01/09/_5	To Balance b/d	–	1,000				

Loan to Mr. wind a/c

DrCr

Date	Particulars	J/F	Amount	Date	Particulars	J/F	Amount
31/08/_5	To Balance c/d	–	3,000	29/10/_5	By Bank a/c	–	3,000
	tl		3,000		tl		3,000
				01/09/_5	By Balance b/d	–	3,000

### Question 4:

Prepare a Trial Balance for Shining Brothers Pvt. Ltd. at March 31<sup>st</sup>, 2017?

Description	Amount	Description	Amount	Description	Amount
Bank Loan	Rs. 14,000	Insurance Expense	Rs. 7,300	Equipments	Rs. 40,000
Marketable Security	6,500	Owner's Investments	95,000	Maintenance Exp.	5,000
Bill Payable	1,000	Rent & Rates Expense	400	Miscellaneous Expenses	4,800
Unearned Revenue	3,500	Acc. Dep. _ Equipments	14,000	Accrued Expenses	1,500
Sundry Debtors	12,000	Accrued Revenue	15,000	Dep. Exp. _ Equipments	2,000
Outstanding Salaries	2,500	Machinery	25,000	Unexpired Insurance	8,500
Prepaid Rent	2,000	Drawings	3,500	Vendor's Payables	500



Shining Brothers Pvt. Ltd.

*Trial Balance*

*As on March 31<sup>st</sup>, 2017*

S. No	Description	Ref	Amount (Rs.)	
			Dr.	Cr.
1	Bank Loan			14,000
2	Marketable Security		6,500	
3	Bill Payable			1,000
4	Unearned Revenue			3,500
5	Sundry Debtors		12,000	
6	Outstanding Salaries			2,500
7	Prepaid Rent		2,000	
8	Insurance Expense		7,300	
9	Owner's Investments			95,000
10	Rent & Rates Expense		400	
11	Accumulated Dep. _ Equipments			14,000
12	Accrued Revenue		15,000	
13	Machinery		25,000	
14	Drawings		3,500	
15	Equipments		40,000	
16	Maintenance Exp.		5,000	
17	Miscellaneous Expenses		4,800	
18	Accrued Expenses			1,500
19	Depreciation Exp. _ Equipments		2,000	
20	Unexpired Insurance		8,500	
21	Vendor's Payables			500
	<b>Total</b>		<b>Rs. 132,000</b>	<b>Rs. 132,000</b>

### **Question 5:**

From the following trial balance of Mr. Arjun as on 31st March 2025, prepare:

1. **Trading Account**
2. **Profit & Loss Account**
3. **Balance Sheet** as on that date

Particulars	Dr (₹)	Cr (₹)
Capital		1,00,000
Drawings	10,000	
Purchases	80,000	



Particulars	Dr (₹)	Cr (₹)
Sales		1,50,000
Returns Inwards	2,000	
Returns Outwards		1,000
Wages	5,000	
Salaries	3,000	
Rent	2,000	
Carriage Inwards	1,500	
Carriage Outwards	1,000	
Stock (Opening)	20,000	
Debtors	25,000	
Creditors		15,000
Furniture	10,000	
Cash in Hand	5,500	
Bank Balance	5,000	
	<b>₹1,70,000</b>	<b>₹1,70,000</b>

□ Adjustments:

1. Closing Stock valued at ₹30,000
2. Outstanding salaries ₹1,000
3. Depreciate Furniture by 10%

**Solution:**

**1. Trading Account for the year ended 31st March 2025**

**Trading Account**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Opening Stock	20,000	By Sales	1,50,000
To Purchases	80,000	Less: Returns Outwards	(1,000)
	79,000	Less: Returns Inwards	(2,000)
To Wages	5,000	Net Sales	1,47,000
To Carriage Inwards	1,500	By Closing Stock	30,000
<b>To Gross Profit c/d</b>	<b>71,500</b>		
<b>Total</b>	<b>1,77,000</b>	<b>Total</b>	<b>1,77,000</b>



## 2. Profit & Loss Account for the year ended 31st March 2025

### Profit & Loss Account

Particulars	Amount (₹)	Particulars	Amount (₹)
To Salaries	3,000		
Add: Outstanding Salaries	1,000		
	4,000	By Gross Profit b/d	71,500
To Rent	2,000		
To Carriage Outwards	1,000		
To Depreciation on Furniture (10%)	1,000		
<b>To Net Profit transferred to Capital A/c</b>	<b>63,500</b>		
<b>Total</b>	<b>71,500</b>	<b>Total</b>	<b>71,500</b>

## 3. Balance Sheet as on 31st March 2025

### Balance Sheet

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital	1,00,000	Furniture	10,000
Add: Net Profit	63,500	Less: Depreciation (10%)	(1,000)
		Net Furniture	9,000
		Debtors	25,000
Less: Drawings	(10,000)	Closing Stock	30,000
	<b>1,53,500</b>	Cash in Hand	5,500
Outstanding Salaries	1,000	Bank Balance	5,000
Creditors	15,000		
<b>Total Liabilities</b>	<b>1,69,500</b>	<b>Total Assets</b>	<b>1,69,500</b>

### Final Notes:

- Gross Profit = ₹71,500
- Net Profit = ₹63,500
- Balance Sheet balances at ₹1,69,500 on both sides.