UNIT –I

PRINCIPLE OF ACCOUNTANCY

Meaning of Accounting

According to (American Institute of Certificate Public Accountants)AICPA, " accounting is the art of recording, classifying and summarizing in a significant manner and in terms of money or money's worth, transactions and events which are, in part at least , of a financial character and interpreting the results them of".

Define accounting.

American Accounting Association defines," accounting as "the process of identifying, measuring and communicating economic information to permit informed judgments and decisions by users of the information".

Explain the accounting concepts.

Accounting concept may be considered as postulates i.e., basic assumption or conditions upon which the science of accounting and based. There is no authoritative list of these concepts but almost of the following concepts have fairly general support.

The concepts and convention scan be put in the form of a chart as given below;

ACCOUNTING PRINCIPLES

Accounting Concepts	**Accounting Conventions**
Separate Business Entity	Convention of Materiality
	Convention of Conservatism
Money Measurement Concept	Convention of consistency

Dual Aspect Concept

Going Concern Concept

Accounting Period Concept

Cost Concept

The Matching Concept

Realisation Concept

Business entity concept:

This concept implies that a business unit is separate and distinct from the person. In accounting business is treated as an entity different from the proprietor. The transactions that take place affect the business and not the proprietor. This concept makes it possible to keep the business affairs strictly free from the effect of private affairs of the proprietor. Thus, when a person invests Rs. 20000 in his business, it is deemed that the owner has given that much money to the business which will be shown as a liability for the business.

Money measurement concept:

This is also known as the concept of monetary expression. As per this concept, transactions that can be measured in terms of money only are recorded in the books of account. This helps to record different kinds of economic activities on a uniform basis.

For instance, land, buildings, furniture etc., which are generally expressed in terms of area, quantity etc, are recorded in terms of money value. The basic purpose of using money is to uniformity among diversity.

Going concern concept:

As per this concept the business unit is assumed to have an indefinite life. It is deemed that there is no intention or necessity to windup the business activity in the immediate future. Hence the firm is treated as a “going concern”.

Cost concept:

Accounting is a historical record to the transactions of a business entity. According to cost concept, assets are recorded at the price paid to acquire them. This cost is the basis for all subsequent accounting for the assets.

According to this principle assets are recorded in the books of accounts at the price at which they had been acquired i.e., at cost. All subsequent transactions in relation to the same is made on the basis of the recorded cost.

Dual aspect:

According to this concept each and every business transaction has two aspects – a giving aspect and a receiving aspect.

Dual aspect concept is the basis for double entry system of book keeping which is universally used. The governing principle of double entry system is that “for every debit there is an equal and corresponding credit”.

Assets represents all properties acquired by a business for generating income in the short run or long run. Equities represent the claims of different claimants, including the owners, against the assets.

Capital + liabilities = assets.

Accounting period concept:

Strictly speaking; the net result of the business can be ascertained by comparing the assets of the business at the time of its commencement with those at the time of its winging up. The owners and others who are interested in the business cannot wait for such a long and indefinite period to know the result. So, generally, the result is ascertained at short interval.

Usually a period of 365 days to 52 week is considered as fair interval. The period of interval for which account is kept for ascertaining the result of business during the period is called " accounting period".

Matching concept:

In order to ascertain the profit or loss of a business the cost incurred during the accounting period must be matched against the revenue earned during period.

All expenses incurred during the relevant period may not be related to that period alone. Expenses relating to the previous period or to the subsequent period might have been incurred during the period under reference.

Realization concept:

This concept deals with the point of time at which the revenue is taken as earned. It says that revenue is realized when goods are transferred or services are rendered to the customer.

An order received from a customer is not taken as revenue earned or realized. Realization of revenue takes place only on the execution of that order.

Accounting conventions:

The term convention denotes a rule of practice which, by common authority is employed in the solution of a particular class of problems. Placing debits on the left hand side and credit on the right hand side of an account is an example of convention.

Convention of consistency:

Comparability is one of the important characteristics of accounting. Management can draw important conclusions and take appropriate decisions only by comparing the financial statements of one year with that of another year.

The comparison will be effective and meaningful only if the accounting practices and methods remain unchanged over years.

Convention of conservatism:

This is policy so "playing safe". The business activities are carried on in a state of uncertainty. To safeguard against possible losses a policy of caution is adopted here. So the accountants follow the rule – "anticipate no profit but provide for all possible losses, while preparing financial statements".

Convention of materiality:

As per the principle all material facts should be disclosed in the financial statements. Naturally a question arises as to what is material and what is immaterial.

An item should be regarded as material if there is reason to believe that knowledge of it would influence the decision of informed investors".

Materiality is rather a relative term, what is material to an organization may be immaterial to another.

TYPES OF ACCOUNTS

PERSONAL ACCOUNTS

Debit the receiver.
Credit the Giver.

REAL ACCOUNTS

Debit what comes in

Credit what goes out

NOMINAL ACCOUNTS

Debit all expenses and loss

Credit all income and gain

MEANING AND FORMAT OF A JOURNAL

Journal is a historical record of business transactions or events. The word journal comes from the French word "Jour" meaning "day". It is a book of original or prime entry written up from the various source documents. Journal is a primary book for recording the day to day transactions in a chronological order i.e. in the order in which they occur. The journal is a form of diary for business transactions. This is also called the book of first entry since every transaction is recorded firstly in the journal. The format of a journal is shown as follows:

Date	Particulars	L.F	Debit (Rs)	Credit (Rs)

Date Column: This column shows the date on which the transaction is recorded. The year and month is written once, till they change.

(b) *Particular Column:* Under this column, first the names of the accounts to be debited, then the names of the accounts to be credited and lastly, the narration

(i.e. a brief explanation of the transaction) are entered.

(c) *L.F., i.e. Ledger Folio Column:* Under this column, the ledger page number containing the relevant account is entered at the time of posting.

(d) *Debit amount Column:* Under this column, the amount to be debited is entered.

(e) *Credit amount Column:* Under this column, the amount to be credited is entered.

LEDGER

Ledger is a principal book of accounts of the enterprise. It is rightly called as the 'King of Books'. Ledger is a set of accounts. Ledger contains the various personal, real and nominal accounts in which all business transactions of the entity are recorded. The main function of the ledger is to classify and summarise all the items appearing in Journal and other books of original entry under appropriate head/set of accounts so that at the end of the accounting period, each account contains the complete information of all transaction relating to it. A ledger therefore is a collection of accounts and 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 and shows their net effect.

Format

Dr **Cr**

Date	**Particulars**	**Journal Folio**	**Rs**	**Date**	**Particulars**	**Journal Folio**	**Rs**

UNIT II

MEANING OF SUBSIDIARY BOOKS

Subsidiary Books are books of Original Entry. They are also known as Day Book or special journals. We record transactions of similar nature are in Subsidiary Books. They are helpful in overcoming the limitations of journal book or journal entries.

We can divide the subsidiary books into the following types:

1. Cash book
2. Purchases book
3. Sales book
4. Purchases return or return outwards book
5. Sales return or return inwards book
6. Bills receivable book
7. Bills payable book

Cash Book

It records all the cash and bank receipts and payments. It is a book of original entry as we record transactions in it for the first time from the source documents such as vouchers, invoices, etc.

A cash book has a debit and a credit side both. Thus, it is similar to a ledger account. Hence, it acts as a subsidiary book as well as a ledger account.

An organization can maintain a single column, double column or triple column cash book as per its requirements. A single column cash book consists of only cash column.

A double column cash book consists of cash and bank column. While the triple column cash book consists of cash, bank, and discount column. Usually, the firms use triple column cash book.

Some organizations also maintain a petty cash book which records the petty or small cash expenses of the firm.

Format of Cash Book

Date	Particulars	L.F.	Cash	Bank	Discount Allowed	Date	Particulars	L.F.	Cash	Bank	Discount Received

Purchases book

A firm records all its credit purchases of goods in Purchase Book or Purchase Day Book. While it records all the cash purchases of goods in the Cash Book.

We do not record Purchases of assets in Purchase Book. Thus, they are recorded in the Journal Proper.

Purchase Book Format

Date	Name of the Supplier and details of purchases	Invoice ref.	L.F.	Amount (₹)	Remarks

Sales Book

A firm records all credit sales of goods in the Sales Book or Sales Day Book. It records cash sales of goods in the Cash Book. We do not record the sale of assets in the Sales Book.

Thus, we shall record them in the Journal Proper. In this case, also we record entries from the source documents. Also, we record entries with the net amount of the invoice.

Sales Book Format

Date	Particulars	Invoice ref.	L.F.	Amount (₹)	Remarks

Purchase Return or Return Outward Book

We record the return of goods purchased in the Purchase Return Book. A Debit Note is prepared for every return of goods in duplicate.

It contains the name of the supplier, details of goods returned and reason thereof. It needs to be dated and serially numbered.

Purchase Return Book

Date	Particulars	Debit Note No.	L.F.	Details	Totals	Remarks

Sales Return or Return Inwards Book

We record the return of goods sold in the Sales Return Book. A Credit Note is prepared for every return of goods in duplicate.

The Credit Note contains the name of the customer, details of goods returned and reason thereof. It also needs to be dated and serially numbered.

Sales Return Book

Date	Particulars	Outward invoice	L.F.	Details	Totals	Remarks

Bills Receivable Book

We record all the acceptance of the bills in our favor in the Bills receivable book. We need to post the total of bills receivable book to the Bills receivable A/c. Also, we need to post the individual accounts of the customers.

Bills Receivable Book Format

No. of bills	Daye of receipt	From whom	Name of the receiver	Name of the drawer	Name of acceptor	Date of bill	Due date	L.F.	Amount of bill	How disposed off

Bills Payable Book

We record all the acceptance of the bills that we issue in favor of others in the Bills payable book. We need to post the total of bills payable book to the Bills payable A/c. Also, we need to post the individual accounts of the suppliers.

Bills payable Book Format

No. of bills	Daye of acceptance	To whom	Name of drawer	Name of the payee	Where payable	Date of bill	Term	Due date	L.F.	Amount of bill how disposed of

FORMAT OF TRIAL BALANCE

Particulars	Debit(Rs)	Credit(Rs)
CREDIT BALANCE :		
Sales		
Purchase returns		
Interest Received		
Discount Received		
Provision for Bad debts		
Rent Received		
Dividend Received		
Capital		
Sundry Creditors		
Outstanding expenses		
Income received in advance		
Bills payable		
General Reserve		
Reserve fund		
Bank overdraft		
Loan (Payable)		
DEBIT BALANCE:		
Purchase		
Sales Returns		
Carriage inwards		
Wages		
Heating and Lighting		
Carriage Outwards		
Rent and Rates		
Salaries		
Office Expenses		
Insurance		
Telephone charges		
Stationery expenses		
Discount allowed		
Bank charges		
Interest paid		
Establishment charges		
Postages		

Advertisement expenses Selling expenses Repairs and renewals Depreciation Interest on capital Drawings Land and Buildings Plant and machinery Furniture Sundry debtors Bills receivable Closing Stock Cash in hand and at bank Prepaid expenses Accrued income or Income receivable		

UNIT III

FORMAT OF TRADING, PROFIT AND LOSS ACCOUNT FOR THE YEAR END….

Debit	Rs	Credit	Rs
To Opening Stock To Purchase Less: Purchase Returns Return outwards Samples for advertisement To Direct expenses To wages and Salaries To wages To Dock charges To Duty (Excise, custom) To Freight , Carriage in wards TO GROSS PROFIT(B/F)		By sales Less: Sales Returns (or)Return inwards By Closing Stock BY GROSS LOSS(B/F)	
To Gross Loss To Office salaries and wages To Office rent , rates and Taxes To Lighting and insurance To Printing and stationery To Postage, Telegrams To Legal expenses To Trade expenses To Audit Fees To Car upkeep expenses To Telephone expenses To General Expenses To Cash discount allowed To Interest on capital To Interest on loan To Discount or Rebate on bills of exchange To Bad debts To Selling and Distribution Expenses To Packing of finished goods To Storage charges To Carriage, Freight, cartage outwards To Cost of sample, Catalogue expenses To Sales man's salary expenses and commission		By Gross Profit By Cash discount received By Bad Debts recovered By Income from investments By Commission received By Interest on deposits By Interest on renewal of bills of exchange By Profit on sale of assets By Apprentice premium By Interest on Drawings BY NET LOSS(B/F)	

To Advertisement Expenses To Depreciation on Fixed assets To Loss on sale of fixed assets To NET PROFIT (B/F)			

BALANCE SHEET OF THE YEAR ENDED………

LIABILITIES	**Rs**	**ASSETS**	**Rs**
Capital FIXED LIABILITIES: Loan Mortgage CURRENT LIABILITIES: Creditors Bills payable Bank overdraft Outstanding expenses Income received in advance		Goodwill Cash in hand Cash at bank Stock in Trade Debtors Bills Receivable Prepaid Expenses Investments Furniture Fittings Plant and machinery Building Land Goodwill	

ADJUSTMENTS:

1. **Closing Stock:**
   Account Shown in the Credit Side of the Trading.

   Shown in the Assets Side.

2. **Outstanding Expenses (Wages, Rent, Salaries)**

   Add the Outstanding to the Respective Item (It may be Trading a/c or Profit and Loss a/c).

   Shown on the Liability Side (Actual Outstanding Amount)

3. **Prepaid Expenses or Unexpired Expenses (Insurance Premium)**

   Deduct it from the Concerned Account on the Debit Side of the Trading a/c or Profit & Loss a/c

   Actual Amount Deducted should be Shown in the Assets Side

4. Accrued Income or Outstanding Income (Commission)

Add to the Account in the Credit Side of Profit and Loss Account in the Respective Item

Actual Amount Added should be Shown in the Asset Side

5. Income Received in Advance (Rent)

The Amount Received in Advance is Deducted in the Credit Side of Profit & Loss Account in the Concerned Account

The Actual Amount Received should be Shown on the Liabilities Side

6. Interest on Capital

Shown on the DEBIT Side of Profit and Loss Account

The Interest should be Added with Capital on Liabilities Side

7. Interest on Drawing

Shown on the Credit Side of Profit and Loss Account

Added with Drawings and Deducted from Capital on Liabilities Side

8. Interest on Loans

Added to the Respective Account in Profit and Loss Account Debit Side

Added to the Loan on the Liabilities Side

9. Bad Debts

Should be Shown on the Profit and Loss Account Debit Side

Deducted from Sundry Debtors on the assets Side

10. Depreciation (Machinery, Furniture)

The actual Depreciation Amount Shown on the Debit Side of the Profit and Loss Account

Shown as a Deduction from the Value of the Respective Asset in the Assets Side

11. Provision for Bad and Doubtful Debts

a)Shown in the Debit side of Profit and Loss Account

b) Provision for Bad Debts in the Trial Balance is Old. Bad Debts Provision in the Adjustment is New. In that case, take the Difference of New Minus Old. The Difference should be Shown in the Debit Side of Profit and Loss Account.

The New Provisions Alone Deducted from Sundry Debtors on Assets Side

12. Provision for Discount on Debtors

The Ascertained Amount to be Shown on Debit Side of profit and Loss Account (After Deducting the Additional Bad Debts and Provision for Bad Debts Provision for Discount on Debtors has to be Calculated

The Amount of Discount on Debtors should be Deducted from the Balance of Debtors after Deducting the Additional Bad Debts and Provision for Bad Debts.

13. Manager's Commission

Such Commission will be Shown on the Debit Side of the Profit and Loss Account

It is Shown on the Liabilities Side of the Balance sheet as Commission Payable.

UNIT IV

ACCOUNTING FOR NON TRADING INSTITUTION

- Receipt and Payment Account
- Income and Expenditure Account

All non-trading organizations maintain the Receipts and Payment Account. For example – all voluntary organizations like sports clubs, trade unions, political associations, consumer co-operatives, medical association, automobile associations, educational institutions, hospitals, charitable trusts etc.

The aim of these organizations is not to earn the profit out of their activities. At the Annual General Meeting, the treasurer submits Receipt and Payment Account and Income and Expenditure Account to its members.

MEANING OF RECEIPT AND PAYMENT ACCOUNT

It is prepared at the end of the financial year. It shows the summary of all receipts and payment of cash transactions under some important or desired heads. Since this account gives only the summary of cash transactions, the details of all the transaction can be seen in cash book.

LIMITAION OF RECEIPT AND PAYMENT ACCOUNT

Following are the limitations of Receipt and Payment Accounts:-

- Expenses and incomes are not shown on accrual basis.
- It is very difficult to know whether these types of organizations are able to meet the expenses out of the income.

INCOME AND EXPENDITURE ACCOUNT

Income and Expenditure account shows the summary of all incomes and expenditures of an organization for complete year. It is just like Profit and Loss Account. Following points should be noted in respect of Income and Expenditure Account:-

- It is a nominal account.
- All the expenses are shown in debit side.
- All incomes are shown in credit side.
- It shows income and expenditure of current year only on accrual basis.
- Only revenue expenses are shown in this account. No capital expenditure is shown in this account.
    - **THE DIFFERENCE BETWEEN RECEIPT AND PAYMENT ACCOUNT AND INCOME AND EXPENDITURE ACCOUNT**

    - Following are the differences between these two accounts:-

Receipt and Payment Account	**Income and Expenditure Account**
It is a real account.	It is a nominal account
It is cash account of non-trading organizations.	It is like profit and loss account
All receipts are shown in debit side of this account.	All expenses and losses are shown in debit side of this account.
All payment are shown in credit side of this account.	All incomes are shown in credit side of this account

Opening balance of cash is shown in beginning of this account.	No such balance is shown in beginning of this account
Balance at the end represents as closing balance of cash.	Balance at the end represents excess of income over the expenditure or *vice versa.*
All revenue and capital receipts are recorded in this account.	It records only revenue receipts.
It shows all receipts and payment whether they relate to other financial year.	It show income and expenditures of current year only.
Depreciation, bad debits etc. are not recorded in this account.	Depreciation, bad debits are recorded in this account since these are the losses to the organization.
As it is a cash account, it will always show debit balance.	This account may show debit or credit balance according to loss or profit.

Features of Income and Expenditure Account

Below mentioned are the characteristic features of Income and Expenditure Account :

- Income and expenditure account presented by non-trading entities are much like the profit and loss a/c presented by trading entities.
- It is prepared by stringently following the fundamentals of the double-entry system of bookkeeping or accounting.
- It is always prepared during the end of the period which normally comprises of 1 year.
- It decides the surplus or deficit of income over expends of the non-trading entities for the particular year.

- The surplus or deficit from the income and expenditure account is moved to the capital fund a/c.
- The Income and expenditure account of only revenue nature are incorporated in this account. Any income and expenditure of capital nature are not comprehended.
- It is prepared by accountants chosen by the enterprise's management and is audited by an independent auditor.
- It does not begin with the opening balance, and it follows back the incomes received and expenditures incurred by the non-trading entities during the financial year.
- The accumulated or accrual concept of accounting is rigidly pursued when it is prepared

Features of Receipt and Payment Account

Below mentioned are some of the features of Receipt and Payment Account :

1.It does not include any transactions that are not cash or bank items.

2.It shows all cash payments and receipts without making any difference between capital and revenue

3. Receipt and Payment Account starts with the opening balance of cash and bank and ends with ending balance of cash and bank

4. It is prepared on the last day of the accounting period of the business organisation.

5. All cash and cheque receipts are recorded in the debit side while all cash and cheque payments are recorded on the credit side.

DEPRECIATION

What is Depreciation?

In accounting terms, depreciation is defined as the reduction of recorded cost of a fixed asset in a systematic manner until the value of the asset becomes zero or negligible.

Definition: The monetary value of an asset decreases over time due to use, wear and tear or obsolescence. This decrease is measured as depreciation.

Straight Line Method

Straight line method is the simplest way to calculate depreciation. Under this mode, the amount of value reduced from the original cost of the asset remains constant for every accounting year.

Written down value method

It is also known as Diminishing Balance Method. Under this method, the percentage rate of depreciation remains fixed, but we have to reduce the asset's value during every accounting year. The Income Tax Act, 1961 has prescribed this method for calculation of depreciation.

UNIT V

SINGLE ENTRY SYSTEM

Meaning of Single Entry System:

Under this system, a Cash Book is prepared which shows the receipts and payments of cash transactions and no other ledger is maintained except a rough book for recording transactions relating to personal accounts. It is actually called 'Pure Single Entry'.

DEFINITION

According to R. N. Carter, Single Entry cannot be termed as a system, as it is not based on any scientific system like Double Entry System. For this purpose, Single Entry is nowadays known as Preparation of accounts from incomplete records.

Characteristics of Single Entry System

- **Maintenance of Cash Book**: Cash Book is prepared and maintained, in which both business and personal transactions are included.
- **Personal Accounts**: Only personal accounts are created and maintained, whereas the real and nominal accounts are not given due weight, in this system.
- **Original Vouchers**: Under this system, original vouchers play an important role, as they help in gathering information about the date of transaction, amount, parties, discount (if any) and so forth.
- **Final Accounts**: In Single Entry System, it is quite difficult to prepare final accounts, due to unavailability of nominal and real accounts. So, to prepare the financial statement, the available information is analysed and converted into a double entry system, by determining the missing figures, after that Trading and Profit & Loss Account is prepared. Further, the figures of assets and liabilities are calculated from

the information at hand, but they are also estimates. Hence, the **Statement of Affairs is prepared in place of the Balance Sheet**.

- **Profit or Loss**: Profit earned or loss sustained is estimated, out of the information available and so exact profits is not ascertained.
- **Suitability**: The system is appropriate for small businesses, like sole proprietorship business and partnership firms, as they maintain records of cash and credit transactions only.

Types of single entry system

1. **Pure Single Entry System**: In this method, only the personal accounts are maintained and there is no information present, concerning the sales and purchases, cash in hand, and bank balance.
2. **Simple Single Entry System**: In a simple single entry system, cash book is maintained along with the personal accounts and these are maintained as per double entry system of bookkeeping. Cash received or paid, from/to business debtors or creditors are merely written on the bills issued or received.
3. **Quasi Single Entry System**: In this system, subsidiary books such as sales book, purchases book, bills receivable book and bills payable book are maintained in addition to cash book and personal accounts

Advantages of Single Entry System:

(i) Since this system is very simple, anyone can maintain it without any adequate knowledge of accounting.

(ii) Limited accounts are to be opened under this system since the transactions relating to personal accounts are recognised only and not the Real and Nominal accounts.

(iii) Since the number of books is limited, expenses related to the keeping of records are also very nominal.

(iv) In the case of accounting for an event, i.e., household, social and festival etc., it is very helpful.

Disadvantages of Single Entry System:

(i) Arithmetical accuracy of the books of account is not possible since the Trial Balance cannot be prepared under this system.

(ii) It is also not possible to ascertain the correct amount of profit or loss of the firm—i.e., results from operation—since the nominal accounts are missing under this system.

(iii) Similarly, Balance Sheet cannot be prepared since the real accounts are not recognised. Therefore, the real financial position cannot be known at the end of the accounting period.

(iv) As arithmetical accuracy is not possible, possibility of committing fraud or manipulation is greater in comparison with Double Entry System.

(v) Any statistical information relating to the business or the comparison between the two firms or the interim accounts etc.—which help the management to take decision or to formulate policy in future—is not possible under this system.

(vi) Outsiders (e.g., Income-tax authorities, Bank etc.) do not rely on this system.

Conversion Method : (Conversion of single entry into double entry system) :

If it is desired to calculate profit by preparing Trading and Profit and Loss account under single entry then it is called conversion method. Following steps are necessary to prepare Trading and Profit and Loss account and Balance Sheet from the incomplete information.

Step 1 → **Opening Statement of Affairs:** Prepare statement of affairs in the beginning so as to calculate capital in the beginning.

Step 2 → **Other Accounts:** Then prepare (i) Total debtors account, and (ii) Total Creditors account, to find out credit sales, credit purchases, creditors or debtors balance either in the beginning or at the end.

Step 3 → **Total sales and total purchase:** After preparing these accounts, calculate

(1) **Total sales,** by adding cash sales and credit sales, and

(2) **Total purchases** by adding cash purchases and credit purchases.

Step 4 → **Final Account**: Now prepare Trading, Profit and Loss account and Balance Sheet.