ACCOUNTING FOR MANAGERS

PREPARED

BY

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UNIT - 1
INTRODUCTION TO FINANCIAL ACCOUNTING

Q1. Define accounting? Explain the concept of accounting? or

Explain advantages and limitations of accounting? or

Explain the branches of accounting?

Ans) INTRODUCITON : Accounting is a language of business.

As you are aware, every trader generally starts business for purpose of earning profit. While establishing business, he brings own capital, borrows money from relatives, friends, outsiders or financial institutions. Then he purchases machinery, plant , furniture, raw materials and other assets. He starts buying and selling of goods, paying for salaries, rent and other expenses, depositing and withdrawing cash from bank. Like this he undertakes innumerable transactions in business. Observe the following transactions of small trader for one week during the month of July, 1998.

1998		Rs.
July 24	Purchase of goods from Sree Ram	12,000
July 25	Goods sold for cash	5,000
July 25	Sold gods to Syam on credit	8,000
July 26	Advertising expenses	5,200
July 27	Stationary expenses	600
July 27	Withdrawal for personal use	2,500
July 28	Rent paid through cheque	1,000
July 31	Salaries paid	9,000
July 31	Received cash from Syam	5,000

The number of transactions in an organization depends upon the size of the organization. In small organizations, the transactions generally will be in thousand and in big organizations they may be in lakhs. As such it is humanly impossible to remember all these transactions. Further, it may not by possible to find out the final result of the business without recording and analyzing these transactions.

Accounting came into practice as an aid to human memory by maintaining a systematic record of business transactions.

Meaning of Accounting:

Thus, book-keeping is an art of recording the business transactions in the books of original entry and the ledges. Accountancy begins where Book-keeping ends. Accountancy means the compilation of accounts in such a way that one is in a position to know the state of affairs of the business. The work of an accountant is to analyze, interpret and review the accounts and draw conclusion with a view to guide the management in chalking out the future policy of the business.

Definition of Accounting:

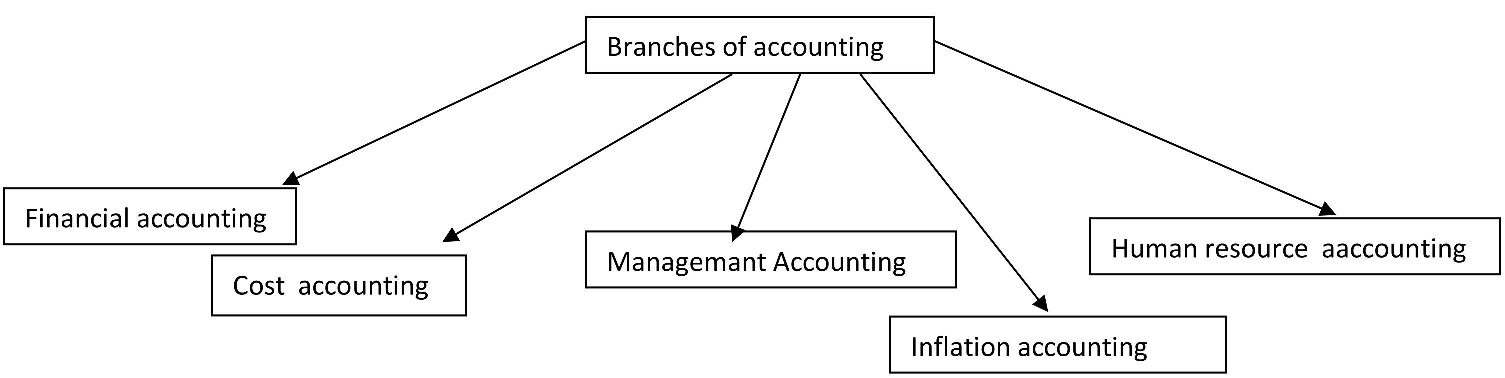
American Institute of Certified Public Accountants (AICPA): "The art of recording, classifying and summarizing in a significant manner and in terms of money transactions and Management events, which are in part at least, of a financial character and interpreting the results thereof."

Smith and Ashburne: "Accounting is a means of measuring and reporting the results of economic acti **R.N. Anthony:** "Accounting system is a means of collecting summarizing, analyzing and reporting in monetary terms, the information about the business.vities."

Thus, accounting is an art of identifying, recording, summarizing and interpreting business transactions of financial nature. Hence accounting is the **Language of Business**.

Branches of Accounting:

The important branches of accounting are:



1. **Financial Accounting:** The purpose of Accounting is to ascertain the financial results i.e. profit or loss in the operations during a specific period. It is also aimed at knowing the financial position, i.e. assets, liabilities and equity position at the end of the period. It also provides other relevant information to the management as a basic for decision-making for planning and controlling the operations of the business.

2. **Cost Accounting:** The purpose of this branch of accounting is to ascertain the cost of a product / operation / project and the costs incurred for carrying out various activities. It also assets the management in controlling the costs. The necessary data and information are gatherr4ed form financial and other sources.
3. **Management Accounting:** Its aim to assist the management in taking correct policy decision and to evaluate the impact of its decisions and actions. The data required for this purpose are drawn accounting and cost-accounting.
4. **Inflation Accounting:** It is concerned with the adjustment in the values of assets and of profit in light of changes in the price level. In a way it is concerned with the overcoming of limitations that arise in financial statements on account of the cost assumption (i.e. recording of the assets at their historical or original cost) and the assumption of stable monetary unit.
5. **Human Resource Accounting:** It is a branch of accounting which seeks to report and emphasize the importance of human resources in a company's earning process and total assets. It is concerned with the process of identifying and measuring data about human resources and communicating this information to interested parties. In simple words, it is accounting for people as organizational resources.

ADVANTAGES FROM ACCOUNTING

The role of accounting has changed from that of a mere record keeping during the 1st decade of 20th century of the present stage, which it is accepted as information system and decision making activity. The following are the advantages of accounting.

1. **Provides for systematic records:** Since all the financial transactions are recorded in the books, one need not rely on memory. Any information required is readily available from these records.
2. **Facilitates the preparation of financial statements:** Profit and loss accountant and balance sheet can be easily prepared with the help of the information in the records. This enables the trader to know the net result of business operations (i.e. profit / loss) during the accounting period and the financial position of the business at the end of the accounting period.

3. **Provides control over assets:** Book-keeping provides information regarding cash in had, cash at bank, stock of goods, accounts receivables from various parties and the amounts invested in various other assets. As the trader knows the values of the assets he will have control over them.
4. **Provides the required information:** Interested parties such as owners, lenders, creditors etc., get necessary information at frequent intervals.
5. **Comparative study:** One can compare the present performance of the organization with that of its past. This enables the managers to draw useful conclusion and make proper decisions.
6. **Less Scope for fraud or theft:** It is difficult to conceal fraud or theft etc., because of the balancing of the books of accounts periodically. As the work is divided among many persons, there will be check and counter check.
7. **Tax matters:** Properly maintained book-keeping records will help in the settlement of all tax matters with the tax authorities.
8. **Ascertaining Value of Business:** The accounting records will help in ascertaining the correct value of the business. This helps in the event of sale or purchase of a business.
9. **Documentary evidence:** Accounting records can also be used as an evidence in the court to substantiate the claim of the business. These records are based on documentary proof. Every entry is supported by authentic vouchers. As such, Courts accept these records as evidence.
10. **Helpful to management:** Accounting is useful to the management in various ways. It enables the management to assess the achievement of its performance. The weakness of the business can be identified and corrective measures can be applied to remove them with the helps accounting.

LIMITATIONS OF ACCOUNTING

The following are the limitations of accounting.

1. **Does not record all events:** Only the transactions of a financial character will be recorded under book-keeping. So it does not reveal a complete picture about the quality of human resources, location advantage, business contacts etc.
2. **Does not reflect current values:** The data available under book-keeping is historical in nature. So they do not reflect current values. For instance, we record the value of stock at cost price or market price, which ever is less. In case of, building, machinery etc., we adopt historical cost as the basis. In fact, the current values of buildings, plant and machinery may be much more than what is recorded in the balance sheet.

3. **Estimates based on Personal Judgment:** The estimate used for determining the values of various items may not be correct. For example, debtor is estimated in terms of collectability, inventories are based on marketability, and fixed assets are based on useful working life. These estimates are based on personal judgment and hence sometimes may not be correct.
4. **Inadequate information on costs and Profits:** Book-keeping only provides information about the overall profitability of the business. No information is given about the cost and profitability of different activities of products or divisions.

Q2. Explain the functions of accountant? or

Explain the process of accounting? or

Explain the functions of accounting?

INTRODUCITON :

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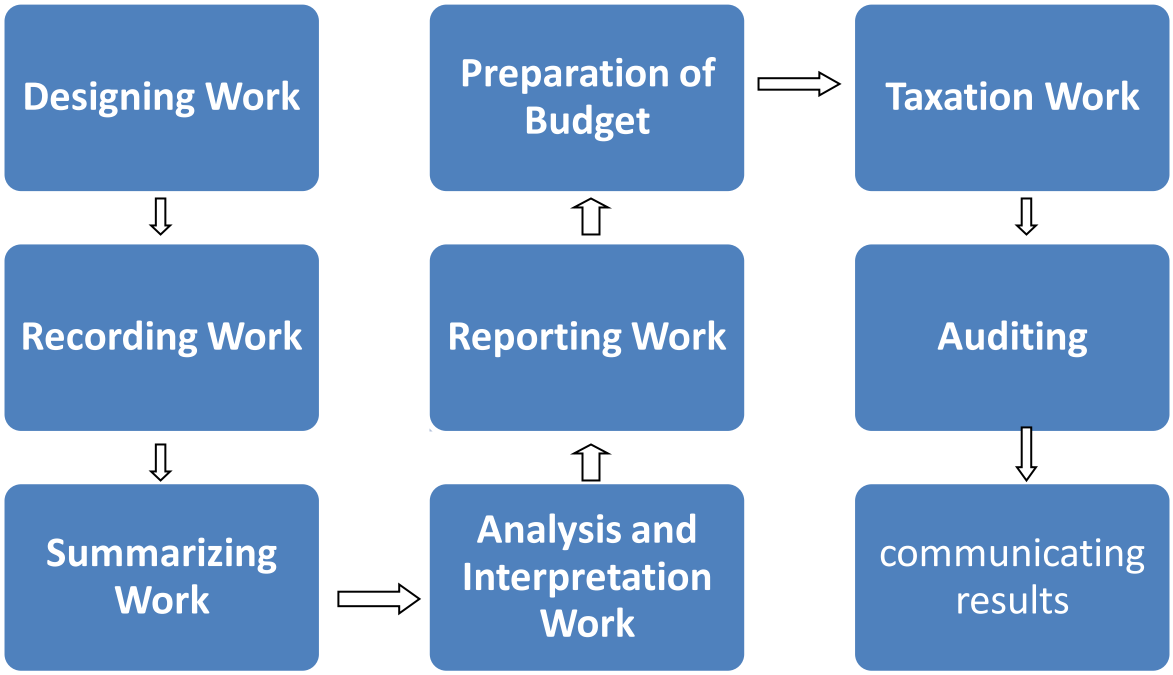
FUNCTIONS OF AN ACCOUNTANT:

The job of an accountant involves the following types of accounting works

Process of accounting

1. **Designing Work:** It includes the designing of the accounting system, basis for identification and classification of financial transactions and events, forms, methods, procedures, etc.
2. **Recording Work:** The financial transactions are identified, classified and recorded in appropriate books of accounts according to principles. This is "Book Keeping". The recording of transactions tends to be mechanical and repetitive.



3. **Summarizing Work:** The recorded transactions are summarized into significant form according to generally accepted accounting principles. The work includes the preparation of profit and loss account, balance sheet. This phase is called 'preparation of final accounts'
4. **Analysis and Interpretation Work:** The financial statements are analyzed by using ratio analysis, break-even analysis, funds flow and cash flow analysis.
5. **Reporting Work:** The summarized statements along with analysis and interpretation are communicated to the interested parties or whoever has the right to receive them. For Ex. Share holders. In addition, the accou8nting departments have to prepare and send regular reports so as to assist the management in decision making. This is 'Reporting'.
6. **Preparation of Budget:** The management must be able to reasonably estimate the future requirements and opportunities. As an aid to this process, the accountant has to prepare budgets, like cash budget, capital budget, purchase budget, sales budget etc. this is 'Budgeting'.
7. **Taxation Work:** The accountant has to prepare various statements and returns pertaining to income-tax, sales-tax, excise or customs duties etc., and file the returns with the authorities concerned.
8. **Auditing:** It involves a critical review and verification of the books of accounts statements and reports with a view to verifying their accuracy. This is 'Auditing'

This is what the accountant or the accounting department does. A person may be placed in any part of Accounting Department or MIS (Management Information System) Department or in small organization, the same person may have to attend to all this work.

Q3. Explain about concepts and conventions in accounting?

Explain about GAAP principles in accounting?

Ans) Accounting has been evolved over a period of several centuries. During this period, certain rules and conventions have been adopted. They serve as guidelines in identifying the events and transactions to be accounted for measuring, recording, summarizing and reporting them to the interested parties. These rules and conventions are termed as **Generally Accepted Accounting Principles.** These principles are also referred as standards, assumptions, concepts, conventions doctrines, etc. Thus, the accounting concepts are the fundamental ideas or basic assumptions underlying the theory and practice of financial accounting. They are the broad working rules for all accounting activities developed and accepted by the accounting profession.

Basic accounting concepts may be classified into two broad categories.

1. Concept to be observed at the time of recording transactions.(Recording Stage).
2. Concept to be observed at the time of preparing the financial accounts (Reporting Stage)

BASIC ACCOUNTING CONCEPTS

Accounting is a system evolved to achieve a set of objectives. In order to achieve the goals, we need a set of rules or guidelines. These guidelines are termed here as "BASIC ACCOUNTING ONCEPTS". The term concept means an idea or thought. Basic accounting concepts are the fundamental ideas or basic assumptions underlying the theory and profit of FINANCIAL ACCOUNTING. These concepts help in bringing about uniformity in the practice of accounting. In accountancy following concepts are quite popular. In simple remember of word MCMC BRAD PG.

1. ***BUSINESS ENTITY CONEPT***: In this concept “Business is treated as separate from the proprietor”. All the

Transactions recorded in the book of Business and not in the books of proprietor. The proprietor is also treated as a creditor for the Business.

2. ***GOING CONCERN CONCEPT***: This concept relates with the long life of Business. The assumption is that business will continue to exist for unlimited period unless it is dissolved due to some reasons or the other.

3. ***MONEY MEASUREMENT CONCEPT***: In this concept “Only those transactions are recorded in accounting which can be expressed in terms of money, those transactions which can not be expressed in terms of money are not recorded in the books of accounting”.

4. ***COST CONCEPT***: Accounting to this concept, can asset is recorded at its cost in the books of account. i.e., the price, which is paid at the time of acquiring it. In balance sheet, these assets appear not at cost price every year, but depreciation is deducted and they appear at the amount, which is cost, less classification.

5. ***ACCOUNTING PERIOD CONCEPT***: every Businessman wants to know the result of his investment and efforts after a certain period. Usually one-year period is regarded as an ideal for this purpose. This period is called Accounting Period. It depends on the nature of the business and object of the proprietor of business.

6. ***DUAL ASCEPT CONCEPT***: According to this concept “Every business transactions has two aspects”, one is the receiving benefit aspect another one is giving benefit aspect. The receiving benefit aspect is termed as

“DEBIT”, where as the giving benefit aspect is termed as “CREDIT”. Therefore, for every debit, there will be corresponding credit.

7. ***MATCHING COST CONCEPT***: According to this concept “The expenses incurred during an accounting period, e.g., if revenue is recognized on all goods sold during a period, cost of those good sole should also

Be charged to that period.

8. ***REALISATION CONCEPT***: According to this concept revenue is recognized when a sale is made. Sale is

Considered to be made at the point when the property in goods posses to the buyer and he becomes legally liable to pay.

ACCOUNTING CONVENTIONS

Accounting is based on some customs or usages. Naturally accountants here to adopt that usage or custom.

They are termed as convert conventions in accounting. The following are some of the important accounting conventions.

1. *FULL DISCLOSURE*: According to this convention accounting reports should disclose fully and fairly the information. They purport to represent. They should be prepared honestly and sufficiently disclose information which is if material interest to proprietors, present and potential creditors and investors. The companies ACT, 1956 makes it compulsory to provide all the information in the prescribed form.

2. *MATERIALITY*: Under this convention the trader records important factor about the commercial activities. In the form of financial statements if any unimportant information is to be given for the sake of clarity it will be given as footnotes.

3. *CONSISTENCY*: It means that accounting method adopted should not be changed from year to year. It means that there should be consistent in the methods or principles followed. Or else the results of a year Cannot be conveniently compared with that of another.

4. *CONSERVATISM*: This convention warns the trader not to take unrealized income in to account. That is why the practice of valuing stock at cost or market price, which ever is lower is in vague. This is the policy of “playing safe”; it takes in to consideration all prospective losses but leaves all prospective profits

Q4) Explain about users of accounts ?

Ans)

INTRODUCTION:

The main object of any Business is to make profit. Every trader generally starts business for the purpose of earning profit. While establishing Business, he brings his own capital, borrows money from relatives, friends, outsiders or financial institutions, then purchases machinery, plant, furniture, raw materials and other assets. He starts buying and selling of goods, paying for salaries, rent and other expenses, depositing and withdrawing cash from Bank. Like this he undertakes innumerable transactions in Business.

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USERS OF ACCOUNTING INFORMATION :

Different categories of users need different kinds of information for making decisions. The users of accounting can be divided in two board groups

(1). Internal users and

(2). External users.

1 Internal Users:

Managers: These are the persons who manage the business, i.e. management at he top, middle and lower levels. Their requirements of information are different because they make different types of decisions.

Accounting reports are important to managers for evaluating the results of their decisions. In additions to external financial statements, managers need detailed internal reports either branch division or department or product-wise. Accounting reports for managers are prepared much more frequently than external reports.

Accounting information also helps the managers in appraising the performance of subordinates. As such Accounting is termed as " the eyes and ears of management."

2 External Users:

1. Investors: Those who are interested in buying the shares of company are naturally interested in the financial statements to know how safe the investment already made is and how safe the proposed investments will be.

2. Creditors: Lenders are interested to know whether their load, principal and interest, will be paid when due. Suppliers and other creditors are also interested to know the ability of the firm to pay their dues in time. **3. Workers:** In our country, workers are entitled to payment of bonus which depends on the size of profit earned. Hence, they would like to be satisfied that he bonus being paid to them is correct. This knowledge also helps them in conducting negotiations for wage.

4. Customers: They are also concerned with the stability and profitability of the enterprise. They may be interested in knowing the financial strength of the company to rent it for further decisions relating to purchase of goods.

5. Government: Governments all over the world are using financial statements for compiling statistics concerning business which, in turn, helps in compiling national accounts. The financial statements are useful for tax authorities for calculating taxes.

6. Public : The public at large interested in the functioning of the enterprises because it may make a substantial contribution to the local economy in many ways including the number of people employed and their patronage to local suppliers.

7. Researchers: The financial statements, being a mirror of business conditions, are of great interest to scholars undertaking research in accounting theory as well as business affairs and practices.

Q5) Explain about book-keeping ? How single entry system differs from double entry system?

Explain about double entry system of book-keeping? Write the advantages and disadvantages of double entry system?

Ans) BOOK-KEEPING AND ACCOUNTING

According to G.A. Lee the accounting system has two stages.

1. The making of routine records in the prescribed from and according to set rules of all events with affect the financial state of the organization; and
2. The summarization from time to time of the information contained in the records, its presentation in a significant form to interested parties and its interpretation as an aid to decision making by these parties.

First stage is called Book-Keeping and the second one is Accounting.

Book – Keeping: Book – Keeping involves the chronological recording of financial transactions in a set of books in a systematic manner.

Accounting: Accounting is concerned with the maintenance of accounts giving stress to the design of the system of records, the preparation of reports based on the recorded date and the interpretation of the reports.

Distinction between Book – Keeping and Accountancy

Thus, the terms, book-keeping and accounting are very closely related, through there is a subtle difference as mentioned below.

1. Object : The object of book-keeping is to prepare original books of Accounts. It is restricted to journal, subsidiary book and ledge accounts only. On the other hand, the main object of accounting is to record analyze and interpret the business transactions.

2. Level of Work: Book-keeping is restricted to level of work. Clerical work is mainly involved in it. Accountancy on the other hand, is concerned with all level of management.

3. Principles of Accountancy: In Book-keeping Accounting concepts and conventions will be followed by all without any difference. On the other hand, various firms follow various methods of reporting and interpretation in accounting.

3. Final Result: In Book-Keeping it is not possible to know the final result of business every year.

Double entry system: : According to this concept "Every business transactions has two aspects", one is the receiving benefit aspect another one is giving benefit aspect. The receiving benefit aspect is termed as "DEBIT", where as the giving benefit aspect is termed as "CREDIT". Therefore, for every debit, there will be corresponding credit.

ADVANTAGES DOUBLE ENTRY SYSTEM:

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- **Less Scope for fraud or theft:** It is difficult to conceal fraud or theft etc., because of the balancing of the books of accounts periodically. As the work is divided among many persons, there will be check and counter check.
- **Tax matters:** Properly maintained book-keeping records will help in the settlement of all tax matters with the tax authorities.
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LIMITATIONS OF ACCOUNTING

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- **Does not record all events:** Only the transactions of a financial character will be recorded under book-keeping. So it does not reveal a complete picture about the quality of human resources, location advantage, business contacts etc.
- **Does not reflect current values:** The data available under book-keeping is historical in nature. So they do not reflect current values. For instance, we record the value of stock at cost price or market price, which ever is less. In case of, building, machinery etc., we adopt historical cost as the basis. In fact, the current values of buildings, plant and machinery may be much more than what is recorded in the balance sheet.
- **Estimates based on Personal Judgment:** The estimate used for determining the values of various items may not be correct. For example, debtor is estimated in terms of collectability, inventories are based on marketability, and fixed assets are based on useful working life. These estimates are based on personal judgment and hence sometimes may not be correct.
- **Inadequate information on costs and Profits:** Book-keeping only provides information about the overall profitability of the business. No information is given about the cost and profitability of different activities of products or divisions.

Q6) Classify the business transactions? State the rules for debit and credit for that ?Or

Explain the types of accounts and state the rules for debit and credit?

Ans)

<u>CLASSIFICATION OF BUSINESS TRANSACTIONS</u>

All business transactions are classified into two categories: personal and impersonal.

1. Those relating to persons(personal)
2. Those relating to property (impersonal)
3. Those relating to income & expenses(impersonal)

Thus, three classes of accounts are maintained for recording all business transactions. They are:

1. Personal accounts: A Natural personal account b.artificial c.representative.

2. Real accounts

3. Nominal account.

1. *Personal Accounts*: Accounts which are transactions with persons are called "Personal Accounts"

A separate account is kept on the name of each person for recording the benefits received from, or given to the person in the course of dealings with him.

E.g.: Krishna's A/C, Gopal's A/C, SBI A/C, Nagarjuna Finance Ltd.A/C, ObulReddy & Sons A/C, HMT Ltd. A/C, Capital A/C, Drawings A/C etc.

2. *Real Accounts*: The accounts relating to properties or assets are known as "Real Accounts" .Every business needs assets such as machinery, furniture etc, for running its activities .A separate account is maintained for each asset owned by the business.

E.g.: cash A/C, furniture A/C, building A/C, machinery A/C etc.

3. *NominalAccounts:Accounts* relating to expenses, losses, incomes and gains are known as "Nominal Accounts". A separate account is maintained for each item of expenses, losses, income or gain.

E.g.: Salaries A/C, stationery A/C, wages A/C, postage A/C, commission A/C, interest A/C, purchases A/C, rent A/C, discount A/C, commission received A/C, interest received A/C, rent received A/C, discount received A/C.

Before recording a transaction, it is necessary to find out which of the accounts is to be debited and which is to be credited. The following three different rules have been laid down for the three classes of accounts….

1. *Personal Accounts*: The account of the person receiving benefit (receiver) is to be debited and the account of the person giving the benefit (given) is to be credited.

> ***Rule***: "Debit----The Receiver
>
> Credit---The Giver"

2.*Real Accounts*: When an asset is coming into the business, account of that asset is to be debited .When an asset is going out of the business, the account of that asset is to be credited.

> ***Rule***: "Debit----What comes in?
>
> Credit---What goes out?"

3. *Nominal Accounts*: When an expense is incurred or loss encountered, the account representing the expense or loss is to be debited. When any income is earned or gain made, the account representing the income of gain is to be credited.

Rule: "Debit----All expenses and losses Credit---All incomes and gains"

Q7) What is journalizing? Explain about journal?

The first step in accounting therefore is the record of all the transactions in the books of original entry viz., Journal and then posting into ledges.

JOURNAL: The word Journal is derived from the Latin word 'journ' which means a day. Therefore, journal means a 'day Book' in day-to-day business transactions are recorded in chronological order.

Journalising:

Journal is treated as the book of original entry or first entry or prime entry. All the business transactions are recorded in this book before they are posted in the ledges. The journal is a complete and chronological (in order of dates) record of business transactions. It is recorded in a systematic manner. The process of recording a transaction in the journal is called "JOURNALISING". The entries made in the book are called "Journal Entries".

The Performa of Journal is given below.

Date	Particulars	L.F. no	Debit RS.	Credit RS.
Year Month ,date	Debited account Dr Credited account (Narration)		xxxx	xxxx

Date: this column represent date of the particular transaction.

Particulars: it represent particulars of the transaction. In each transaction there must be two accounts one is debit account and other is credited account. Debited account must be entered from the near to date column and put Dr in ending of that line .Credited account is enter by giving some space to the date column.

Narration: It will give brief information about a transaction.

L.F.NO: it means a ledger folio number ,it will give information about the particular account is entered on whitch page on the ledger.

Q8) Explain about ledger? What are the rules that we follow while preparing the ledgers?

LEDGER:

All the transactions in a journal are recorded in a chronological order. After a certain period, if we want to know whether a partiular account is showing a debit or credit balance it becomes very difficult. So, the ledger is designed to accommodate the various accounts maintained the trader. It contains the final or permanent record of all the transactions in duly classified form. "A ledger is a book which contains various accounts." The process of transferring entries from journal to ledger is called "POSTING".

Posting is the process of entering in the ledger the entries given in the journal. Posting into ledger is done periodically, may be weekly or fortnightly as per the convenience of the business. The following are the guidelines for posting transactions in the ledger.

1. After the completion of Journal entries only posting is to be made in the ledger.
2. For each item in the Journal a separate account is to be opened. Further, for each new item a new account is to be opened.
3. Depending upon the number of transactions space for each account is to be determined in the ledger.
4. For each account there must be a name. This should be written in the top of the table. At the end of the name, the word "Account" is to be added.
5. The debit side of the Journal entry is to be posted on the debit side of the account, by starting with "TO".
6. The credit side of the Journal entry is to be posted on the debit side of the account, by starting with "BY".

Performa for ledger: ***LEDGER BOOK*** account*name*

Date	Particulars	Lfno	Amount	Date	Particulars	Lfno	amount

examples:

Sales account

Date	Particulars	Lfno	Amount	Date	Particulars	Lfno	amount

Cash account

Date	Particulars	Lfno	Amount	Date	Particulars	Lfno	amount

Finally, a ledger may be defined as a summary statement of all the transactions relating to a person , asset, expense or income which have taken place during a given period of time. The up-to-date state of any account can be easily known by referring to the ledger.

Q9) EXPLAIN ABOUT TRAIL BALANCE?

<u>TRAIL BALANCE</u>

The first step in the preparation of final accounts is the preparation of trail balance. In the double entry system of book keeping, there will be credit for every debit and there will not be any debit without credit. When this principle is followed in writing journal entries, the total amount of all debits is equal to the total amount all credits.

A trail balance is a statement of debit and credit balances. It is prepared on a particular date with the object of checking the accuracy of the books of accounts. It indicates that all the transactions for a particular period have been duly entered in the book, properly posted and balanced. The trail balance doesn't include stock in hand at the end of the period. All adjustments required to be done at the end of the period including closing stock are generally given under the trail balance.

<u>DEFINITIONS</u>: *<u>SPICER AND POGLAR :</u>*A trail balance is a list of all the balances standing on the ledger accounts and cash book of a concern at any given date.

<u>J.R.BATLIBOI:</u>

A trail balance is a statement of debit and credit balances extracted from the ledger with a view to test the arithmetical accuracy of the books.

Thus a trail balance is a list of balances of the ledger accounts' and cash book of a business concern at any given date.

<u>PROFORMA FOR TRAIL BALANCE</u>:

Trail balance for MR…………………………………… as on …………

NO	NAME OF ACCOUNT (PARTICULARS)	DEBIT AMOUNT (RS.)	CREDIT AMOUNT (RS.)

Specimen of trial balance

1	Capital	Credit	Loan
2	Opening stock	Debit	Asset
3	Purchases	Debit	Expense
4	Sales	Credit	Gain
5	Returns inwards	Debit	Loss
6	Returns outwards	Debit	Gain
7	Wages	Debit	Expense
8	Freight	Debit	Expense
9	Transport expenses	Debit	Expense
10	Royalties on production	Debit	Expense
11	Gas, fuel	Debit	Expense
12	Discount received	Credit	Revenue
13	Discount allowed	Debit	Loss
14	Bas debts	Debit	Loss

15	Bad debts reserve	Credit	Gain
16	Commission received	Credit	Revenue
17	Repairs	Debit	Expense
18	Rent	Debit	Expense
19	Salaries	Debit	Expense
20	Loan Taken	Credit	Loan
21	Interest received	Credit	Revenue
22	Interest paid	Debit	Expense
23	Insurance	Debit	Expense
24	Carriage outwards	Debit	Expense
25	Advertisements	Debit	Expense
26	Petty expenses	Debit	Expense
27	Trade expenses	Debit	Expense
28	Petty receipts	Credit	Revenue
29	Income tax	Debit	Drawings
30	Office expenses	Debit	Expense
31	Customs duty	Debit	Expense
32	Sales tax	Debit	Expense
33	Provision for discount on debtors	Credit	Liability
34	Provision for discount on creditors	Debit	Asset
35	Debtors	Debit	Asset
36	Creditors	Credit	Liability
37	Goodwill	Debit	Asset
38	Plant, machinery	Debit	Asset
39	Land, buildings	Debit	Asset
40	Furniture, fittings	Debit	Asset
41	Investments	Debit	Asset
42	Cash in hand	Debit	Asset
43	Cash at bank	Debit	Asset
44	Reserve fund	Credit	Liability
45	Loan advances	Debit	Asset
46	Horse, carts	Debit	Asset
47	Excise duty	Debit	Expense
48	General reserve	Credit	Liability
49	Provision for depreciation	Credit	Liability
50	Bills receivable	Debit	Asset
51	Bills payable	Credit	Liability

52	Depreciation	Debit	Loss
53	Bank overdraft	Credit	Liability
54	Outstanding salaries	Credit	Liability
55	Prepaid insurance	Debit	Asset
56	Bad debt reserve	Credit	Revenue
57	Patents & Trademarks	Debit	Asset
58	Motor vehicle	Debit	Asset
59	Outstanding rent	Credit	Revenue

Q 10) Explain about final accounts ?

FINAL ACCOUNTS

In every business, the business man is interested in knowing whether the business has resulted in profit or loss and what the financial position of the business is at a given time. In brief, he wants to know (i)The profitability of the business and (ii) The soundness of the business.

The trader can ascertain this by preparing the final accounts. The final accounts are prepared from the trial balance. Hence the trial balance is said to be the link between the ledger accounts and the final accounts. The final accounts of a firm can be divided into two stages. The first stage is preparing the trading and profit and loss account and the second stage is preparing the balance sheet.

TRADING ACCOUNT

The first step in the preparation of final account is the preparation of trading account. The main purpose of preparing the trading account is to ascertain gross profit or gross loss as a result of buying and selling the goods.

Trading account of MR……………………. for the year ended ………………

Particulars	Amount	Particulars	Amount

To opening stock	Xxxx	By sales xxxx	
To purchases xxxx		Less: returns xxx	Xxxx
Less: returns xx	Xxxx	By closing stock	Xxxx
To carriage inwards	Xxxx		
To wages	Xxxx		
To freight	Xxxx		
To customs duty, octroi	Xxxx		
To gas, fuel, coal, Water	Xxxx		
To factory expenses	Xxxx		
To other man. Expenses	Xxxx		
To productive expenses	Xxxx		
To gross profit c/d	Xxxx		
	Xxxx		Xxxx

PROFIT AND LOSS ACCOUNT

The business man is always interested in knowing his net income or net profit.Net profit represents the excess of gross profit plus the other revenue incomes over administrative, sales, Financial and other expenses. The debit side of profit and loss account shows the expenses and the credit side the incomes. If the total of the credit side is more, it will be the net profit. And if the debit side is more, it will be net loss

PROFIT AND LOSS A/C OF MR……………………FOR THE YEAR ENDED…………

PARTICULARS	AMOUNT	PARTICULARS	AMOUNT
TO office salaries	Xxxxxx	By gross profit b/d	Xxxxx
TO rent,rates,taxes	Xxxxx	Interest received	Xxxxx
TO Printing and stationery	Xxxxx	Discount received	Xxxx
TO Legal charges		Commission received	Xxxxx
Audit fee	Xxxx	Income from investments	
TO Insurance	Xxxx		
TO General expenses	Xxxx	Dividend on shares	Xxxx
TO Advertisements	Xxxxx	Miscellaneous investments	Xxxx
TO Bad debts	Xxxx		
TO Carriage outwards	Xxxx	Rent received	xxxx
TO Repairs	Xxxx		
TO Depreciation	Xxxxx		
TO interest paid	Xxxxx		
TO Interest on capital	Xxxxx		
TO Interest on loans	Xxxx		
TO Discount allowed	Xxxxx		
TO Commission	Xxxxx		
TO Net profit-------→ (transferred to capital a/c)	Xxxxx		
	xxxxxx		Xxxxxx

BALANCE SHEET

The second point of final accounts is the preparation of balance sheet. It is prepared often in the trading and profit, loss accounts have been compiled and closed. A balance sheet may be considered as a statement of the financial position of the concern at a given date.

DEFINITION: A balance sheet is an item wise list of assets, liabilities and proprietorship of a business at a certain state.

J.R.botliboi: A balance sheet is a statement with a view to measure exact financial position of a business at a particular date.

Thus, Balance sheet is defined as a statement which sets out the assets and liabilities of a business firm and which serves to as certain the financial position of the same on any particular date. On the left-hand side of this statement, the liabilities and the capital are shown. On the right-hand side all the assets are shown. Therefore, the two sides of the balance sheet should be equal. Otherwise, there is an error somewhere

BALANC SHEET OF ……………………………AS ON …………

Liabilities and capital	Amount	Assets	Amount
Creditors	Xxxx	Cash in hand	Xxxx
Bills payable	Xxxx	Cash at bank	Xxxx
Bank overdraft	Xxxx	Bills receivable	Xxxx
Loans	Xxxx	Debtors	Xxxx
Mortgage	Xxxx	Closing stock	Xxxx
Reserve fund	Xxxx	Investments	Xxxx
Capital xxxxxx		Furniture and fittings	Xxxx
<u>Add</u>:		Plats&machinery	
Net Profit xxxx		Land & buildings	Xxxx
-------		Patents, tm ,copyrights	Xxxx
xxxxxxx		Goodwill	Xxxx
		Prepaid expenses	
		Outstanding incomes	Xxxx
<u>Less</u>:			Xxxx
Drawings xxxx	Xxxx		Xxxx
---------	XXXX		XXXX

<u>Advantages</u>: The following are the advantages of final balance .

1. It helps in checking the arithmetical accuracy of books of accounts.
2. It helps in the preparation of financial statements.
3. It helps in detecting errors.
4. It serves as an instrument for carrying out the job of rectification of entries.
5. It is possible to find out the balances of various accounts at one place.

Q.11)Explain How The adjustments affect the accounts?

<u>FINAL ACCOUNTS -- ADJUSTMENTS</u>

We know that business is a going concern. It has to be carried on indefinitely. At the end of every accounting year. The trader prepares the trading and profit and loss account and balance sheet. While preparing these financial statements, sometimes the trader may come across certain problems .The expenses of the current year may be still payable or the expenses of the next year have been prepaid during the current year. In the same way, the income of the current year still receivable and the income of the next year have been received during the current year. Without these adjustments, the profit figures arrived at or the financial position of the concern may not be correct. As such these adjustments are to be made while preparing the final accounts.

The adjustments to be made to final accounts will be given under the Trial Balance. While making the adjustment in the final accounts, the student should remember that "every adjustment is to be made in the final accounts twice i.e. once in trading, profit and loss account and later in balance sheet generally". The following are some of the important adjustments to be made at the time of preparing of final accounts:-

1. *CLOSING STOCK* :-

(i)*If closing stock is given in Trail Balance*: It should be shown only in the balance sheet "Assets Side".

(ii) *If closing stock is given as adjustment* :

1. First, it should be posted at the credit side of "Trading Account".
2. Next, shown at the asset side of the "Balance Sheet".

2. *OUTSTANDING EXPENSES* :-

(i) *If outstanding expenses given in Trail Balance*: It should be only on the liability side of Balance Sheet.

(ii) *If outstanding expenses given as adjustment* :

1. First, it should be added to the concerned expense at the debit side of profit and loss account or Trading Account.
2. Next, it should be added at the liabilities side of the Balance Sheet.

3. *PREAPID EXPENSES* :-

(i) *If prepaid expenses given in Trial Balance*: It should be shown only in assets side of the Balance Sheet.

(ii) *If prepaid expense given as adjustment* :

1. First, it should be deducted from the concerned expenses at the debit side of profit and loss account or Trading Account.
2. Next, it should be shown at the assets side of the Balance Sheet.

4. *INCOME EARNED BUT NOT RECEIVED [OR] OUTSTANDING INCOME [OR] ACCURED INCOME* :-

(i) *If incomes given in Trial Balance*: It should be shown only on the assets side of the Balance Sheet.

(ii) *If incomes outstanding given as adjustment*:

1. First, it should be added to the concerned income at the credit side of profit and loss account.
2. Next, it should be shown at the assets side of the Balance sheet.

5. *INCOME RECEIVED IN ADVANCE: UNEARNED INCOME*:-

(i)*If unearned incomes given in Trail Balance* : It should be shown only on the liabilities side of the Balance Sheet.

(ii)*<u>If unearned income given as adjustment</u>* :

1. First, it should be deducted from the concerned income in the credit side of the profit and loss account.
2. Secondly, it should be shown in the liabilities side of the Balance Sheet.

6. *<u>DEPRECIATION</u>*:-

(i) *<u>If Depreciation given in Trail Balance</u>*: It should be shown only on the debit side of the profit and loss account.

(ii) *<u>If Depreciation given as adjustment</u>*

1. First, it should be shown on the debit side of the profit and loss account.
2. Secondly, it should be deduced from the concerned asset in the Balance sheet assets side.

7. *<u>INTEREST ON LOAN [OR] CAPITAL</u>* :-

(i) *<u>If interest on loan (or) capital given in Trail balance</u>* :It should be shown only on debit side of the profit and loss account.

(ii) *<u>If interest on loan (or)capital given as adjustment</u>* :

1. First, it should be shown on debit side of the profit and loss account.
2. Secondly, it should added to the loan or capital on the liabilities side of the Balance Sheet.

8. *<u>BAD DEBTS</u>*:-

(i) *<u>If bad debts given in Trail balance</u>* :It should be shown on the debit side of the profit and loss account.

(ii) *<u>If bad debts given as adjustment</u>*:

1. First, it should be shown on the debit side of the profit and loss account.
2. Secondly, it should be deducted from debtors in the assets side of the Balance Sheet.

9. *<u>INTEREST ON DRAWINGS</u>* :-

(i) *<u>If interest on drawings given in Trail balance</u>*: It should be shown on the credit side of the profit and loss account.

(ii) *<u>If interest on drawings given as adjustments</u>* :

1. First, it should be shown on the credit side of the profit and loss account.
2. Secondly, it should be deducted from capital on liabilities side of the Balance Sheet.

10.*<u>INTEREST ON INVESTMENTS</u>* :-

(i)*<u>If interest on the investments given in Trail balance</u>* :It should be shown on the credit side of the profit and loss account.

(ii)*<u>If interest on investments given as adjustments</u>* :

1. First, it should be shown on the credit side of the profit and loss account.
2. Secondly, it should be added to the investments on assets side of the Balance Sheet.

CASE STUDIES AND PROBLMS

2008 March 1st Vinay commenced business. Journalise the following transactions and post them into ledger.

2008 Mar. 1	Capital brought into the business	Rs. 50,000
2008 Mar. 4	Sold goods to Ajay	Rs. 12,000
2008 Mar. 6	Purchases from Sanjay	Rs. 10,000
2008 Mar. 7	Sold goods to Paul for cash	Rs. 8,000
2008 Mar. 9	Bought goods from John	Rs. 2,000
2008 Mar. 10	Paid for freight	Rs. 500
2008 Mar. 12	Cash received from Richards	Rs. 5,000
2008 Mar. 15	Paid salaries to Rao	Rs. 2,500
2008 Mar. 18	Loan given to Ramana	Rs. 1,000
2008 Mar. 22	Sales	Rs. 1,500
2008 Mar. 24	Rent	Rs. 2,000

Ans :

Journal Entries in the books of Vinay

Dr Cr

Date	Particulars	L. F. No.	Debit	Credit
2008 Mar.1	Cash a/c Dr. To Capital a/c (Being capital brought into the business)		50,000	50,000
4	Ajay a/c Dr To Sales a/c (Being sold to Ajay on credit)		12,000	12,000
6	Purchases a/c Dr To Sanjay (being purchases from Sanjay on credit)		10000	10000
7	Cash a/c Dr To Sales a/c (Being cash sales)		8000	8000
9	Purchases a/c Dr To John a/c (Being from John on credit)		2000	2000
10	Freight a/c Dr To Cash (Being paid for freight)		500	500
12	Cash a/c Dr To Richards (Being cash received from Richards)		5000	5000
1 5	Salaries a/c Dr To Cash a/c (Being cash paid for salaries)		2500	2500
18	Ramana a/c Dr To cash a/c (Being loan given to Ramana)		1000	1000
22	Cash a/c Dr To Sales a/c (Being cash sales of goods)		1500	1500
24	Rent a/c Dr To Cash a/c (Being rent paid in cash)		2000	2000

Ledger Accounts in the books of Vinay

Date	particular	J.F No	Amount Rs	Date	Particular	J.F No	Amount Rs
2008 March1	To Capital a/c		50,000	2008 March10	By Freight a/c		500

" 7 " 12 " 22	To Sales a/c To Richards a/c To Sales a/c		8000 5000 1500	" 15 " 18 " 24 " 31	By Salaries a/c By Ramana a/c By Rent a/c By Balance c/d		2500 1000 2000 58500	DR Cr
			64,500				64,500	
Aprial1	To Balance c/d		58,500					

Capital a/c

Dr Cr

Date	particular	J.F No	Amount Rs	Date	particular	J.F No	Amount Rs
2008 March31st	To Balance c/d		50,000	2008 March1	By Cash a/c		50,000
			50,000				50,000
					By Balance b/d		50,000

Ajay a/c

Dr Cr

Date	Particular	J.F No	Amount Rs	Date	Particular	J.F No	Amount Rs
2008 March 4	To Sale a/c		12,000	2008 March31st	By Balance c/d		12,000
			12,000				12,000
April 1	To Balance b/d		12,000				

Sales a/c

Dr Cr

Date	Particular	J.F No	Amount Rs	Date	Particular	J.F	Amount Rs
2008 March 31st	To Balance c/d		21,500	2008 March 4	By Ajay a/c		12,000
				7	By cash a/c		8,000
				22	By cash a/c		1,500
			21,500				21,500
				April 1st	By Balance b/d		

Purchases a/c

Dr Cr

Date	Particular	J.F No	Amount Rs	Date	Particular	J.F No	Amount Rs
2008				2008			
March 6	To sanjay a/c		10,000	March31st	To Balance c/d		12,000
9	To john a/c		2,000				
			12,000				12,000
April 1st	To balance b/d		12,000				

Sanjay a/c

Dr Cr

Date	Particular	J.F No	Amount Rs	Date	Particular	J.F No	Amount Rs
2008				2008			
March 31st	To Balance c/d		10,000	March 6	By Purchase a/c		10,000
			10,000				10,000
				April 1st	By Balance b/d		10,000

John a/c

Dr Cr

Date	Particular	J.F No	Amount Rs	Date	Particular	J.F No	Amount Rs
2008				2008			
March 31st	To Balance c/d		2,000	March 9	By Purchase a/c		2,000
			2,000				2,000
				April 1st	By Balance b/d		2,000

Freight a/c

Dr Cr

Date	Particular	J.F No	Amount Rs	Date	Particular	J.F No	Amount Rs
2008 March 10	To cash a/c		500	2008 March 31st	By balance c/d		500
			500				500
April 1st	To balance b/d		500				

Salaries a/c

Dr Cr

Date	Particular	J.F No	Amount Rs	Date	Particular	J.F No	Amount Rs
2008 March 15	To cash a/c		2,500	2008 March 31st	By balance c/d		2,500
			2,500				2,500
April 1st	To balance b/d		2,500				

Richards a/c

Dr Cr

Date	Particular	J.F No	Amount Rs	Date	Particular	J.F No	Amount Rs
2008 March 31st	To balance c/d		5,000	2008 March 12	By cash a/c		5,000
			5,000				5,000
				April 1	By Balance b/d		5,000

Ramana a/c

Dr Cr

Date	Particular	J.F No	Amount Rs	Date	Particular	J.F No	Amount Rs
2008 March 18	To Cash a/c		1,000	2008 March31st	By balance c/d		1,000
			1,000				1,000
April 1st	To balance b/d		1,000				

Rent a/c

Dr Cr

Date	Particular	J.F No	Amount Rs	Date	Particular	J.F No	Amount Rs
2008 March 24	To Cash a/c		2,000	2008 March31st	By balance c/d		2,000
			2,000				2,000
April 1st	To balance b/d		2,000				

case study2

From the following Trial balance of Mr, Ramesh prepare final accounts for the year ended 31-3-2009

Dr. Cr.

Particulars	Amount	Particulars	Amount
Purchase	25,200	Sales	61,604
Furniture	1,600	Capital	35,000
Wages	3,500	Purchase returns	225
Machinery	20,000	Creditors	3,900
Opening stock	17,525	Bank overdraft	3,000
Sales returns	1,200	Bills payable	2,000
Debtors	1,0400		
Carriage on purchase	200		
Salaries	1,0600		
Carriage on sales	503		
Rent & taxes	2,001		
Cash at bank	8,000		
Drawings	5,000		
	105729		105729

1) Outstanding salaries Rs.400
2) Prepaid rent & taxes Rs. 201.
3) Write off Rs. 400 as Bad debts and create 5% Reserve for Bad debts.

4) Depreciate machinery by 10%.
5) Interest on capital 5% and interest on drawings 10% is to be provided.
6) Provide 2% as Reserve for discount on creditors.

Ans:

Trading profit and loss account of Mr. Ramesh for the year ending 31-3-2009

Dr. Cr.

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To opening stock	17525	By sales 61604	
To purchases		Less: sales return 1200	
25,000			
Less: purchases return 225			60404
	24975	By closing stock	16800
	3500		
	200		
To wages			
To carriage on purchase	31004		
To Gross profit	77204		77204
(transferred to P/L A/c)			
		By Gross profit b/d	31004
To salaries 10600	11000	By Interest on drawings	500
Add: outstanding 400	503	(5000*10/100)	
		By Reserve for discount on	78
		Creditors (3900*2/100)	
To carriage on sales	1800		
To Rent & taxes 2001	400		
Less: prepaid 201			
	500		
To Bad debts	2000		
To Reserve for Bad debts			
(10400-400*5/100)	1750		
To Depreciation on machinery			
(20000-*10/100)			
To Interest on Capital	13629		
(35000*5/100)	31582		31582
To Net profit			
(transferred to capital a/c)			

Balance sheet of Mr. Ramesh as at 31.3.2009

Liabilities	Amount	Assets	Amount
Capital		Furniture	1600
35000		Machinery	
Add: Net profit 13629		20000	
Add: Interest on		Less: Depreciation 2000	18000
capital			
1750		_____	
		Debtors	
_____		10400	
		Less: Adj.Bad debts	
50379		400	
Less: drawings 5000	44879		9500
Less: interest on	3000	_____	8000
Drawings	2000		16800
500		10000	201
		Less: Adj. R.N.D	
______		500	
Bank overdraft	3822	_____	
Bills payable	400		
Creditors	54101	Cash at bank	54101
3900		Closing stock	
		Prepaid rent & taxes	
Less: Reserve for discount			
on creditors 78			
_____			
Outstanding salaries			

Problem 2

From the following particulars of Mr. Raju prepare Trading & Profit and loss account and balance sheet for the year ended 31.3.2009

particulars	Amount (Rs,)	particulars	Amount (Rs.)
Cash	13500	Capital	60000
Goodwill	20000	Creditors	10000
Factory insurance	2000	Commission Received	7500
Audit charges	1500	Sales	130000
Debtors	20000	Return out words	2000
Wages	5000	Interest received	5000
Opening stock	12000	Outstanding salaries	2500
Machinery	30500	Bills payable	3500
Purchases	95000		
Carriage inwards	2500		
Salaries	12500		
Office rent	5000		
Rent paid in advance	1000		
	2,20,500		2,20,500

Adjustments:

1) Closing stock 16,800,
2) Write off Rs. 2,000 as Bad debts and provide 5% Reserve for Doubtful Debts,
3) Outstanding wages Rs. 1,000
4) Depreciate machinery by 10 %,
5) Interest on capital 5% is to be provided.
6) Commission to be Received Rs 200

Ans:

Trading profit and loss account of Mr. Raju for the year ending 31-3-2009

Dr. Cr.

Particulars		Amount (Rs.)	Particulars	Amount (Rs.)
To opening stock		12000	By sales	130000
To purchases	95000			
Less: returns outwards	2000			

	93000	By closing stock	16800
______			
To wages			
5000	6000		
Add: outstanding wages 1000			
	2500		
______	2000		
To carriage in words	31300		
To factory insurance	146800		146800
To gross profit			
(transferred to P/L A/c)			
	12500	By Gross profit b/d	31300
	1500	By commission received	
To salaries		7500	
To audit charges		Add: to be received	7700
		200	
	2000		5000
		___	
	900		
To Bad debts		By interest Reserved	
To Reserve for Bad debts	3050		
(20000-2000=18000*5/100)			
To Depreciation on machinery	3000		
(30500-*10/100)	5000		
To Interest on Capital			
(60,000*5/100)	16050		
To office rent			
To net profit			
(transferred to capital a/c)			
	44000		44000

Balance sheet of Mr. Raju as at 31.3.2009

Liabilities	Amount	Assets	Amount
Capital 60000		Cash	13500
Add: net profit 16050		Goodwill	20000
Add: Interest on		Debtors 20000	
capital 3000		Less: adj bad debts 2000	
	79050		
_____		_____	
	3500	18000	
Bills payable	10000	Less: reserve for	17100
Creditors	2500	bad debts 900	
Outstanding salaries	1000		
Outstanding wages		______	27450
		Machinery 30500	1000
		Less: depreciation 3050	16800
			200
	96,050	______	96,050
		Rent paid in advantage	
		Closing stock	
		Commission to be received	