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Accounting and Financial Management

Accounting :-

Process of measuring, processing and sharing financial and other information about businesses and corporations.

"Father of Accounts – Luca pacioli"

→ Accountants summarize the transactions in the form of Journal entries.

→ These entries are used in bookkeeping

Definition :-

"Accounting is the art of recording, classifying and summarizing in a significant manner and terms of money, transactions and events, which are, in part at least, of a financial character and interpreting the result thereof"

—American Institute of certified Public Accountants (AICPA)

Need for Accounting :-

The main objective of any business firm is to earn profit. But some of the business concerns are rendering services to the public. Business transactions like purchases, sales, expenses, income, cash transactions etc. All these transactions are remembering in the future is very difficult. So that we have to record the transactions in the set of books is known as accounting

Origin & Development :-

In olden days, some of the calculations of accounting taken from Arthasastra written by chanikya.

Accounting system in modern methods are introduced by Lucapacioli in 1494 from Arthasasthra. Its origin to an Italian language at venice Nagar (Italy). It was convert into English language "Huge old castle" in 1543 Double Entry system was introduced and given debit & credit principles by "Lucapacioli"

Objectives of Accounting:-

* **Recording business transactions systematically:-**
Necessary to maintain systematic records of every business transaction, as it is beyond human capacities to remember such large number of transactions.
⇒ skipping the record of any one of the transactions may lead to erroneous and faulty results

* **Determining profit earned or loss incurred:-**
To determine the net result at the end of an accounting period, we need to calculate profit or loss. For this we need to prepare the trading & P/L account. It gives information about how much of goods have been purchased and sold, expenses incurred and amount earned during a year.

* **Ascertaining financial position of the firm:-**
Ascertaining profit earned or loss incurred is not enough, proprietor also interested in knowing financial position of the firm i.e., value of the assets, amount of liabilities owed, net increase/decrease in the capital. By preparing the Balancesheet we can ascertain the financial position of the firm

* Assisting management :-

Systematic accounting helps the management in

→ Effective decision
→ Decision making
→ Effective control on cash management policies.
→ preparing budgets
→ forecasting etc

* Assessing the progress of the business:-

Accounting helps in assessing the progress of business from year to year.

Accounting facilitates the comparison both interfirm as well as intra firm

* Detecting and preventing frauds and Errors:-

It is necessary to detect and prevent fraud and errors, mis management and wastage of the finance.

Systematic recording helps in the easy detection and rectification of frauds, errors and inefficiencies if any

* communicating accounting information to various users

Important step in the accounting process is to communicate financial and accounting information to various users including both internal & external users like owners, mgmt, govt, labour etc. This assists the users to understand and interpret the accounting data in a meaningful and appropriate manner without any ambiguity.

Characteristics of Accounting

(1) Identifying financial transactions and events:-

— Accounting records only those transactions and events which are of financial nature. so that such transactions and events are identified

(2) Measuring the transactions:-

Transactions are measured in terms of money which are considered as a common unit

(3) Recording of transactions:-

Recording the financial transactions in appropriate book of accounts such as journal or subsidiary books

(4) classifying the transactions:-

Transactions recorded in the books of original entry – Journal or subsidary books are classified and grouped according to nature and posted in separate accounts known as "Ledger accounts"

(5) Summarising the transactions:-

It involves presenting the classified data in a manner and in the form of statements, which are understandable by the users. It includes Trial Balance, Trading A/c, P&L A/c and Balancesheet

(6) Analysing and Interpreting financial data:-

Results of the business are analysed and interpreted. users of financial statements can make a meaningful and sound judgement

(7) communicating the financial data or reports to the users:-

It is final step of accounting so that they can make appropriate decisions

Functions of Accounting :-

- → It keeps a systematic and permanent record of all financial transactions of the business
- → It keeps a record of incomes and expenses in such a manner that net result of the business can be quickly known for any period
- → Keeps a record of assets and liabilities and the financial position of the business can be readily had at any point of time
- → Helps in making decisions
- → Helps in devising remedial measures
- → keeps control on expenses inorder to minimise the same
- → provides information about various legal requirement IT returns, Sales tax returns etc
- → protects the property of business by designing such a system of accounting which will be helpful to achieve this purpose

Advantages and Disadvantages of Accounting:-

Advantages:-

* Accounting represents financial position:-

It represents financial position of a particular or group of businesses. The financial performance of the company in the last year is often useful to compare the performance of the other firms

* Assistance to manager:-

An account gives essential data to to the managers in the form of Balance sheet and P&L A/c that leads to decision making

* Replaces Memory:-

Accounting records all transactions in systematic and timely manner. If one requires the information in future they can easily obtain the information in books of accounting

* Benefits in calculation of Tax liabilities:-

The P&L A/c gives the current year profit so that individual/firm can effortlessly calculate the tax liability

* Benefits in Decision-making :-
It assists in taking major decisions for the growth of the organization. These decisions include
→ deciding the price of the product
→ checking over the expenses of employees

Disadvantages :-

* Express information of Accounting interms of money :-
Non-financial transactions cannot be furnished effect to in the books of accounts. only transaction of the financial constitution are calculated by the accountant. Financial transaction are manifested interms of money
* Accounting Information is based on estimates :-
few accounting data based on estimates. Impreusion in estimates is conceivable
* Accounts manipulation :-
The management / Accountant can manipulate the profits of an entity
* Can be costly for small firm :-
The Small firm does not possess lots of finance. so proper account & auditing it from CA is very expensive

* Recording of Fixed Assets at original cost:-

There can be difference between the current replacement cost and the original cost of a fixed assets due to change in technology, time etc. Thus the balance sheet may not present the real financial status of an entity

Principles of Accounting:-

(a) Accounting concepts:-

(a) Business entity concept:-

Business is treated as a separate from the proprietor. All the transactions are recorded in the books of business but not in the books of proprietor. Proprietor is also one of the creditor of the business

(b) Going concern concept:-

Business will continue for a long time and it is not to be liquidated, in the near future. Hence, the accounts are maintained properly. Because business will continue for a long period

(C) money measurement concept:-

In Accounting, transaction are expressed in terms of money. Only money transactions in the business are taken into the account and recorded in the proper books of accounts.

(d) Dual aspect concept:-

Every transactions have two fold aspects i.e., receiving and giving aspects. Receiving aspect is known as "Debit" and giving aspect is known as "Credit". Every debit must have an equal corresponding credit and vice versa.

Accounting equation expressed is dual aspect concept

$$\boxed{\text{Accounting Equation} \rightarrow \text{Capital} + \text{Liabilities} = \text{Assets}}$$

(e) Accounting period concept:-

Every trader is eager to make maximum profit at a minimum cost. During the accounting period, the accountant should record the Incomes and expenditure and match the both values. The Accounting year is April to March

(f) Cost concept:-

Business transactions are recorded of cost price in the books of accounts. Market price should not be taken into account

(g) Realisation concept:-

An amount realised by the sale of goods or sale of assets and income received etc are recorded during particular period then only possible to compare the cost and realisation

(b) Accounting convention

(a) consistency :-

Accounting practices should be remains constant then only possible to compare the firm's capacity in different periods and also different firms for making decisions

(b) Disclosure :-

Accounting Reports given full disclosure of information to the dependents of the firm. These reports are prepared clearly and given with conclusions. The financial statements such as P&L A/c Balance sheet in a prescribed form and disclosure can be made

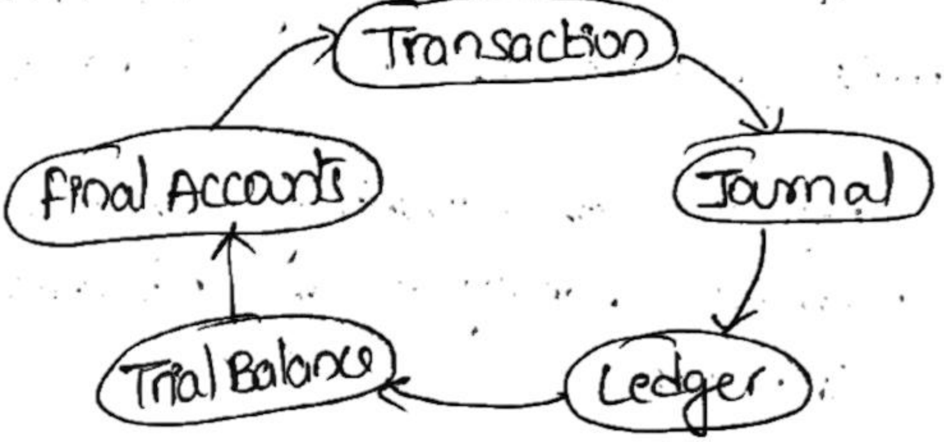
(c) conservation :-

Anticipated profits should not be taken into account. But anticipated losses and actual profits/losses can be takes in to account. stock valued at cost price / market price which ever is lower.

(d) materiality :-

Transactions which have a relative value takes into account, which means in material value are not taken into account

Accounting cycle / Accounting process:



Journal :- All transactions should be recorded firstly in the Jornal. It is a original book. The transactions should be divided into "debit & credit" According to the principles and also given with narration is known as "Journalising".

Ledger :- It is a book where separate accounts are maintained for each debit and credit aspects of this Jornal.

Trial Balance :- It is a statement of debit and credit balances of ledger accounts. It is prepared to find accounting accuracy. It is the base to prepare Final accounts.

Final Accounts :- It is the last stage of accounting process. It is prepared to ascertain profit/Loss made during trading period and also find financial position of business on a particular period.

Differences between Bookkeeping and Accounting:

Bookkeeping :- Recording, classifying and summarizing in a systematic manner of business transaction

Accounting :- objective of accounting is to record, classifies, summarises, analyses and interprets the business transaction

Book Keeping	Accounting
* Art of recording business transactions in chronological order	* Art of recording money transactions in a systematic manner
* Primary Book	* Secondary Book
* Maintained by Bookkeeper	* Maintained by Accountant
* Part of accounting	* its scopes at a large
* should not give any results at the end of the year	* should give results at the end of the year
* Restricted to clerical work and it is done by lower level management	* concerned with all levels of management ie., lower, middle and top level management

Branches of Accounting

Branches of Accounting

Financial

- purpose is to ascertain financial results
- Aimed at knowing financial position (Assets, liabilities)
- Equity position at the end of the period
- Business results can be informed into various groups of persons ie., owners, creditors, employee, govt etc

cost

- process of accounting and controlling the cost of production, service or an operations

management

- supplies the management significant information inorder to assist the management to discharge its various functions ie., planning, control, evaluation of performance and decision making etc

Business Transaction

- Cash
- Credits

Golden Rules of Accounting:

Personal Account :- A/c related to individuals / persons

"Debit the Receiver
credit the Giver"

Real Account :- A/c related to properties & assets which are owned by business concern.

"Debit what comes in
Credit what goes out"

Eg:- L&B
Machinery
Furniture
Stock, Goodwill

Nominal Account :- Do not have any existence / form/shape
Related to income & exp or gains / loss

"Debit all Expenses and Losses of a business concern
Credit all Incomes and Gains"

Eg:- Salary A/c, commission a/c, Rent A/c etc

JOURNAL

Journal is a book of original entry. The transactions are recorded first time in the journal. Transactions are recorded in chronological order. Transactions are divided into debit and credit according to double entry system of book keeping. Narrations may be given to understand the entry.

Proforma of Journal:-

Journal Entries in the books of ______

Date	Particulars	LF NO	Debit Rs	Credit Rs

LEDGER

Ledger is a book, where separate accounts will be maintained for each aspect (Dr & Cr) of the business transaction.

It is in the form of "T" shape. The left hand side is known as Debit side. The right hand side is known as credit side. ~~Each column side column~~

Each side contain columns like date, particular Journal folio and Amount. At the end of period all the ledger accounts are closed and their balance taken into account to prepare trial balance and then final accounts

Dr | Cr

Date	Particulars	JF NO	Amount	Date	Particulars	JF NO	Amount

The process of entering in the ledger accounts the entry is made in the journal called as posting.

Difference between Journal and Ledger

Journal	Ledger
(1) Book of primary entry	(1) Book of final Entry
(2) As soon as transaction originates it is recorded into the Journal	(2) Transactions come from Journal and it is posted in ledger
(3) All transactions are recorded in chronological order	(3) Transactions are categorised into the accounts
(4) In Journal, Narration is required and written in each & every entry	(4) No narration
(5) Ledger folio number is written	(5) Journal folio number is written
(6) Ledger is prepared from Journal & final accounts cannot be prepared directly from a Journal	(6) Through Ledger, trial Balance is prepared which is the basis of preparing final accounts
(7) In Journal, No balancing is done	(7) In ledger, balancing is done periodically

System of Book keeping / Accounting:

1) Single Entry System

2) Double Entry System

1) Single Entry System:- Simple & straight forward method of bookkeeping. Each transaction recorded as single entry in a journal.

- Crude & unscientific method of maintaining accounts
- only personal & cash a/c maintained
- Real & Nominal accounts not kept
- Information available in this is incomplete & unsystematic
- Not possible to prepare final a/c at the end of the year
- simple & less costly
- adopted by small concerns when business transactions are few

Limitations:-

→ unscientific method
→ Incomplete & unsystematic a/cs maintained
→ converted in to double entry system, then only possible to prepare final a/c

2) Double entry system :-

→ Method of recording transactions where for every business transaction.

→ An Entry recorded in atleast two accounts i.e., Debit or Credit

→ In this, amounts recorded as debits must be equal to the amounts recorded as credits

Advantages :-

* Each transaction recorded with the two fold aspects, so that total of one side must be equal to the total of the other side. It improves the accuracy of records.

* Maximum information can be obtained by the owner of the business and other interested parties

* Each transaction of revenue and expenses is recorded ensuring that the correct information regarding income and losses is provided

* Indicates the financial position of business on any day
* minimizes the chance of errors and if they are committed they can be easily located
* The profit earned or loss sustained for any particular period can be calculated
* Easy to deal with transactions of an external or internal nature
* possible for any organization to use the double entry system
* shows all the amounts receivable or payable
* previous years financial statements are available their comparative analysis with the current year's financial statements becomes easy
* shows value of cash in hand at any time.
* Assists for managerial decision making

Disadvantages:-

* Inflation cannot be handled as money is an inflexible unit of measurement.
* Any events that cannot be expressed interms of money are not recorded
* sometimes it is difficult to find errors if the wrong amount is entered in the record

* The system depends on an accountant's personal judgment, which may be inconsistent or biased
* Time-consuming and complex to maintain meaning that it is unsuitable for small businesses

TRAIL BALANCE

A Trial Balance is a financial report showing the closing balances of all accounts in the general ledger at a point in time.

Definition:-

"Trial Balance is the list of debit and credit balances, taken out from ledger. It also includes the balances of cash and bank taken from cashbook"

—carter

Features / characteristics:-

* List of balances of all ledger accounts and the cash book
* Its just a statement and not an account
* Its just a working paper

* It is prepared at the end of accounting year before preparing the final accounts
* It is always prepared on a particular date and not for a particular period
* It is not an account, it is only a statement which is prepared to verify the arithemetical accuracy of ledger accounts

Merits :-

* It helps in ascertaining the arithmetical accuracy of ledger accounts
* Helps in locating errors
* Enables to get a summary of the ledger accounts
* Helps in preparation of final accounts

Demerits :-

* certain type of errors remains even when the trial balance tallies
* possible to prepare trial balance of those business units in which double entry book keeping system is followed. But installation of Double entry Book keeping system is very Expensive

Types of Preparation:-

Total Balances / Gross Trial
method / Balance method

Taking Balance in each ledger a/c, total of debit side and total of credit side of each individual a/c taken into trial balance

Net Balances
method

* Balance in each ledger a/c is taken into trial balance.
* All the ledger accounts showing debit balances put on debit side and credit balances put on credit side.
* After this, debit & credit columns of trial balance are totaled and if the totals are equal.

Proforma:-

Dr Trial Balance of ______ as on ______ Cr

Pts	LF No	Amount Rs	Pts	LF No	Amount Rs

FINAL ACCOUNTS
(or)
FINAL STATEMENTS

It is prepared at the end of an accounting period. It consists of

(a) Trading A/c and P&L A/c
(Ascertain profit or loss of the business)

(b) Balance sheet
(Reveals financial position of the business)

Advantages and limitations:-

→ To know the profit or loss at the end of a particular period

→ Balance sheet reflects financial position of the organization

→ final accounts are important source of finance information. It will helps the management to plan financial activities

→ current year financial statements can be compared with results of the previous year statement which helps in making decisions

→ The P&L A/c discloses either profit or loss which helps trader to pay the taxes correctly

→ Financial statements reveals the solvency position of the organization which helps to take / borrow loans from banks and from other available sources in times of need

Limitations:-

→ Do not reflect current prices based on historical costs

→ Do not reveal the accurate picture of the business as certain values of assets and some expenses & income items based on judgement of the management who may have prejudice

→ Do not consider qualitative data i.e., quality, efficiency, motivation level of employees, value of HR etc

Trading Account

- first stage of final accounts
- Generally business organization purchases goods from others and sells the same to earn profit
- This Account is to be prepared to know the results of trading activities carries during accounting period.
- It is a nominal account in nature
- All trading expenses should be debited and trading incomes should be credited to trading account
- Balance in trading a/c is either gross profit or gross loss.
- It is prepared to find out the difference between the actual cost of goods sold and sale proceeds

cost of Goods sold = purchase price of the goods + expenses incurred on purchases

- If sp > cp → Gross profit

  sp < cp → Gross loss

$$\boxed{\text{Gross profit / loss} = \text{Net sales} - \text{cost of goods sold}}$$

Advantages :-

- Reveals either Gross profit / loss
- Gross profit / loss ratio calculated
- Trading expenses & incomes of the current year can be compared with that of the previous year
- By comparing current year with previous the trader can estimate his trade revenue for future years

proforma:-

Trading A/c for the year ending ______

Dr | | | | Cr

Particulars	Amount Rs	Particulars	Amount Rs
To opening stock	xxx	By sales xxx	
" purchases xxx		(−) sales Returns xx	
(−) Purchase Returns xx			xxx
	xxx		xxx
purchase expenses:-		" closing stock	
" carriage	xx		
" cartage	xx	" Gross ~~profit~~ loss	
" freight, custom duties	xx	(Transferred into	
Import duties, octroi,	xx	P&L A/c)	
excise duties, clearing	xx		
charges			
Direct Expenses:-			
" wages	xx		
" factory Rent	xx		
" factory Insurance	xx		
" Gas & coal	xx		
" water charges	xx		
" factory manager's salary	xx		
" works manager's salary	xx		
" oil & fuel	xx		
" manufacturing expenses	xx		
" Heating & lighting	xx		
" ~~To~~ Gross profit	xx		
(Transferred to			
P&L A/c)			
	xxx		xxx

PROFIT & LOSS ACCOUNT

- Prepared to find out the net profit or net loss of the business
- This is Nominal A/c
- All expenses & losses → Debited
  All Incomes & Gains → Credited
- Balance of P&L A/c either net profit or net loss and same added / deducted from capital A/c in Balance sheet

Advantages:-

→ Reveals net profit / net loss

→ Find out net profit ratio

→ Facilitates for the preparation of Balance sheet

→ current year's administrative, selling & other expenses can be compared with previous year

Profit & Loss A/c of XXX for the year ending XX-XX-XXXX

Cr Particulars	Amount Rs	Particulars	Cr Amount Rs
To Gross Loss b/d	XXX	By Gross profit b/d	XXX
To Administrative Expenses		By Discount received	XXX
To Rent	XXX	By Interest received	XXX
To salaries	XXX	By commission received	XXX
To Rent & Taxes	XXX	By Rent received	XXX
To Insurance	XXX	By Interest on Drawings	XXX
To printing & stationery	XXX	By Apprentice premium	XXX
To Audit expenses	XXX	By profit on sale of Assets	XXX
To Legal expenses	XXX	By Bad debts recovered	XXX
To General Expenses	XXX	By Net Loss (Transferred to capital a/c)	XXX
To Repairs	XXX		
To Selling & Distribution expenses			
To carriage outwards	XXX		
To advertisements	XXX		
To Bank charges	XXX		
To commission	XXX		
To Bad Debts	XXX		
To Travelling expenses	XXX		
To Packing expenses	XXX		
To financial Expenses			
To Discount allowed	XXX		
To Interest on capital	XXX		
To Interest on Loans	XXX		
To Losses:-			
To Loss on sale of assets	XXX		
To Depreciation	XXX		
To Loss due to fire accident	XXX		
To Net profit (Transferred to Capital a/c)	XXX		
	XXX		XXX

BALANCE SHEET

After Trading and P&L A/c, Balance sheet is the last financial statement to be prepared by the business organization

It may be defined as "an orderly statement representing assets, properties, capital and liabilities of the business on a particular date"

It is the statement prepared to find out financial position i.e., assets and liabilities of business on a given date. The balance sheet explains that what a business owns (assets) and what the business owes to others (liabilities) on a given date.

The Balance sheet is prepared on the basis of trial balance. only real and personal accounts are taken into consideration in the preparation of balance sheet

Advantages :-

→ Reveals true and fair financial position of the business

→ Traders can know about the business assets and liabilities i.e., what it owns and what it owes

→ Balance sheet is useful to the creditors and financial institutions to take decision to extend the credit

→ To know the financial solvency of the business

Balance sheet of xxx as on xx-xx-xxx

Liabilities		Amount Rs	Assets	Amount Rs
capital	xxx		**Fixed Assets**	
(+) Net profit	xxx		Good will	xxx
(-) Net Loss	xxx		Buildings	xxx
	xxx		~~Machinery~~	
(-) Drawings	xxx	xxx	furniture & fixture	xxx
			plant & machinery	xxx
Long term liabilities		xxx	Investment	xxx
Loans		xxx	**current assets:**	
creditors		xxx	closing stock	xxx
Bills payable		xxx	Debtors	xxx
over draft		xxx	Accured income	xxx
Income received in advance		xxx	prepaid expenses	xxx
outstanding expenses		xxx	Bills Receivable	xxx
			cash in hand	xxx
			cash at Bank	xxx
		xxx		xxx

Journal Entries.

From the following Transactions of Mr. Nag, identify the nature of accounts, debit & credit items

Jan 2014	P · R	
1	Mr. Nag started business with cash	Rs. 45,000
2	purchased furniture worth R	Rs. 10,000
3	" N goods worth	Rs. 5,000
4	sold N goods for cash	Rs. 10,000
5	N purchased goods Rs. 3,000 from Mr Bardway P on credit	
8	sold N goods for credit to Mr. Sekhar P	Rs. 4,000
10	cash deposited into bank P	Rs. 2,000
13	Received cash from Mr. Sekhar P	Rs. 2,000
17	cash R withdrawn for personal use P	Rs. 3,000
20	paid Rent N	Rs. 5,000
21	salaries N outstanding	Rs. 300
24	interest N paid on Borrowings	Rs. 400
25	paid cash to Mr. Baradwaj P	Rs. 1,000
27	Goods withdrawn for personal use P	Rs 500
27	Received cheque P from Mr. Raju P	Rs. 2,000
28	Issued cheque to Mr. Lal P	Rs. 2,000
29	Interest N allowed by bank P	Rs 200
31	withdrew from bank P for office use P	Rs 300
31	Received commission N	Rs 100

Analysis of Transaction

Date	Accounts	Nature of Account	Dr/Cr
Jan 1	cash A/c	Real	Dr
	Mr. Nag A/c	Personal	Cr
02	Furniture A/c	Real	Dr
	cash A/c	Real	Cr
03.	purchase A/c	Nominal	Dr
	cash A/c	Real	Cr
04	cash A/c	Real	Dr
	Sales A/c	Nominal	Cr
05	Purchases A/c	Nominal	Dr
	Mr. Baradwaj A/c	personal	Cr
08	Mr. Shekar A/c	Personal	Dr
	Sales A/c	Nominal	Cr
10	Bank A/c	Personal	Dr
	cash A/c	Real	Cr
13.	cash A/c	Real	Dr
	Mr. sekhar A/c	personal	Cr
17	Drawings A/c	Personal	Dr
	cash A/c	Real	Cr
20	Rent A/c	Nominal	Dr
	cash A/c	Real	Cr

21.	Salaries A/c	Nominal	Dr
	outstanding Salaries A/c	Personal	Cr
24.	Interest A/c	Nominal	Dr
	cash A/c	Real	Cr
25.	Baradwaj A/c	Personal	Dr
	cash A/c	Real	Cr
27	Drawings A/c	Personal	Dr
	Goods A/c / purchases A/c	Real	Cr
	Bank A/c	Personal	Dr
	Mr. Raju A/c	Personal	Cr
28.	Mr. Lal A/c	personal	Dr
	Bank A/c	personal	Cr
29.	Bank A/c	Personal	Dr
	Interest A/c	Nominal	Cr
31	cash A/c	Real	Dr
	Bank A/c	personal	Cr
	cash A/c	Real	Dr
	commission Received A/c	Nominal	Cr

Journal Entries in the books of Mr. Nag

Date	Particulars	LF	Debit Amount Rs	Credit Amount
2014 Jan 1	Cash A/c Dr To Capital A/c (Being business commenced with cash)		45,000	45,000
2	Furniture A/c Dr To cash A/c (Being furniture purchased)		10,000	10,000
3.	Purchases A/c Dr To cash A/c (Being goods purchased for cash)		5,000	5,000
4.	Cash A/c Dr To sales A/c (Being cash sales)		10,000	10,000
5.	Purchases A/c Dr To Mr. Baradwaj A/c (Being goods purchased on credit)		3,000	3,000
8.	Mr. Sekar A/c Dr To sales A/c (Being credit sales)		4,000	4,000

10.	Bank A/c Dr To cash A/c (Being cash deposited into bank)	2,000	2,000
13.	cash A/c Dr To mr. Sekar A/c (Being cash received from mr. Sekar)	2,000	2,000
17.	Drawings A/c Dr To cash A/c (Being cash withdrawn for personal use)	3,000	3,000
20.	Rent A/c Dr To cash A/c (Being Rent paid)	500	500
21.	Salaries A/c Dr To o/s salaries A/c (Being salaries outstanding)	300	300
24.	Interest A/c Dr To cash A/c (Being Interest paid)	400	400
25.	Mr. Baradwaj A/c Dr To cash A/c (Being cash paid to Baradwaj)	1,000	1,000

27.	Drawings A/c Dr To purchases A/c (Being goods withdrawn for personal use)	500	500
27.	Bank A/c Dr To Mr. Raju A/c (Being cheque received from Mr. Raju)	2,000	2,000
28.	Mr. Lal A/c Dr To Bank A/c (Being paid to Mr. Lal by cheque)	2,000	2,000
29.	Bank A/c Dr To Interest A/c (Being Interest Received from Bank)	300	300
31.	cash A/c Dr To Bank A/c (Being cash withdrawn for office use)	200	200
31.	Cash A/c Dr To commission Received A/c (Being commission Received)	100	100

H.W. Problem.

Journalise the following transactions

Jan 2008

1 Sohan commenced business with cash Rs.50,000

2 purchased goods for cash Rs.10,000

5 purchased goods from mohan on credit Rs.6,000

7 paid into bank Rs.5,000

10 purchased furniture Rs.2,000

20 sold goods to Ram on credit Rs.5,000

15 sold goods for cash Rs.7,000

25 cash sales Rs.3,500

26 paid to mohan on a/c Rs.3,000

28 paid wages Rs.100

30 paid Rent Rs.200

31. paid salaries Rs.80

Journal Entries in the books of sohan

Date	Particulars	LF	Debit Amount Rs	Credit Amount Rs
2008 Jan 1	Cash A/c Dr		50,000	
	To Sohan A/c			50,000
	(Being business commenced with cash)			
2.	Purchases A/c Dr		10,000	
	To cash A/c			10,000
	(Being cash purchases)			
5.	purchases A/c Dr		6,000	
	To mohan A/c			6,000
	(Being goods purchased from mohan on credit)			
7.	Bank A/c Dr		5,000	
	To cash A/c			5,000
	(Being cash deposited into bank)			
10.	Furniture A/c Dr		2,000	
	To cash A/c			2,000
	(Being furniture purchased)			
15	cash A/c Dr		7,000	
	To sales A/c			7,000
	(Being cash sales)			

20.	Ram A/c Dr TO sales A/c (Being goods sold to Ram on credit)		5,000	5,000
25.	cash A/c Dr TO sales A/c (Being cash sales)		3,500	3,500
26	mohan A/c Dr TO Cash A/c (Being cash paid to mohan)		3,000	3,000
28.	wages A/c Dr TO Cash (Being wages paid)		100	100
30.	Rent A/c Dr TO cash (Being Rent paid)		200	200
31.	salaries A/c Dr TO Cash (Being salaries paid)		80	80

Journalize the following in the books of Mr. Jayanth

April

01. started business with cash Rs 50,000

2. purchased goods for cash Rs 25,000

4. sold goods on credit to mr. Raghu Rs. 35,000

6. purchased goods for credit from mr. kamal a supplier Rs. 8,000

8. mr. Raghu returned goods worth Rs. 5,000

10. sold goods for cash Rs 20,000

15 Goods returned to mr. kamal Rs. 2,000

21. Srivatsa paid cash Rs 5,000

23. Govinda paid by cheque Rs. 1,500

26. Deposited into bank Rs. 10,000

28. Received commission Rs. 500

29. Rent paid Rs. 2,000

31. furniture purchased for cash Rs. 10,000

31. salaries paid Rs 30,000

31. cash received from Lalitha Rs. 5,800 in full settlement of the a/c

31. Cash paid to Jagan Rs. 6,950 in full settlement of the account

Jarnal Entries in the books of Mr. Jayanth

Date	Particulars	LF	Debit Amount Rs	Credit Amount Rs
Apr 1	cash A/c Dr To capital A/c (Being business commenced with cash)		50,000	50,000
2.	purchases A/c Dr To cash A/c (Being cash purchases)		25,000	25,000
4.	Mr. Raghu A/c Dr To sales A/c (Being goods sold on credit to mr. Raghu)		35,000	35,000
6.	purchases A/c Dr To mr. kamal A/c (Being goods purchased from mr. kamal on credit)		8,000	8,000
8.	S/R A/c Dr To Raghu A/c (Beings S/R from Raghu		5,000	5,000
10.	cash A/c Dr To sales A/c (Being cash sales)		20,000	20,000

15	Mr. Kamal A/c Dr	2,000	
	To Purchase Returns A/c		2,000
	(Being P/R to Kamal)		
21.	Cash A/c Dr	5,000	
	To Srivatsa		5,000
	(Being cash received from Srivatsa)		
23.	Bank A/c Dr	1,500	
	To Govinda A/c		1,500
	(Being cheque received from Govinda)		
26.	Bank A/c Dr	10,000	
	To Cash A/c		10,000
	(Being cash deposited)		
28.	Cash A/c Dr	500	
	To Commission Received A/c		500
	(Being commission received)		
29.	Rent A/c Dr	2,000	
	To Cash A/c		2000
	(Being Rent paid)		
31.	Furniture A/c Dr	10,000	
	To Cash A/c		10,000
	(Being furniture purchased)		

31.	Salaries A/c Dr To Cash A/c (Being salaries paid)	30,000	30,000
	Cash A/c Dr Discount Allowed A/c Dr To Lalitha A/c (Being cash received from Lalitha after allowing discount)	5,800 200	6,000
	Jagan A/c To Cash A/c " Discount received (Being cash paid to Jagan after receiving discount)	7,000	6,950 50

LEDGER

Cash A/c

Dr

Date	Particulars	JF	Amount Rs	Date	Particulars	JF	Amount Rs
2014 Jan 1	To Capital A/c		45,000	2014 Jan 2	By Furniture A/c		10,00
4	" Sales A/c		10,000	3	" Purchases A/c		5,00
13	" Sekar A/c		2,000	10	" Bank A/c		2,00
31	" Bank A/c		200	17	" Drawings A/c		3,00
31	" Commission Received A/c		100	20	" Rent A/c		500
				24	" Interest A/c		400
				25	" Baradwaj A/c		1,00
				31	" Balance c/d		35,4
			57,300				57,30
Feb 1	To Balance b/d		35,400				

Capital A/c

Dr

Date	Particulars	JF	Amount Rs	Date	Particulars	JF	Amount Rs
2014 Jan 31	To Balance c/d		45,000	2014 Jan 1	By Cash		45,000
			45,000				45,000
				Feb 1	By Balance b/d		45,00

Furniture A/c

Dr | | | | | | | Cr

Date	Particulars	JF	Amount Rs	Date	Particulars	JF	Amount Rs
2014 Jan 2	To cash A/c		10,000	2014 Jan 31	By Balance c/d		10,000
			10,000				10,000
Feb 1	To Balance b/d		10,000				

Purchases A/c

Dr | | | | | | | Cr

Date	Particulars	JF	Amount Rs	Date	Particulars	JF	Amount Rs
Jan 2014 3	To cash A/c		5,000	2014 27	By Drawings		500
5	" Mr. Baradwaj A/c		3,000	Jan 31	By Balance c/d		~~7,000~~ 7,500
			8,000				8,000
Feb 1	To Balance b/d		~~7,000~~ 7,500				

Sales A/c

Dr | | | | | | | Cr

Date	Particulars	JF	Amount Rs	Date	Particulars	JF	Amount Rs
2014 Jan 8	To Mr. Sekar A/c		4000	2014 Jan 4	By cash		10,000
31	" Balance c/d		6,000				
			10,000				10,000
				Feb 1	By Balance b/d		6,000

Dr Mr. Baradwaj A/c Cr

Date	Particulars	JF	Amount Rs	Date	Particulars	JF	Amount Rs
2014 Jun 25	To cash A/c		1,000	2014 Jun 5	By purchases A/c		3,000
31	" Balance c/d		2,000				
			3,000				3,000
				Feb 1	By Balance b/d		2,000

Dr Mr. Sekar A/c Cr

Date	Particulars	JF	Amount Rs	Date	Particulars	JF	Amount Rs
2014 Jun 8	To Sales A/c		4,000	2014 Jun 13	By cash A/c		2,000
				31	By Balance c/d		2,000
			4,000				4,000
Feb 1	To Balance b/d		2,000				

Dr Bank A/c Cr

Date	Particulars	JF	Amount Rs	Date	Particulars	JF	Amount Rs
10	To cash A/c		2,000	28	By mr. lal A/c		2,000
27	" Mr. Raju A/c		2,000	31	" cash		200
29	" Interest		300	31	" Balance c/d		2,100
			4,300				4300
Feb 1	" Balance b/d		2,100				

Dr Drawings A/c Cr

Date	Particulars	JF	Amount Rs	Date	Particulars	JF	Amount Rs
Jan 2014 17	To cash A/c		2,000	2014 Jan 31	By Balance c/d		2,500
27	" Purchases A/c		500				
			2,500				2,500
Feb 1	To Balance b/d		2,500				

Rent A/c

Dr | | | | | | | Cr

Date	Particulars	JF	Amount Rs	Date	Particulars	JF	Amount Rs
2014 Jun 20	To cash A/c		500	2014 Jun 31	By Balance c/d		500
			500				500
feb 1	To Balance b/d		500				

Salaries A/c

Dr | | | | | | | Cr

Date	Particulars	JF	Amount Rs	Date	Particulars	JF	Amount Rs
2014 Jun 21	To o/s Salaries A/c		300	2014 Jun 31	By Balance c/d		300
			300				300
feb 1	To Balance b/d		300				

o/s Salaries A/c

Dr | | | | | | | Cr

Date	Particulars	JF	Amount Rs	Date	Particulars	JF	Amount Rs
2014 Jun 31	To Balance c/d		300	2014 Jun 21	By salaries		300
			300				300
				feb 1	By Balance b/d		300

Interest A/c

Dr | | | | | | | Cr

Date	Particulars	JF	Amount Rs	Date	Particulars	JF	Amount Rs
2014 Jun 24	To cash A/c		400	Jun 29 2014	By Bank A/c		300
				31	" Balance c/d		100
			400				400
feb 1	" Balance b/d		100				

Mr. Raju A/c

Dr | | | | | | | Cr

Date	Particulars	JF	Amount Rs	Date	Particulars	JF	Amount Rs
2014 Jun 31	To Balance c/d		2,000	2014 Jun 27	By Bank A/c		2,000
			2,000				2,000
					By Balance b/d		2,000

Dr

Mr. Lal A/c

Date	Particulars	JF	Amount Rs	Date	Particulars	JF	Amount Rs
2014 Jun 28	To Bank A/c		2,000	2014 Jun 31	By Balance c/d		2,000
			2000				2000
Feb 1	To Balance b/d		2,000				

Dr

commission Received A/c

Date	Particulars	JF	Amount Rs	Date	Particulars	JF	Amount Rs
Jun 2014 31	To Balance c/d		100	Jun 2014 31	By cash		100
			100				100
				Feb 1	By Balance b/d		100

Prepare Final accounts of Hyderabad Traders for the year ending 31-12-2013

Trial Balance

Particulars	Rs	Particulars	Rs
Opening stock	61,500	Capital	1,00,000
Purchases	9,000	Sales	15,000
Rent	1,000	Return outwards	500
Salaries	1,200	Interest	1,000
Wages	800	Commission	500
Carriage Inwards	750	Creditors	5,000
Carriage outwards	450		
Land & buildings	50,000		
Investments	20,000		
Loose tools	11,000		
Discount	1,300		
Interest	300		
Telephone charges	700		
Printing & stationery	800		
Furniture	18,000		
Return inwards	200		
	1,22,000		1,22,000

Adjustments :- closing stock -10,000
outstanding wages - 200 , commission receivable - 300
Interest Received in advance - 400

Trading and profit and Loss Account for the Year ended 31-12-2013.

Dr

Particulars		Amount Rs	Particulars		Amount Rs
To opening stock		6,500	By sales	15,000	
" purchases	9,000		(–) Returns	200	14,800
(–) Returns	500	8,500	" closing stock		10,000
" wages	800				
(+) o/s wages	200	1,000			
" carriage Inwards		750			
" Gross profit c/d		8,050			
		24,800			24,800
To Discount		1,300	By Gross profit b/d		8,050
" Interest		300	" Interest	1,000	
" Telephone charges		700	(–) Received in advance	400	600
" Printing & stationary		800	" commission	500	
" carriage outwards		450	(+) Receivables	300	800
" salaries		1,200			
" Rent		1,000			
" Net profit (Transfered to capital a/c)		3,700			
		9,450			9,450

Balancesheet as on 31-12-2013

Liabilities	Amount Rs	Assets	Amount Rs
capital 1,00,000 (+) Net profit 3,700	1,03,700	Land & Buildings	50,000
		Investment	20,000
		Loose Tools	11,000
creditors	5,000	Furniture	18,000
Interest received in advance	400	closing stock	10,000
		commission Receivable	300
outstanding wages	200		
	1,09,300		1,09,300

(2) Prepare Trading, profit & loss account and balance sheet from the following Trial balance of M/s. Himalaya publishers

Trial Balance of M/s Himalaya publishers as on 31st December, 1999

Particulars	Dr	Cr
Capital	–	1,00,000
Machinery	30,000	
Stock (1-1-1999)	16,000	
Wages	50,000	
Carriage inwards	500	
Salaries	5,000	
Factory Rent	2,400	
Repairs	400	
Fuel & Power	2,500	
Furniture	5,500	
Building	40,000	
Sundry Debtors	20,000	
Sales		2,03,600
Purchases	1,22,000	
Sundry creditors		12,500
Return outwards		2,000
Return inwards	3,600	
Drawings	2,000	
Discount allowed	750	
Discount Received		250
Office Expenses	1,000	
Manufacturing Expenses	600	

Bills payable		8,500
Bills Receivable	5,000	
cash in hand	2,400	
cash at bank	15,400	
Office Rent	1,800	
	3,26,850	3,26,850

Adjustment :-

closing stock was valued @ Rs. 20,000

Trading and Profit & Loss Account of Himalayan Publisher for The Year ended 31-12-1999

Dr Particulars		Amount Rs	Particulars		Amount Rs Cr
To opening stock		16,000	By sales	2,03,600	
" purchases	1,22,000		(-) Return in	3,600	2,00,000
(-) Return out	2,000	1,20,000			
" wages		50,000	" closing stock		20,000
" carriage inwards		500			
" Factory Rent		2,400			
" manufacturing Exp		600			
" Fuel & Power		2,500			
" Gross profit c/d		28,000			
		2,20,000			2,20,000
To salaries		5,000	By Gross profit b/d		28,000
" Repairs		400	" Discount Received		250
" Discount allowed		750			
" office expenses		1,000			
" office rent		1,800			
" Net profit (Transfered to capital a/c)		19,300			
		28,250			28,250

Balance sheet of Himalayan Publishers as on 31-12-1999

Liabilities		Amount Rs	Assets	Amount Rs.
Capital	1,00,000		Machinery	30,000
(+) Net profit	19,300		Furniture	5,500
(−) Drawings	2,000		Building	40,000
		1,17,300	Sundry debtors	20,000
Creditors		12,500	Bills Receivable	5,000
Bills payable		8,500	Cash in hand	2,400
			Cash at bank	15,400
			Closing stocks	20,000
		1,38,300		1,38,300

(3) From the following details prepare final accounts of Viswanath for the year 31-3-2002

Capital	1,00,000	Debtors	59,000
Cash in hand	1,200	Creditors	24,000
B/P	22,000	Purchases	1,20,000
Stock (1-4-2001)	35,000	Plant & machinery	60,000
Rent, taxes	10,000	Furniture	15,000
wages	16,000	Sales	2,00,200
Reserve for bad debts	1,000	B/R	20,000
Salaries	20,000		

Additional Information

(1) stock on 31-3-2001 Rs.30,000

(2) o/s Rent 2,000 wages 3,000, salaries 4,000

(3) ~~Provide~~ provide depreciation on plant & machinery @ 5% on furniture @ 10%

(4) Increase reserve for bad debts on debtors to 2½%

Trading & Profit & loss Account of Viswanath
for the year ended 31-3-2002

Dr | | | Cr

Particulars	Amount Rs	Particulars	Amount Rs
To opening stock	35,000	By sales	2,00,200
" purchases	1,20,000	" closing stock	30,000
" wages 16,000 (+) O/s 3,000	19,000		
" Gross profit c/d	56,200		
	2,30,200		2,30,200
To Rent & Taxes 10,000 (+) O/s 2,000	12,000	By Gross profit b/d	56,200
" RBD = (1250-1000) (1000 old + 50000 × 2½% = 1,250)	250		
" salaries 20,000 (+) O/s 4,000	24,000		
" Dep. on P&M (60,000 × 5/100)	3,000		
" Dep. on Furniture (15000 × 10/100)	1,500		
" Net profit	15,450		
			56,200

Balance sheet as on 31-3-2002

Liabilities		Amount Rs	Assets		Amount Rs
capital	1,00,000		cash in hand		1,200
(+) Net profit	15,450		Debtors	50,000	
		1,15,450	(-) RBD	1,250	48,750
" Bills payable		22,000	P&M	60,000	
o/s Rent		2,000	(-) Dep.,	3,000	57,000
o/s wages		3000			
o/s salaries		4000	Furniture	15,000	
Creditors		24,000	(-) Dep.	1500	13,500
			B/R		20,000
			closing stock		30,000
		1,70,450			1,70,450

④ From the following Trial balance of Vinod Traders, prepare final accounts

Trial Balance

Debit Balances	Amount Rs	Credit Balances	Amount Rs
Cash	1,000	Capital	45,000
Machinery	5,000	Bills payable	2,500
Opening stock	6,600	Creditors	5,900
Purchases	10,400	Interest Received	1,500
Sales Returns	1,300	Sales	23,500
Wages & Salaries	4,700	Purchase Returns	1,000
Rent & Rates	3,600		
Sundry Debtors	12,000		
Furniture	5,400		
Investments	8,000		
Discount	1,200		
Commission	1,500		
Carriage	600		
Trade Expenses	900		
Stationery	1,000		
Coal & gas	2,200		
Int., on capital	3,000		
Baddebts	1,000		
Goodwill	10,000		
	79,400		79,400

① closing stock - 9,500
② Baddebts - 1,500
③ Outstanding wages - 300
④ Depreciation on machinery - 10%.
⑤ Provide Reserve for Baddebts 5%
⑥ Interest received in advance 500

Trading and profit & Loss account of the Vinod Traders for the year ended

Dr Particulars	Amount Rs	Particulars	Cr Amount Rs.
To opening stock	6,600	By sales 23,500	
" purchases 10,400		(-) Sale Returns 1,300	22,200
(-) Returns 1,000	9,400		
" wages & Salaries 4,700		" closing stock	9,500
(+) O/S 300	5,000		
" carriage	2,200		
" Gross profit c/d	7,900		
	31,700		31,700
" Bad debts (Trial + Adjustments)	2,500	" Gross profit b/d	7,900
" Dep., on machinery (5000 x 10/100)	500	" Interest 1,500	
		(-) Int., in advance 500	1,000
" Rent & Rates	3,600	" Net Loss (Transfered on capital account)	5,825
" Discount	1,200		
" Commission	1,500		
" Trade Expenses	900		
" Stationery	1,000		
" Int., on capital	3,000		
" Reserve for Bad debts (12,000 - 1000) (11,000 x 5/100) = 525	525		
	14,725		14,725

Balance sheet as on 31st march

Liabilities		Amount Rs	Assets		Amount Rs
Capital	45000		cash		1,000
(–) Net Loss	5,825	39,175	machinery	5000	
			(–) Depreciation	500	4,500
Bills payable		2,500			
creditors		5,900	furniture		5,400
Interest received in advance		500	Investment		8,000
			Goodwill		10,000
outstanding wages		300	closing stock		9,500
			sundry Debtors	12000	
			(–) Baddebts	1500	
				10500	
			(–) Reserve for Baddebts	525	9,975
		48,375			48,375

13.3 SUMMARY OF ADJUSTMENTS

S.No.	Nature of Adjustment	Name of the account to be recorded	Balance Sheet
1	Closing Stock	In Trading a/c on credit side	Assets side
2	Outstanding Expenses	Add to concerned expenses either in Trading or in Profit & Loss A/c.	Liabilities side.
3	Pre-paid Expenses	Deduct from concerned expenses either in Trading or in P & L account	Assets side
4	Accrued Income or Income receivable	Add to concerned income in P&L on credit side.	Assets side
5	Income received in Advance	Deduct from concerned income on credit side of P&L account	Liabilities side
6	Depreciation provided	Profit & Loss a/c Debit side	Deduct depreciation from concerned asset value on assets side
7	(a) Bad debts given only in adjustments	Debit side of P&L a/c	Deduct from Debtors on assets side
	(b) Bad debts given in trial balance and in adjustments	Total bad debts (trial balance + adjustment amount) on debit side in Profit & Loss a/c	Deduct the bad debts given in adjustments from debtors on assets side
8	(a) Reserve for Bad Debts	P & L a/c on debit side	Deduct the provision for bad and doubtful debts from sundry debtors on assets side
	(b) Reserve for Bad Debts given in trial balance and also in adjustments	If the adjustment amount is more than the Trial balance, the difference amount to be recorded in P&L Account on debit side. If the Trial balance amount is more than the adjustment amount, the difference amount appears on credit side of Profit & Loss a/c.	Adjustment amount should be deducted from debtors on assets side.

	(c) If the bad debts and reserve for bad debts are given in the adjustments	Calculate the reserve for bad and doubtful debts on sundry debtors after deducting the bad debts given in adjustments and record it in Profit & Loss a/c on debit side.	Deduct the bad debts and reserve for bad debts from debtors on assets side.
9	Interest on Capital	Profit & Loss a/c on debit side	Add to capital on the liabilities side
10	Interest on drawings	Profit & Loss a/c on credit side	Deduct from capital on liabilities side

13.4 ACCOUNTING TREATMENT TO THE ADJUSTMENTS GIVEN IN TRAIL BALANCE

1. Closing stock: to be recorded on assets side of balance sheet only.
2. Outstanding expenses (Liability): Liabilities side of balance sheet.
3. Prepaid expenses (Assets): Assets side of balance sheet.
4. Accrued Income (Asset): Assets side of balance sheet.
5. Income received in advance (Liability): Liabilities side of balance sheet.
6. Depreciation (Loss): Profit & Loss a/c on debit side.
7. Interest on capital (Expense): Profit & Loss a/c on debit side
8. Interest on drawings (Income): Profit & Loss a/c on credit side.

The following illustrations explain the accounting treatment to the above stated adjustments.