# Chapter - 1

# Introduction to Accounting

Now-a-days, accounting has been raised to the level of an information system. As an information system, it collects data and communicates economic information about the organisation to a wide variety of users.

## Meaning of Accounting

The American Institute of Certified Public Accountants (**AICPA**) had defined accounting as the *recording, classifying , and summarising in a significant manner and in terms of money transactions and events which are, in part at least, of financial character, and interpreting the results thereof.*

Thus accounting is a process of identifying, measuring, recording the business transactions and communicating the required information to the interested users.

## Qualitative characteristics of Accounting Information

1. ***Reliability*** : Reliability means the users must be able to depend on the information. A reliable information should be free from error and faithfully represents what it is meant to represent.
2. ***Relevance*** : To be relevant, information must be available in time. It must help in prediction and feedback .
3. ***Understandability*** : Accounting information must be capable of being understand by all its users.
4. ***Comparability :*** Accounting information must be comparable from one period to another or from one firm to another.

## Objectives of Accounting

The primary objectives of accounting include the following :

1. ***Maintenance of Records of Business Transactions*** : Accounting is used for the maintenance of a systematic record of all financial transactions in books of accounts.
2. ***Calculation of Profit and Loss*** : Another objective of accounting is to ascertain the profit earned or loss sustained by a business during an accounting period. This can be ascertained by preparing a profit and loss account for the period.
3. ***Depiction of Financial Position*** : Accounting also aims at ascertaining the financial position of the business concern. This can be ascertained by preparing a statement known as balance sheet.
4. ***Providing Accounting Information to its Users*** : Accounting records provides meaningful information to internal users and external users.

## Basic Terms in Accounting

1.***Entity***

Business entity means a specifically identifiable business enterprise. Eg. Super Bazaar, Lulu Mall, Kalyan Jewellers etc.

***2.Transaction***

An event involving some value between two or more entities. Eg. Purchase of goods, receipt of money, incurring expenses etc. It can be a cash transaction or a credit transaction.

***3.Assets***

Assets are items of value used by the business in its operations. Assets can be broadly classified into two types :

i) Fixed Assets and ii) Current Assets.

**i) Fixed Assets** : Fixed assets are assets held on a long-term basis. For example, land, buildings machinery, plant, furniture and fixtures etc.

**ii) Current Assets** : Current assets are assets held on a short-term basis . For example, debtors (accounts receivable), bills receivable, stock, temporary marketable securities, cash and bank balances.

***4. Liabilities***

Liabilities are obligations or debts that an enterprise has to pay in the future. For example, took a loan from State Bank of India ₹ 5,00,000.

Liabilities are classified as Long-term liabilities and Short- term liabilities/Current liabilities.

**i) Long-term liabilities** : Long-term liabilities are those that are usually payable after a period of one year. For example, a term loan from a financial institution, debentures(bonds) issued by a company.

**ii) Short-term liabilities** : Short-term liabilities are obligations that are payable within a period of one year. For example, creditors, bills payable, bank overdraft etc.

***5. Capital***

Amount invested by the owner in the firm is known as capital. Capital is an obligation and a claim on the assets of business. It is, therefore shown as capital on the liabilities side of the balance sheet.

**6. Sales**

Sales are total revenues from goods or services sold or provided to customers. Sales may be cash sales or credit sales.

**7. Revenues**

These are the amounts of the business earned by selling its products or providing services to customers. The common items or revenue are sales, commission, interest, dividends, rent received etc.

**8. Expenses**

Costs incurred by a business in the process of earning revenue are known as expenses. For example, depreciation, rent, wages, salaries, interest, light and water, telephone charges etc.

**9. Expenditure**

Spending money or incurring a liability for some benefit, service or property received is called expenditure. For example, payment of rent, salary, purchase of goods, purchase of machinery, purchase of furniture etc.

Expenditure is classified into :



i. Revenue expenditure and

ii. Capital expenditure

***i. Revenue Expenditure*** : If the benefit of expenditure is exhausted within a year, it is called revenue expenditure(expense). For example, payment of salary, rent commission telephone charges etc.

***ii. Capital Expenditure*** : If the benefit of and expenditure lasts for more than a year, it is called Capital Expenditure (Asset). For example, purchase of land, machinery, furniture etc.

**10.Profit**

The excess of revenues of a period is more than its related expenses during an accounting period is profit. Profit increases the investment of the owners.

**11. Gain**

A profit that arises from events or transactions which are incidental to business is called gain. For example, profit on sale of fixed assets, winning a court case, etc.

**12. Loss**

The excess of expenses of a period over its related revenues is termed as loss. It decreases in owner’s equity.

**13. Discount**

Discount is the deduction in the price of the goods sold. It is classified into :

i. Trade discount and

ii. Cash discount

***i. Trade discount*** : Offering deduction of agreed percentage of list price at the time of selling goods is called trade discount. For example, selling goods at 8% discount.

***ii. Cash discount*** : The debtors may be given certain deduction in amount due ,in case, if they pay the amount on or before the stipulated date. For example, Mr. Varun, who owes ₹1,00,000 pays the amount before due date. His account is settled by receiving ₹95,000 in cash and allowing him ₹5,000 as discount.

**14. Voucher**

The documentary in support of a transaction is known as voucher. For example, if we buy goods for cash, we get cash memo ; if we buy on credit, we get an invoice ; when we make a payment we get a receipt and so on.

**15. Goods**

It refers to the products in which the business unit is dealing. For example, a furniture dealer, purchase of chairs and tables is termed as goods.

**16. Drawings**

Withdrawal of money/goods by the owner from the business for personal use is known as drawings. It reduces the investment of the owners.

**17. Purchases**

Purchases are total amount of goods procured by a business for use or sale. Purchases are made on the basis of cash or on credit.

**18. Stock/Inventory**

Stock is a measure of something on hand – goods, spares and other items in a business. The amount of goods which are lying unsold at the end of the accounting period is called *closing stock*. Similarly, *opening stock* is the amount of stock at the beginning of the accounting period.

**19. Debtors**

Debtors are persons/entities who owe money to an enterprise for buying goods and services on credit. It is shown in the balance sheet as *sundry debtors* on the asset side.

**20. Creditors**

Creditors are persons and other entities to whom an enterprise owes money for buying goods and services on credit. It is shown in the Balance sheet as *sundry creditors* on the liabilities side.

## Chapter 2

# Theory Base of Accounting

## Basic accounting concepts

**1. Business Entity Concept :** The concept of business entity assumes that *business has a distinct and separate entity from its owners.* It means that for purposes of accounting the business and its owners are to be treated as *two separate entities*. e.g. capital is treated as liability of the business to the owner.

**2.Money measurement concept** : The concept of money measurement states that only those transactions and happenings in an organisation *which can be expressed in terms of money* are to be recorded in the books of accounts. Eg. Sale of goods ₹10,000.

**3. Going concern concept** : The concept of going concern assumes that a business firm would continue to carry out its operations indefinitely i.e. *for a fairly long period of time*. It provides *the very basis for showing the value of assets in the balance sheet.*

**4.Accounting period concept** :Accounting period refers to *the span of time* at the end of which the financial statements of an enterprise are prepared.

**5. Dual aspect concept** :Dual aspect is the *foundation or basic principle* of accounting. This concept states that *every transaction has a dual or two-fold effect* and should therefore be recorded at two places. In other words, at least two accounts will be involved in recording a transaction.

For example, Vysakh started business with ₹2,00,000. This will result in an increase in the assets(cash) by ₹200000. At the same time owner's equity (capital) will also increase by an equal amount. The duality principle is commonly expressed in terms of fundamental accounting equation:

***Assets = Liabilities + Capital***

***6. Matching concept :*** It states that expenses incurred in an accounting period should be matched with revenues during that period. In other words, the revenue and expenses incurred to earn these revenue must belong to the same accounting period.

**7.Conservatism concept/Prudence** : This principle states that *anticipated profits are not to be considered but only possible losses, while recording business transactions.* Valuing closing stock at cost or market value whichever is lower, creating provision for doubtful debts, discount on debtors etc. from the books of accounts are some of the examples of the application of the principle of conservatism.

# Chapter 3

# Recording of Transactions - I

## Accounting Equation/Balance sheet Equation

Accounting equation signifies that the assets of a business are always equal to the total of its liabilities and capital (owner's equity).

**Assets = Liabilities + Capital**

**Liabilities = Assets – Capital**

**Capital =Assets – Liabilities**

## Steps for solving problems based on Accounting equation

1. Draw a table with two columns. Left hand column is used for recording transactions given in the question and Right hand side is used for recording accounting equation i.e. Assets = Liabilities + Capital.
2. Identify the items of assets, liabilities and capital and write these items below the line of accounting equation in the form of an equation.
3. Record the transactions given in the question and write the corresponding amount in the accounting equation column.
4. Add (+), those amounts causing increase in assets, liabilities or capital and deduct (-), those amounts causing decrease in assets, liabilities and capital.
5. Totalling of amounts of assets, liabilities and capital and ensure that total of assets is equal to total of liabilities and capital.

### *Rules of Debit and Credit*

**1.Assets**

Increase in asset is debited

Decrease in asset is credited

**2.Liability**

Increase in liabilities is credited

Decrease in liabilities is debited

**3.Capital**

Increase in capital is credited

Decrease in capital is debited

**4.Expenses/Losses**

Increase in expenses/losses is debited

Decrease in expenses/losses is credited

**5.Revenues/Gains**

Increase in revenue/gain is credited

Decrease in revenue/gain is debited

## Books of Original Entry

The transactions are first entered in these books in a *chronological order*. *Journal is one of the books of original entry.* The process of recording entries in the journal is called ***journalising**.* The source document is required to record the transaction in the journal. The journal is subdivided into :

1. Journal Proper
2. Cash book
3. Purchases Book
4. Sales Book
5. Purchase Returns Book
6. Sales Returns Book
7. Bills Receivable Book
8. Bills Payable Book

The journal entry is the basic record of a business transaction. It may be *simple or compound*. When only two accounts are involved to record a transaction, it is called a *simple journal entry*.

For example,

| | | | |
|---|---|---|---|
| Purchases A/c | Dr. | 30,000 | |
| To Govind Traders A/c | | | 30,000 |

(*Purchased goods from Govind traders on credit*)

When the number of accounts debited or credited is more than one, entry made for recording the transaction is called *compound journal entry*.

For example,

| | | | |
|---|---|---|---|
| Wages A/c | Dr. | 5,000 | |
| Salaries A/c | Dr. | 10,000 | |
| Commission A/c | Dr. | 3,000 | |
| To Cash A/c | | | 18,000 |

(*Paid wages, commission and salaries*)

## Tips for solving problems on journalising

1. Draw the format of Journal

| Date | Particulars | L.F. | Debit Amount ₹ | Credit Amount ₹ |
|---|---|---|---|---|
| | | | | |

2. Write date of transaction in the **Date** column.
3. Identify the accounts which are involved in the transaction.
4. Identify which account should be debited.
5. The account to be debited is written on the first line beginning from the left hand corner and the word **'Dr**.' is written at the end of the column.
6. Write the amount to be debited in the **Debit amount column.**
7. The account to be credited is written on the second line leaving sufficient margin on the left side with a prefix '**To'.**
8. Write the amount to be credited in the **Credit amount column.**
9. Below the account titles, a brief description of the transaction is given which is called **Narration**.

## Ledger

The ledger is the *principal book of accounting system*. It contains different accounts where transactions relating to that account are recorded. *A ledger is the collection of all the accounts.*

### Posting

The process of transferring journal entry to individual accounts is called posting.

### Utility of ledger

A ledger is very useful and is utmost importance in the organisation. The net result of all transactions in respect of a particular account on a given date can be ascertained only from the ledger.

***Distinction between Journal and Ledger***

1. The Journal is the *book of first entry (original entry)* ; the ledger is *the book of second entry.*
2. The Journal is the book for *chronological record* ; the ledger is the book for *analytical record.*
3. The Journal, as book of source entry, gets greater importance as *legal evidence than the ledger.*
4. *Transaction* is the basis of classification of data within the Journal ; *Account* is the basis of classification of data within the ledger.
5. Process of recording in the Journal is called *Journalising* ; the process of recording in the ledger is known as *Posting.*

***Classification of Ledger Accounts***

1. **Permanent accounts** : Assets, liabilities and capital accounts are comes under the permanent accounts. All permanent accounts are *balanced* and carried forward to the next accounting period. They appears in the balance sheet.
2. **Temporary accounts** : All revenue and expense accounts are temporary accounts. They are *closed* at the end of the accounting period by transferring them to the trading and profit and loss account.

**Tips for posting in Ledger account**

1. Write the name of account debited in the journal entry.
2. Draw the format of ledger account

| Date | Particulars | J.F. | Amount ₹ | Date | Particulars | J.F. | Amount ₹ |
|---|---|---|---|---|---|---|---|
| | | | | | | | |

3. Enter the date of transaction in the **date column** on the debit side.
4. In the '**Particulars**' column, write the other aspect(credit aspect) of the transaction.
5. Enter the page number of the ledger in the **L.F.** column.
6. Enter the relevant amount in the amount column on the debit side.
7. Follow the same procedure for posting the account credited in the journal entry.

# Chapter - 4

## Recording of Transactions - II

For quick, efficient and accurate recording of business transactions, Journal is sub-divided into special journals. These special journals are also called *day books or subsidiary books.* Transactions that cannot be recorded in any special journal are recorded in journal called the *Journal Proper.*

**Advantages Special Journals**

1. Special journals are *economical* to use.
2. These make *division of labour* possible in accounting work.

**Important Special Journals**

1. Cash Book
2. Purchases Book
3. Purchases Return (Return Outwards) Book
4. Sales Book
5. Sales Return (Return Inwards) Book
6. Journal Proper

**1.Cash Book**

Cash book is a book in which all transactions relating to cash receipts and cash payments are recorded. It serves the purpose of both journal as well as the ledger(cash) account. It is also called the *book of original entry*. When cash book is maintained, transactions of cash are not recorded in the journal, and no separate account for cash or bank is required in the ledger.

***Types of Cash Book***

***1.Single Column Cash Book***

A cash book which contains only one column for amount on both sides is called a single column cash book or simple cash book.

**Format of Single column cash book**

**Dr.** **Cr.**

| *Date* | *Particulars* | *L.F* | *Amount ₹* | | *Date* | *Particulars* | *L.F.* | *Amount ₹* |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | | |

# സിംഗിൾ കോളം ക്യാഷ് ബുക്ക് തയ്യാറാക്കുന്ന വിധം

1 . സിംഗിൾ കോളം ക്യാഷ് ബുക്കിന്റെ ഫോർമാറ്റ് വരയ്ക്കുക.

**Dr.** **Cr.**

| *Date* | *Particulars* | *L.F* | *Amount ₹* | | *Date* | *Particulars* | *L.F.* | *Amount ₹* |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | | |

2 .തന്നിരിക്കുന്ന ഇടപാടുകളിൽ ക്യാഷ് സ്വീകരിക്കുകയാണോ കൊടുക്കുകയാണോ എന്ന മനസ്സിലാക്കുക .

3 .ക്യാഷ് സ്വീകരിക്കുകയാണെങ്കിൽ **Receipts** സൈഡിൽ ആണ് കാണിക്കേണ്ടത്.

4 . തീയതി  കോളത്തിൽ ഇടപാടുകൾ നടന്ന തീയതി രേഖപ്പെടുത്തുക.

5 .ക്യാഷ്  സ്വീകരിച്ച അക്കൗണ്ടിന്റെ പേര് **Receipts** കോളത്തിൽ എഴുതുക.

6 .ഇടപാടിൽ നിന്നും കിട്ടിയ തുക **Amount** കോളത്തിൽ രേഖപ്പെടുത്തുക.

7 ക്യാഷ് കൊടുക്കുമ്പോൾ **Payments** സൈഡിൽ എഴുതുക.

8 പണം കൊടുത്ത തീയതി **Payments** സൈഡിൽ **(Date Column)**രേഖപ്പെടുത്തുക.

9 ക്യാഷ് കൊടുത്ത അക്കൗണ്ടിന്റെ പേര് **Payments** കോളത്തിൽ എഴുതുക.

10 കൊടുത്ത തുക **Amount** കോളത്തിൽ രേഖപ്പെടുത്തുക.

11 ഡെബിറ്റ് സൈഡ് ടോട്ടൽ ചെയ്യുക.

12 ക്രെഡിറ്റ് സൈഡ് ടോട്ടൽ ചെയ്യുക.

13 ഡെബിറ്റ് ടോട്ടലും ക്രെഡിറ്റ് ടോട്ടാലും തമ്മിലുള്ള വ്യത്യാസം കണ്ടുപിടിക്കുക..

14 .ക്യാഷ് ബുക്കിന്റെ ഡെബിറ്റ് സൈഡും ക്രെഡിറ്റ് സൈഡും തമ്മിലുള്ള വ്യത്യാസം, **Payments** സൈഡിൽ **Balance c/d** എന്ന് രേഖപ്പെടുത്തുക. അതിനു ശേഷം വ്യത്യാസം വന്ന തുക **Amount** കോളത്തിൽ കാണിയ്ക്കുക.

15 അടുത്ത മാസം ഒന്നാം തീയതി **Receipts** സൈഡിൽ മുന്നിരിപ്പ് തുക കാണിയ്ക്കുക.

14.06.2021

## *2. Double Column Cash Book*

A cash book with two amount columns i.e. cash and bank on both sides is called a double column cash book.

### *Contra Entries*

The entries that affect the debit and credit sides of the cash book are called contra entries. Examples of such transactions are :

1. Cash or cheque deposited into bank
2. Withdrawal from bank for business use

**Format of Double column cash book**

**Cash Book**

**Dr.** **Cr.**

| Date | Particulars | L. F. | Cash ₹ | Bank ₹ | Date | Particulars | L F | Cash ₹ | Bank ₹ |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | |

## ഡബിൾ കോളം ക്യാഷ് ബുക്ക് തയ്യാറാക്കുന്ന വിധം

**1** ഡബിൾ കോളം ക്യാഷ് ബുക്കിന്റെ ഫോർമാറ്റ് വരയ്ക്കുക .

**Dr.** **Cash book**
**Cr.**

| Date | Particulars | L. F. | Cash ₹ | Bank ₹ | Date | Particulars | L F | Cash ₹ | Bank ₹ |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | |

**2** ക്യാഷ് സ്വീകരിക്കുകയാണെങ്കിൽ ഡെബിറ്റ് സൈഡിൽ ക്യാഷ് കോളത്തിൽ കാണിയ്ക്കുക.. തീയതി കോളത്തിൽ ഇടപാട് നടന്ന തീയതി എഴുതുക. റെസിപ്റ്റ്സ് കോളത്തിൽ ക്യാഷ് സ്വീകരിച്ച അക്കൗണ്ടിന്റെ പേര് എഴുതുക.

**3** ക്യാഷ് കൊടുക്കുക ആണെങ്കിൽ ക്രെഡിറ്റ് സൈഡിൽ ക്യാഷ് കോളംത്തിൽ കാണിയ്ക്കുക. തീയതി കോളത്തിൽ ഇടപാട് നടന്ന തീയതി എഴുതുക.. **Payments** കോളത്തിൽ ക്യാഷ് കൊടുത്ത അക്കൗണ്ടിന്റെ പേര് എഴുതുക.

**4 ക്യാഷ് കോളം ബാലൻസ് ചെയ്യുക (ഡെബിറ്റ് ടോട്ടൽ -ക്രെഡിറ്റ് ടോട്ടൽ). ക്യാഷ് ബാലൻസിന്റെ നേരെ Payments സൈഡിൽ Balance c/d എന്നെഴുതുക .**

**5 ബാങ്ക് കോളം ബാലൻസ് ചെയ്യുക(ഡെബിറ്റ് ടോട്ടൽ - ക്രെഡിറ്റ് ടോട്ടൽ). ഡെബിറ്റ് ബാലൻസ്(ഡെബിറ്റ് ടോട്ടൽ ക്രെഡിറ്റ് ടോട്ടലിനെക്കഴിഞ്ഞും കൂടുതൽ ആണെങ്കിൽ) ആണെങ്കിൽ Payments കോളത്തിൽ Balance c/d എഴുതുക.. ക്രെഡിറ്റ് ബാലൻസ്(ക്രെഡിറ്റ് ടോട്ടൽ ഡെബിറ്റ് ടോട്ടലിനെക്കഴിഞ്ഞും കൂടുതൽ ആണെങ്കിൽ) ആണെങ്കിൽ Receipts കോളത്തിൽ Balance c/d എഴുതുക..**

**6 നീക്കിയിരിപ്പ് ക്യാഷ് / ബാങ്ക് ബാലൻസ്, അടുത്ത കാലയളവിൽ മുന്നിരിപ്പ് തുക ആയി എടുത്തെഴുതുക.. നീക്കിയിരിപ്പ് തുക ക്രെഡിറ്റ് സൈഡിലാണ് കാണിച്ചതെങ്കിൽ മുന്നിരിപ്പ് തുക (Balance b/d) ഡെബിറ്റ് സൈഡിലും, നേരെ മറിച്ച് നീക്കിയിരിപ്പ് തുക ഡെബിറ്റ് സൈഡിലാണ് കാണിച്ചതെങ്കിൽ മുന്നിരിപ്പ് തുക ക്രെഡിറ്റ് സൈഡിലാണ്(Balance b/d) കാണിക്കേണ്ടത്.**

### *3.Petty Cash Book*

### *(Imprest system)*

It is a book used to record *small cash payments*. Under Imprest system, a fixed amount is given to the petty cashier at the beginning of a certain period. This amount is called *imprest amount*. The petty cashier goes on making all small payments out of this imprest amount. At the end of the period he gets reimbursement of the amount spend from the main cashier.

**പെറ്റി ക്യാഷ് ബുക്ക് തയ്യാറാക്കുന്ന വിധം**

1 പെറ്റി ക്യാഷ് ബുക്ക് വരയ്ക്കുക.

2 ഒന്നാമത്തെ കോളംത്തിൽ ചീഫ് ക്യാഷിറിൽ നിന്നും ലഭിച്ച തുക എഴുതുക.

3 രണ്ടാമത്തെ കോളംത്തിൽ ഇടപാട് നടന്ന തീയതി രേഖപ്പെടുത്തുക.

4 മൂന്നാമത്തെ കോളംത്തിൽ (Particulars) വരവിനം / ചെലവിനം കാണിയ്ക്കുക.

5 അടുത്ത കോളംത്തിൽ വൗച്ചർ നമ്പർ രേഖപ്പെടുത്തുക.

6 അടുത്ത കോളംത്തിൽ ചെലവാക്കിയ തുക കാണിയ്ക്കുക.

7 .തുടർന്ന് വരുന്ന കോളംങ്ങളിൽ ചെലവാക്കിയ തുക ഇനം തിരിച് കാണിയ്ക്കുക.

8 . ആകെ ചെലവാക്കിയ തുക കണ്ടെത്തുക..

9. ഓരോ ഇനങ്ങളിലും അകെ ചെലവാക്കിയ തുക കണ്ടുപിടിയ്ക്കുക.

10 .അകെ സ്വീകരിച്ച തുക ഏറ്റവും താഴെ ആയി ഒന്നാമത്തെ കോളംത്തിലും അഞ്ചാമത്തെ കോളംത്തിലുമായി എഴുതുക.

11 .ആകെ സ്വീകരിച്ച തുകയിൽ നിന്നും അകെ ചെലവാക്കിയ തുക കുറയ്ക്കുക. ഇപ്പോൾ ലഭിച്ച തുക നീക്കിയിരിപ്പായി (ബാലൻസ് സി/ഡി) അഞ്ചാമത്തെ കോളംത്തിൽ കാണിയ്ക്കുക.

12 .നേരത്തെ കാണിച്ച നീക്കിയിരിപ്പ് തുക, മുന്നിരിപ്പ് തുക (ബാലൻസ് ബി/ഡി)ആയി അടുത്ത മാസം ഒന്നാം തീയതി ഒന്നാമത്തെ കോളംത്തിൽ കാണിയ്ക്കുക.

### 2.Purchases Book

All *credit purchases of goods* are recorded in the *purchases journal*. *Cash purchases* are recorded in the *cash book*. *Other credit purchases such as purchases of office equipment, furniture, building, etc. are recorded in the journal proper.*

*Format of Purchases journal*

| Date | Invoice No. | Name of Supplier (Account to be credited) | L.F. | Amount ₹ |
|---|---|---|---|---|
| | | | | |

**പർച്ചേസ് ബുക്ക് തയ്യാറാക്കുന്ന വിധം**

**1 .ആദ്യമായി പർച്ചേസ് ബുക്കിന്റെ ഫോർമാറ്റ് വരയ്ക്കുക.**

*Purchases journal*

| Date | Invoice No. | Name of Supplier (Account to be credited) | L.F. | Amount ₹ |
|---|---|---|---|---|
| | | | | |

**2 .ഇടപാടുകൾ നടന്ന തീയതി Date കോളത്തിൽ എഴുതുക.**

**3 .സാധനം വാങ്ങിച്ചപ്പോൾ കിട്ടിയ ബില്ലിന്റെ നമ്പർ Invoice number കോളത്തിൽ എഴുതുക.**

**4 .സ്ഥാപനത്തിലേക്ക് സാധനങ്ങൾ കടമായി നൽകിയ വ്യക്തികളുടെയോ സ്ഥാപനങ്ങളുടെയോ പേര് Name of supplier കോളത്തിലെഴുതുക. ഇതിന്റെ താഴെയായി വാങ്ങിച്ച സാധനങ്ങളുടെ details കാണിയ്ക്കുക.**

**5 . ഇത് ലെഡ്ജറിൽ പോസ്റ്റ് ചെയ്തിരിക്കുന്ന പേജ് നമ്പരാണ് L .F . കോളത്തിൽ എഴുതേണ്ടത്.**

**6. വാങ്ങിച്ച സാധനങ്ങളുടെ അകെ തുക Amount കോളത്തിൽ കാണിയ്ക്കുക.**

**7 .Amount column ടോട്ടൽ ചെയ്യുക.**

### 3.Sales Book

Sales journal is used for recording *credits sales* of goods. *Cash sales* are recorded in the *cash book*.

*Format of Sales Book*

| Date | Invoice No. | Name of customer (Account to be debited) | L.F. | Amount ₹ |
|---|---|---|---|---|
| | | | | |

## *സെയിൽസ് ബുക്ക് തയ്യാറാക്കുന്ന വിധം*

1 .ആദ്യമായി സെയിൽസ് ബുക്കിന്റെ ഫോർമാറ്റ് വരയ്ക്കുക.

2 .വില്പന നടന്ന തീയതി Date കോളത്തിൽ എഴുതുക.

3 .ബില്ലിന്റെ നമ്പർ ഇൻവോയ്സ് നമ്പർ കോളത്തിൽ കാണിയ്ക്കുക.

4 . ആർക്കാണോ ഉൽപ്പന്നങ്ങൾ കടമായി വിറ്റിരിക്കുന്നത് അയാളുടെ/സ്ഥാപനത്തിന്റെ പേര് Name of customer കോളത്തിൽ കാണിയ്ക്കുക. അതിന്റെ തൊട്ടു താഴെയായി വില്പനയുടെ വിശദാംശങ്ങൾ കാണിയ്ക്കുക.

5 . ലെഡ്ജറിൽ പോസ്റ്റ് ചെയ്യുന്ന പേജ് നമ്പർ L.F. കോളത്തിൽ കാണിയ്ക്കുക.

6 . കടമായിട്ട് വിറ്റ ഉൽപ്പന്നങ്ങളുടെ അകെ തുക Amount കോളത്തിൽ കാണിയ്ക്കുക.

7 തുടർന്ന് Amount കോളം ടോട്ടൽ ചെയ്യുക.

5

# Bank Reconciliation Statement

A bank reconciliation statement is a statement prepared to reconcile the bank balances as per cash book with the balance as per pass book or bank statement showing the difference between the two accounts. *Bank reconciliation statement is prepared by the customer of a bank/trader/depositor.*

**Causes of differences**

The differences between the cash book and the bank passbook is caused by :

I. Timing differences on recording the transactions.

II. Errors made by the business or by the bank

**I. *Timing differences***

The factors affecting time gap includes :

1. Cheques issued by the firm but not yet presented for payment
2. Cheques paid into the bank but not yet collected
3. Direct debits made by the bank on behalf of the customer
4. Amounts directly deposited in the bank account
5. Interest and dividends collected by the bank
6. Direct payments made by the bank on behalf of the customers
7. Cheques deposited/bills discounted dishonoured

**II. *Differences caused by Errors***

1. Errors committed in recording transaction by the firm
2. Errors committed in recording transactions by the bank

6

# Trial Balance and Rectification of Errors

## Meaning of Trial Balance

A trial balance is a statement showing the balances of all ledger accounts with a view to verify the *arithmetical accuracy* of books of accounts.

***Format of trial balance***

**Trial Balance of ..........**

**As on March 31, 2021**

| Account Title | L.F. | Debit Balance ₹ | Credit Balance ₹ |
|---|---|---|---|
| | | | |
| **Total** | | xxxx ================ | xxxx ================ |

## Objectives of Preparing the Trial Balance

The trial balance is prepared to fulfil the following objectives :

1. ***To Ascertain the Arithmetical Accuracy of Ledger Accounts*** : A trial balance is prepared to ascertain the arithmetical accuracy of the ledger accounts.
2. ***To help in locating errors*** : When a trial balance does not tally, it signifies that there are some errors in the books of accounts and it should be located and rectified.
3. ***To help in the preparation of the financial statements*** : The availability of a tallied trial balance facilitates the preparation of financial statements. i.e. trading and profit and loss account and the balance sheet.

14.06.2021

**Preparation of Trial balance**

There are two methods of preparing a trial balance. They are :

1. ***Total method*** : Under this method, total of each side in the ledger(debit and credit) is ascertained separately and shown in the trial balance in the respective columns.
2. ***Balance method*** : Under this method, trial balance is prepared by showing the balances of all ledger accounts,

# Chapters 7 & 8

# Financial Statements – I & II

## Financial Statements

The firm usually prepares the following financial statements :

1. Trading and Profit and Loss Account
2. Balance sheet

### 1. Trading and Profit and Loss Account/Income statement

Trading and Profit and Loss account is *prepared to determine the profit earned or loss sustained by the business enterprise* during the accounting period. It shows the financial performance of the business.

***Relevant Items in Trading and Profit and Loss Account***

**Items on the debit side of trading account**

*1.* ***Opening stock*** : It is the stock of goods in hand at the beginning of the accounting year.

*2.* ***Purchases less returns*** : Goods, which have been bought for resale appears as *purchases* on the debit side of the trading account. Goods which are returned to suppliers is termed as *purchases return*. It is shown by way of deduction from purchases and the computed amount is known as *Net purchases.*

*3.* ***Direct Expenses*** : These are the amounts spent directly on the purchase/production of goods. The following are some of the direct expenses.

(a) ***Wages*** : Wages refer to remuneration paid to workers who are directly engaged in factory.

***(b) Carriage Inwards/Freight inwards*** : These expenses are items of transport expenses, which are incurred on bringing materials/ goods purchased to the place of business.

***(c) Fuel/Water/Power /Gas*** : These items are used in the production process.

***(d) Packaging material and Packing charges*** : Cost of packaging material used in the product are direct expenses.

***Items on the credit side of trading account***

1. **Sales less returns :** Sales includes cash sales and credit sales. Goods returned by customers are called return inwards and are shown as deduction from total sales and computed amount is known as net sales.
2. ***Closing stock*** : Closing stock is *the amount of goods remaining unsold at the end of the accounting year.*

***Items on the debit side of the profit and loss account***

1. ***Salaries*** : These include salaries paid to the administration, godown and warehouse staff.
2. ***Rent paid*** : These include office and godown rent, municipal rates and taxes etc.
3. ***Interest paid*** : Interest paid on loans, bank overdraft,etc.
4. ***Commission paid*** : Commission paid or payable on business transactions undertaken through the agents is an expense and is debited to profit and loss account.
5. ***Repairs*** : Repairs relating to plant and machinery, furniture, etc.
6. ***Miscellaneous/Sundry expenses*** : Certain expenses being of small amount clubbed together and are called miscellaneous expenses / trade expenses / sundry expenses.

**Items of the credit side of Profit and Loss A/c**

1. ***Other incomes*** : Gains and incomes other than sales like rent received, dividend received, interest received, discount received, commission received, etc. Are recorded on the credit side of the profit and loss account.

**Closing Entries**

1. For transferring opening stock, purchases account and direct expenses to the debit side of trading account.

   Trading A/c Dr.

   To Opening stock A/c

   To Purchases A/c

   To Wages A/c

   To Carriage inwards A/c

   To All other direct expenses A/c

2. The purchases returns / return outwards are closed by transferring its balance to the purchases account. The entry is :

   Purchases return A/c Dr.

   To Purchases A/c

3. For the amount of sales.

   Sales A/c Dr.

   To Sales return A/c

4. The sales returns/return inwards account is closed by transferring the balance to the sales account. The entry is :

   Sales A/c Dr.

   To Sales return A/c

5. For transferring gross profit to Profit and Loss A/c.

   Trading A/c Dr.

   To Profit and Loss A/c

6. If it is gross loss, the entry is :

   Profit and Loss A/c Dr.

   To Trading A/c

7. For transferring the items of expenses and losses to the profit and loss account.

   Profit and Loss Account Dr.

   To Each item of expense or loss

8. For transferring the items of incomes and gains to profit and loss account

   Each item of income and gain Dr.

   To Profit and Loss A/c

9. For transferring the net profit to capital

   Profit and Loss A/c Dr.

   To Capital Account

10. For transferring any net loss to capital, the entry is

    Capital Account Dr.

    To Profit and Loss Account

**Concept of Gross Profit and Net Profit**

***Trading Account***

The trading account ascertains the result from basic operational activities of the business.

*Calculation of Gross Profit*

Gross Profit = Net sales - Cost of goods sold

Net sales = Total sales – Sales return

Cost of goods sold = Opening stock + Net purchases + Direct expenses - Closing stock

Net purchase = Total purchase – Purchase returns

### *Profit and Loss A/c*

Profit and Loss Account is an account prepared to find out the net profit earned or net loss incurred by a business.

Net profit = Gross Profit + Other incomes – Indirect expenses

### *Format of Trading and Profit and Loss Account*

**Trading and Profit and Loss Account**

**for the year ended March 31, 2021**

**Dr.** **Cr.**

| ***Expenses/Losses*** | **Amount ₹** | **Revenues** | **Amount ₹** |
|---|---|---|---|
| Opening stock | xxxx | Sales xxxx | |
| Purchases xxxx | | Less : Returns xxx | |
| Less: Returns xxx | | ------- | Xxxx |
| --------- | xxxx | Closing stock | xxxx |
| Wages | xxxx | | |
| Carriage/Freight inwards | xxxx | | |
| Gross Profit c/d | xxxx | | |
| | xxxxx | | xxxxx |
| Rent/rates and taxes | xxxx | Gross Profit b/d | xxxx |
| Salaries | xxxx | Commission received | xxxx |
| Repairs and renewals | xxxx | Discount received | xxxx |
| Printing and stationery | xxxx | Rent received | xxxx |
| Postage | xxxx | Interest, dividend etc. | xxxx |
| Advertising | xxxx | | |
| Insurance | xxxx | | |
| Audit fee | xxxx | | |
| Bank charges | xxxx | | |
| Commission | xxxx | | |
| Carriage outwards | xxxx | | |
| Discount allowed | xxxx | | |
| Bad debts | xxxx | | |
| Depreciation | xxxx | | |
| Net Profit(Transferred to Capital Account) | xxxx | | |
| | xxxxx | | xxxxx |
| | =========== | | =========== |

# Balance Sheet

The balance sheet is a statement prepared for showing the financial position of the business.

*Format of Balance sheet*

**Balance sheet**

**As on ---------------**

| Liabilities | | Amount ₹ | Assets | Amount ₹ |
|---|---|---|---|---|
| Bank overdraft | | xxx | Cash in hand | xxx |
| Sundry creditors | | xxx | Cash at bank | xxx |
| Bills payable | | xxx | Bills receivable | xxx |
| Outstanding expenses | | xxx | Investment | xxx |
| Loans | | xxx | Sundry debtors | xxx |
| Capital | xxx | | Closing stock | xxx |
| Add : Net profit | xxx | | Prepaid expenses | xxx |
| Add : Interest on capital | xxx | | Furniture | xxx |
| | ----- | | Machinery | xxx |
| | xxx | | Premises | xxx |
| Less : Drawings | xx | | Goodwill | xxx |
| | ------ | xxx | | |
| | | xxxx | | xxxx |

## Treatment of adjustments in the preparation of Financial Statements

| Adjustment | Treatment in Trading and Profit and Loss A/c | Treatment in Balance Sheet |
|---|---|---|
| **1.Closing stock** | Shown on the *credit side* of Trading A/c | Shown on the *assets side* |
| **2.Outstanding expenses** | *Added* to the respective expense on the *debit side* | Shown on the *liabilities side* |
| **3.Prepaid/ Unexpired expenses** | *Deducted* from the respective expense on the *debit side* | Shows on the *assets side* |
| **4.Accrued Income (Income earned but not received** | *Added* to the respective income on the *credit side.* | Shown on the *assets side.* |
| **5.Income received in advance** | *Deducted* from the respective income on the *credit side.* | Shown on the *liabilities side.* |
| **6.Depreciation** | Shown on the *debit side* | *Deducted* from the value of *asset* |

## ഫിനാൻഷ്യൽ സ്റ്റേറ്റ്മെന്റ്സ് തയ്യാറാക്കൽ

## (Trading and Profit and loss A/c and Balance sheet)

- ട്രേഡിങ് ആൻഡ് പ്രോഫിറ്റ് ആൻഡ് ലോസ് അക്കൗണ്ടിന്റെ ഫോർമാറ്റ് വരയ്ക്കുക.
- ആദ്യമായി ഓപ്പണിങ് സ്റ്റോക്ക്(Opening stock) ഡെബിറ്റ് ചെയ്യുക.
- തുടർന്ന് Net Purchases(Purchases less Returns), Direct expenses മുതലായവ ഡെബിറ്റ് ചെയ്യുക .
- ക്രെഡിറ്റ് സൈഡിൽ Sales, Closing stock മുതലായവ കാണിയ്ക്കുക.
- ട്രേഡിങ്ങ് അക്കൗണ്ട് ബാലൻസ് ചെയ്യുക. ക്രെഡിറ്റ് ബാലൻസ് ആണ് കിട്ടുന്നതെങ്കിൽ ഗ്രോസ് പ്രോഫിറ്റ് ആയിരിക്കും. ഡെബിറ്റ് ബാലൻസ് ആണെങ്കിൽ ഗ്രോസ് ലോസ് ആയിരിക്കും.
- ഗ്രോസ് പ്രോഫിറ്റ് പ്രോഫിറ്റ് ആൻഡ് ലോസ് അക്കൗണ്ടിന്റെ ക്രെഡിറ്റ് സൈഡിൽ എടുത്തെഴുതുക(Gross Profit b/d) . ഗ്രോസ് ലോസ് ആണെങ്കിൽ ഡെബിറ്റ് സൈഡിൽ എടുത്തെഴുതുക(Gross Loss b/d) .
- ട്രേഡിങ് അക്കൗണ്ടിൽ രേഖപ്പെടുത്താത്ത എല്ലാ ചെലവുകളും(Indirect expenses) ഡെബിറ്റ് ചെയ്യുക.
- ട്രേഡിങ്ങ് അക്കൗണ്ടിൽ കാണിയ്ക്കാത്ത എല്ലാ വരുമാനങ്ങളും(Indirect incomes) ക്രെഡിറ്റ് ചെയ്യുക.
- പ്രോഫിറ്റ് ആൻഡ് ലോസ് അക്കൗണ്ട് ബാലൻസ് ചെയ്യുക .
- ബാലൻസ് ചെയ്യുമ്പോൾ കിട്ടുന്നത് ക്രെഡിറ്റ് ബാലൻസ് ആണെങ്കിൽ നെറ്റ് പ്രോഫിറ്റ്(Net profit transferred to capital A/c) ആയിരിക്കും.. നേരെമറിച്ച് , ഡെബിറ്റ് ബാലൻസ് ആണെങ്കിൽ നെറ്റ് ലോസ്(Net loss transferred to capital account) ആയിരിക്കും.
- തുടർന്ന് ബാലൻസ് ഷീറ്റ് വരയ്ക്കുക.
- എല്ലാ ബാധ്യതകളും(Liabilities and Capital) ‘ Liabilities' സൈഡിൽ കാണിയ്ക്കുക.
- എല്ലാ ആസ്തികളും ബാലൻസ് ഷീറ്റിന്റെ ‘Asset’ സൈഡിൽ കാണിയ്ക്കുക.
- ബാലൻസ് ഷീറ്റ് ടോട്ടൽ ചെയ്യുക. രണ്ടു സൈഡിലേയും(Liabilities and Assets) ടോട്ടൽ തുക തുല്യമാവണം.

## Chapter 9

# Computerised Accounting System

### Concept of Computerised Accounting System

A computerised accounting system(CAS) is an accounting information system that processes the financial transactions and events to produce reports as per user requirements.

### Comparison between Manual and Computerised Accounting

| Point of Difference | Manual Accounting | Computerised Accounting |
|---|---|---|
| ***1. Identifying*** | The transactions are identified on the basis of application of accounting principles. | In CAS also, the transactions are identified on the basis of accounting principles. |
| ***2.Recording*** | The recording of financial transactions is through the books of original entries. | Data content of such transactions is stored in a well-designed accounting database. |
| ***3.Classification*** | Transactions recorded in the books of original entry are further classified by posting into ledger accounts. | In order to produce ledger accounts, the stored transaction data is processed to appear as classified. |
| ***4.Summarising*** | The transactions are summarised to produce trial balance by ascertaining the balances of various accounts. | The generation of ledger accounts is not necessary condition for producing trial balance. |
| ***5.Adjusting entries*** | Adjusting entries are recorded to match the expenses of the accounting period with the revenues generated by them. | Journal vouchers are prepared and stored to follow the principle of cost matching revenue . |
| ***6.Financial statements*** | The preparation of financial statements pre-supposes the availability of trial balance. | The preparation of financial statements is independent of producing the trial balance. |
| ***7.Closing the Books*** | After the preparation of financial reports, the accountants make preparations for the next accounting period by posting of closing and reversing entries. | There is year-end processing to create and store opening balances of accounts in database. |

## Advantages of Computerised Accounting System

1. ***Speed*** **:** Accounting data is processed faster by using a computerised accounting system when compared to manual accounting.
2. ***Accuracy*** : The possibility of error is eliminated in a computerised accounting system.
3. ***Reliability*** : Computerised accounting system relies heavily on computers, they are relatively more reliable than manual accounting systems.
4. ***Up-to-Date Information*** :The accounting records, in a computerised accounting system are updated automatically as when accounting data is entered and stored.
5. ***Real Time User Interface*** : Most of the automated accounting systems are inter-linked through a network of computers. This facilitates the availability of information to various users at the same time on a real time basis.
6. ***Automated Document Production*** : Most of the computerised accounting systems have standardised, user defined format of accounting reports that are generated automatically.
7. ***Scalability*** : The computerised accounting systems are highly scalable.
8. ***Legibility*** : The data displayed on computer monitor is legible.
9. ***Efficiency*** : The computer based accounting systems ensure better use of resources and time.
10. ***MIS Reports*** : The computerised accounting system facilitates the real time production of management information reports, which will help management to monitor and control the business effectively.
11. ***Storage and Retrieval*** : The computerised accounting system allows the users to store data in a small amount of physical space. Besides, the system permits fast and accurate retrieval of data and information.
12. ***Motivation and Employees Interest*** : The computer system requires a specialised training of staff, which makes them feel more valued. This motivates them to develop interest in the job.

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**Published on 12.06.2021**