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## Basic Accounting

Father of Accounting - Luca Pacioli

### Meaning of Accounting

Accounting is the <sup>प्रक्रिया</sup> process of recording, classifying, summarizing and analyzing financial transactions of a business.

### Objective

1. To record Transactions.
2. To determine profit or loss.
3. To know the financial position.
4. To help in decision making.

### What is Accounting

- \* Accounting is used to maintain a systematic record of all the financial transaction in a book of Account.
- \* Accounting is important as it keeps a systematic record of organizations financial informations.



## Introduction

- > The main objective of every business <sup>(लक्ष्य)</sup> is to earn profit.
- > At the end of each year, every business wants to know how much profit they have earned or losses occurred, how much <sup>(सामान)</sup> stock they have in their warehouse <sup>(गोदाम)</sup>, how much <sup>(दायित्व)</sup> is business liabilities, how much is owned to them and by whom etc.
- > So many other such questions which a businessman <sup>(व्यवसायी)</sup> wants to know on a daily, monthly or annual bases.
- > In order to attain such information, <sup>(आवश्यक)</sup> it is essential to keep a complete and systematic <sup>(व्यवस्थित)</sup> record of each and every business transaction entered into during the year.

## Meaning of Accounting

Accounting is the process of identifying, recording, classifying, summarizing <sup>(संक्षेप)</sup>, interpreting and communicating <sup>(संचार)</sup> financial information of business to its users <sup>(उपयोगकर्ता)</sup> for judgement and decision making. <sup>(निर्णय)</sup>



## Definition of Accounting

According to American Institute of Certified public Accountants, “

“Accounting is the art of recording, classifying and summarizing in a significant manner and terms of money, transactions and events, which are in part atleast of financial character and interpreting the result thereof.”

## Function of Accounting

- Identifying
- Recording
- Classifying
- Summarizing
- Analysing
- Interpreting
- Communicating



## Identifying

Identifying the business transactions of a financial character from the source documents such as invoice, <sup>(अनुबंध)</sup> agreements, <sup>(लेख)</sup> cash, memos etc and measure them in term of money.

## Recording

The next function is Recording of Accounting is to keep a systematic record of all business transactions, which are identifying in <sup>(कालानुक्रमिक)</sup> chronological order of their occurrence in the journal or subsidiary book.

## Classifying

Classification of the record business transactions so as to group the transaction of similar type at one place that is in <sup>(स्थाना बंदी)</sup> ledger Accounts.

In order to verifying the arithmetical <sup>(संतुलन परीक्षण)</sup> accuracy of the accounts, trial balance is prepared.



## Summarizing

The classified information available from the Trial balance is used to prepare profit and loss account and balance sheet in a manner useful to the users of the Accounting information.

## Analysing

It establishes the relationship between the items of the profit and loss accounts and the balance sheet.

The purpose of Analysing is to identifying the financial strength and weakness of the business.

## Interpreting

It is concern with explaining the meaning and significance of the relationship so established by the analysis.

Interpretation should be useful to the user so as to enable them to take correct decision.

## Communicating

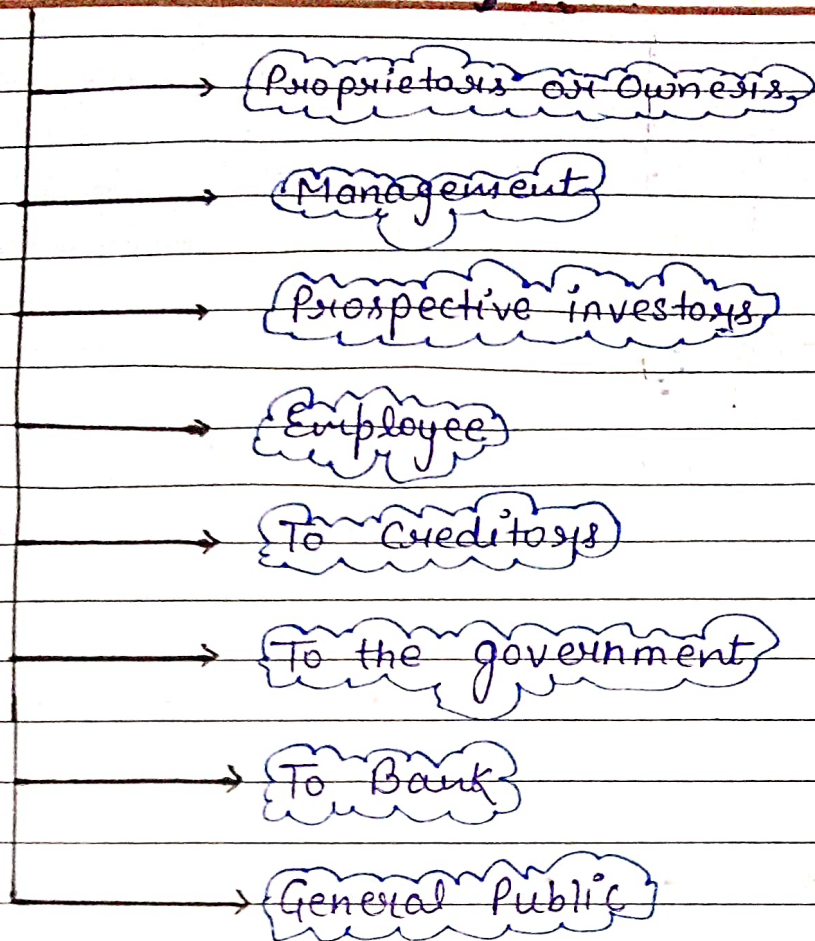
The results obtained from the summarized, analysed and interpreted information are communicated to the interested parties.



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## Various users of Accounting Information



## Proprietors or Owners

The owners of a business, who have invested capital are naturally interested in knowing the return they good get on their capital.

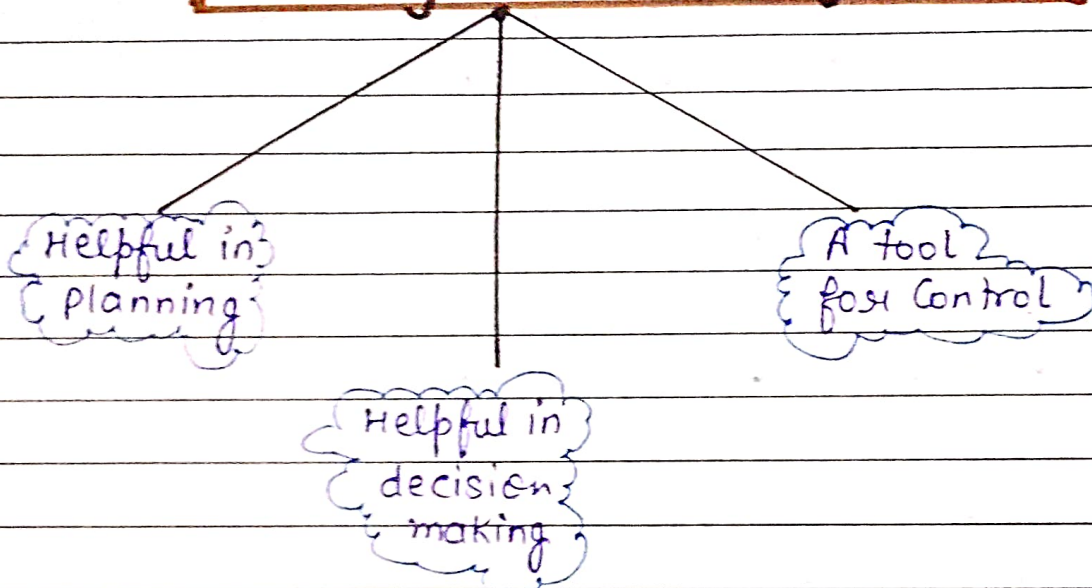
To know all these details the share holders (अंशदाता) or owners and proprietors are interested in Accounting information.



## Management

Management needs a lot of information for efficiently running of the business. All such information are provided by the Accounting which fulfills the following objectives:-

### Management Objective



### \* Helpful in planning

Management would like to know whether the sales are increasing or decreasing and also the speed of increase of the cost of production. (लागत) (उत्पादन)

### Helpful in decision making

Management has to take a number of decisions in the interest of business.  
ex- What should be selling price of the product?



- How much discount should be offered to the customers?
- Accounting provides all the information required for making such decision.

## A tools <sup>(उपकरण)</sup> For control

A trader <sup>(व्यापारी)</sup> which a sizeable business will have numerous assets that is cash, stock of Goods, furniture, machinery etc.

It is imperative that proper records to be maintain of the business.

## Prospective <sup>(संग्राहक)</sup> Investors <sup>(निवेशक)</sup>

Prospective or potential Investors require accounting information on the financial stability and <sup>(अतीत)</sup> the past and present earnings of an enterprise <sup>(अंग)</sup> to determine whether they should buy the shares or not.

## Employees <sup>(कर्मचारी)</sup>

The Employee of a concern would like to have accounting information about the financial stability of their concern so that they can have clear idea about the security of their jobs.



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## To Creditors

Creditors are the persons who have extend credit to the business. They are also interested in the financial statements.

## To the government

The government is interested in the financial statement of business enterprise on Account of taxation, labour and corporate laws.

## To Banks

Before providing loan to the business bank will judge the goodwill, solvency and profitability of business concerned.

## General Public

Even the General Public is interested in the financial statement of a concern to know its progress and its social contribution.

## Types of Accounting / Subfield of Accounting

Economic development and technological improvement have results in an increase in the scale of business operations. Increasing the scale of business operations and social awareness have made the management functions more and more complex.



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## Financial Accounting

It is process of identifying, measuring, recording, classifying, summarising, Analysing, interpreting and communicating the financial transactions.

## Cost Accounting

It is the process of accounting and controlling the cost of a product operation or function.

## Management Accounting

It is the art of analysis and interpretation and presentation of facts result and information revealed by financial accounting, cost accounting and other books and records kept by the business for the benefit of person.

## Tax Accounting

If accounts are prepared with a view to calculate income tax sales tax excise duty etc.



## Social Responsibilities Accounting

Since the business gets infra structure and other facilities from society. It has social responsibility towards the following: —

### Employees

It is the responsibility of employer to pay fair wage to them.

### Consumer

- > To provide Good quality product to consumer at affordable prices.
- > To provide free repair or replacement of goods.

### Share holders

- > To provide desired information about the company.
- > To provide dividend bonus and bonus shares

### Society

- > Provide Community centre.
- > Tree plantation, population control techniques be used.



## Human Resource Accounting

Now a days there is growing awareness among employers to consider their workers as useful asset.

## Basic Accounting Terms/Terminology

There are certain basic accounting terms which are generally used in the business world.

It is very essential to understand these terms as these terms have their specific meaning in Accounting and used to express financial Nature of the business. These terms are called Accounting Terminology.

They are as under column : —

1. Capital (धन) →

It is the amount invested by the owners in the business organization.

It may be brought in the form of cash or assets by the owner for the business organization.

$$\text{Capital} = \text{Assets} - \text{Liabilities}$$

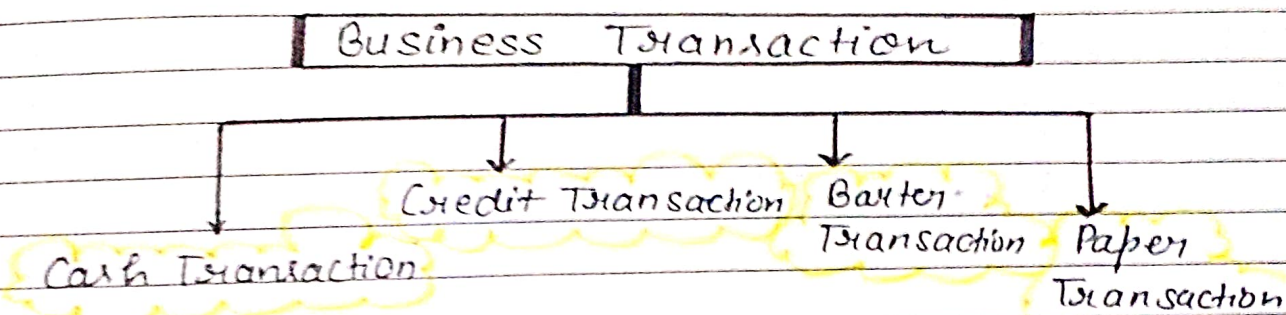


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## 2. Business Transaction

It is a kind of event involving some value between two or more entities. It includes dealing between two or more persons involving exchange of goods or services for a consideration.



### Cash Transaction

Cash Transaction are those transactions in which cash is involved in the exchange that is purchase of goods for cash, sale of goods for cash etc.

### Credit Transaction

Credit Transaction are those transactions in which cash is not paid immediately the settlement is to be postponed to a later date.

ex- Purchase of goods on credit, sale of goods on credit etc.



These transaction are also known as non-cash transaction.

### Banker Transaction

These are the transaction in which cash is not paid immediately, Settlement is postponed to a future date.

ex - Purchase of goods on credit, sale of goods on credit.

### Paper Transaction

These are the transaction where no actual cash or goods are exchanged. They exist only as book entries in account.

ex - Depreciation charged on assets, Bad debts written off.

### 3- Drawings

It refers to the amount withdrawn or the value of goods taken by the owner for personal use from the business. It also includes the personal or domestic expenses of the owner paid by the business.

(That is paid out of business money.)



## 4- Liabilities

These denote the amount which the business owners (other than the proprietors) on different amount such as credit or bill payable.

Bank overdraft, out standing expenses etc.

$$\text{Liabilities} = \text{Assets} - \text{Capital}$$

Liabilities are two types

- (1) long term liabilities
- (2) Short term liabilities

### Long term liabilities

It means those liabilities which do not become due for payment in one year.

They are also known as fix liabilities

For ex- long term loan, Deventures public deposits etc.



## Short term liabilities

It means those liabilities which are payable within a year from the date of balance sheet.

They are also known as current liabilities.

ex - Creditors, bill payable, short term loan, bank overdraft etc.

## Assets

These are the material things or properties of a business including the amount due to it from others.

ex - Land, Building, Machinery, Furniture, Stock of goods, cash, debtors, bill receivable etc. all are assets.

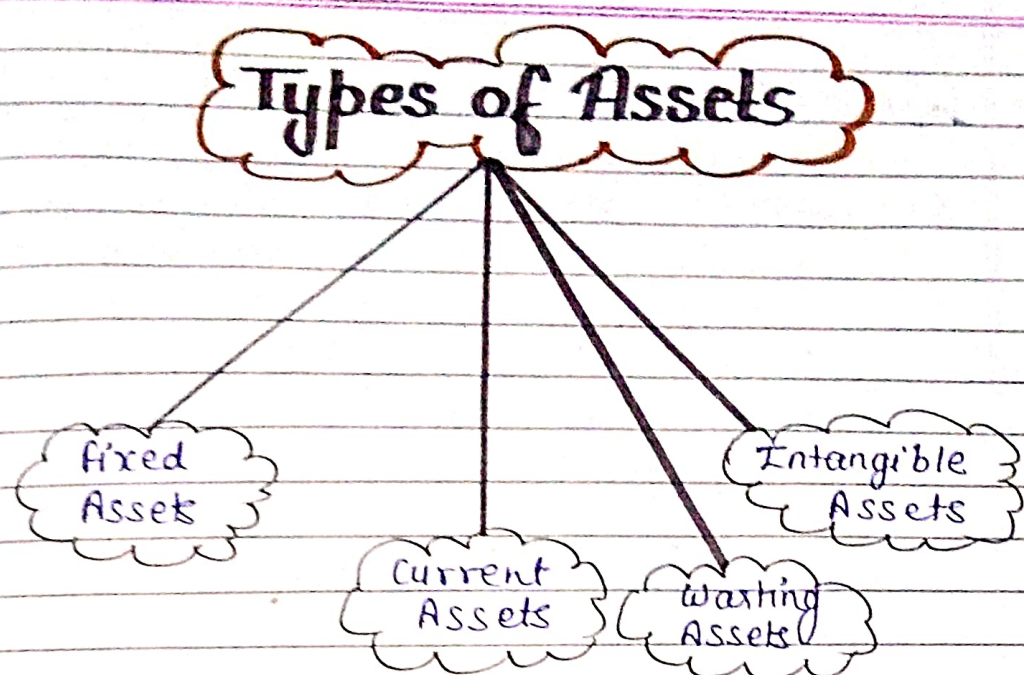
Definition of 'Assets'

According to Finney and Miller —

“

Assets are future economic benefits, the rights of which are owned or controlled by an organization or individual.”





## Fixed Assets

Fixed Assets are those Assets which are acquired for relatively long periods for carrying on the business. They are not meant for resale.

ex- land, building, Machinery, vehicle etc.

## Current Assets

Current Assets are those assets which are <sup>(अर्पित करना)</sup>acquired with the intention of converting them into cash during the normal business operations.

The term current assets includes cash, bank-balance, stock, bill receivable, debtors, pre-paid expenses etc.



## Wasting Assets

Any Assets that loses value overtime through working is known as wasting Assets.

Ex- oil, minerals, as well as <sup>हार्स</sup> (कम) depreciable item like machinery and vehicles.

## Intangible Assets

Intangible Assets are those assets which can not be seen and touched but feel.

ex- <sup>(स्वयं)</sup> Good will, Trade marks, Copyright, patents are some example of Intangible Assets.

(sales of goods)

## Revenue <sup>(राजस्व आय)</sup>

All incomes earn as a result of <sup>(संगति)</sup> operations of business are called revenue.

This income of <sup>पुनरावृत्ति</sup> recurring in nature.

Ex- Sale of goods and services, <sup>(लाभार्ज)</sup> earning from interest, dividend, rents, <sup>दलाली</sup> commission etc-

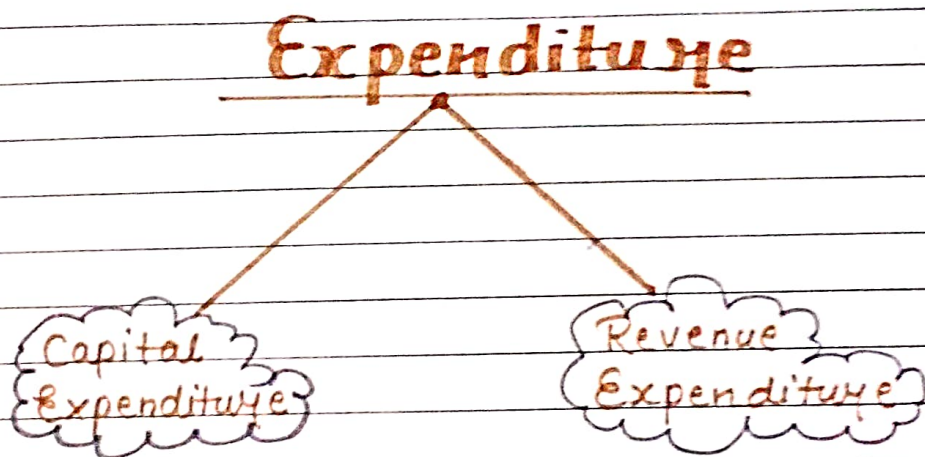


It is the <sup>(gross)</sup> receipts which increase capital on one hand and also the assets (cash) on other hand.

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## Expenditure <sup>(अर्थ)</sup>

Expenditure may be defined as the money spend on liability incurred for the value received in term of purchase of Assets, Goods of services etc.



### Capital Expenditure

All those expenditures which are incurred for acquiring fix asset <sup>संपत्ति</sup>.

like building, machinery, furniture etc. are termed as capital Expenditure.



## Revenue Expenditure

All those expenditure which are incurred in the current year and the benefit of which is also enjoyed by the firm during the same accounting period are called revenue expenditure.

Example - Purchase of goods and services etc.

All revenue expenditures are debited to trading account or profit or loss account.

## Expense

Expense is the cost of the use of things or services for the purpose of generating revenue.

It decrease the capital.

Expenses include the following -

- (1) Cost of sales
- (2) Depreciation

"That is decrease in the value of an assets on account of assets use in the business is also an expense."



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### (3) General Business Expenses

Such as salary, advertisement, commission, rent etc.

### Income

(Cost of goods)

Income is different from revenue. Amount received from the sale of goods is known as revenue.

Similarly, cost of goods sold is called expenses. Thus, surplus of revenue over expense is called income.

$$\text{Income} = \text{Revenue} - \text{Expenses}$$

### Loss

The term loss of using two sense in the first sense, it is opposite to income that is excess of expenses over revenue is called loss.

$$\text{Loss} = \text{Expenses} - \text{Revenue}$$



Loss reference to such activities of business which do not yield any benefits that is loss due to accidents etc.

## Gain

It is the profit that arise from transactions which are not ~~incidental~~<sup>incidental</sup> to business.

for ex -

Winning of court case, Appreciation in the value of land, building etc

## Goods

Goods include the things which are bought from to purpose of resale at a profit.

## Purchase Account

This account is meant for recording all purchases of goods.

## Sales Account

This account is meant for recording return of goods sold.



## Purchase Return Account

This account is meant for recording return of goods purchase.

## Sales Return Account

The account is meant for recording return of goods sale.

## Stock / Inventory

(13) It refers to goods held by a business for sale in the ordinary course of business or for consumption in the production of goods or services for sale.

## Opening Stock

It is the amount of stock at the beginning of the accounting year.

## Closing Stock

It is the amount of stock at the end of the accounting year.



## Debtors

The person to whom goods are sold on credit are known as debtors. In other words, one who owes debts or money is a debtor.

Ex - Goods are sold to Shyam he will pay the price in future. Then he is called a debtor because he owes the amount to the business. A debtor constitutes an asset for the business.

## Creditors

Those firms or persons from whom goods have been purchased on credit and payment has not been made to them so far are known as creditors.

Ex - Goods purchased from Ram for ₹ 8,000 but only 2,000 have been paid. Ram is still a creditor for ₹ 6,000.



## Book-Keeping (बही-खाता)

It is a part of accounting and is concerned with the recording of financial data in the books of accounts.

### Definition of book Keeping

“Book Keeping is an art of recording business dealing in a set of books.”

It is also called as science it involves daily base recording of business transactions of all types of organizations.

In a certain set of books regularly on the basis of some defined system for fulfillment of certain object.

### Objective of Book Keeping

1. To present earnings & funds.
2. To protect the assets.
3. To determine the tax liability of business?
4. To measure the existing system of control.



5. To show the financial effect by the recorded transactions.

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## Difference Between Book Keeping & Accounting

| Basis of Difference | Book Keeping                                                  | Accounting                                                                      |
|---------------------|---------------------------------------------------------------|---------------------------------------------------------------------------------|
| Transactions        | Recording of Transactions in the book of original entry       | To examine these recorded transactions in order to find out their accuracy.     |
| Posting             | To make posting in ledger                                     | To examine this posting in order to find out its accuracy.                      |
| decision making     | data provide by book Keeping not help in decision making.     | Decision making can be done using the information present in Accounting.        |
| Objective           | Record all financial transaction proper and systematic manner | Prepare financial Statement to communicate information.                         |
| Meaning             | Recording and classifying business transaction                | Recording, classifying, summarizing, analysing and interpreting financial data. |



|                |                                                  |                                                |
|----------------|--------------------------------------------------|------------------------------------------------|
| Stage          | Primary stage of accounting, base for accounting | Secondary stage for analyze and interpretation |
| Responsibility | Junior staff responsibility                      | Senior staff responsibility                    |
| Period         | Give day to day details                          | Use detail entire of year                      |

## Accounting Principles

### Meaning of Accounting principle —

In subject like mathematics physics and natural science certain sets principle & rules are to be followed necessary.

Similarly even a accountancy one has to observe and adopt certain rules, regulation, norms and standards is the principle of Accounting.

Such rules are necessary to be adopted while recording, interpreting and reporting the business transactions.

These rules are known as Accounting principles.



## Definition of Accounting Principle —

According to R. N. Anthony —

“The rules and conventions <sup>(सम्मेलन)</sup> of accounting are common by referred to as principles.”

OR

According to the American Institute of  
certified Public Accountants  
[AICPA]

The accounting principles as— “A general law or rules adopted or proffered as a guide to action a settled ground or basis of conduct or practice.”



# Accounting Cycle

## Transaction

Business events that can be measured in money.

Ex - Sale of goods, purchase of materials, payment of salary.

## Journal

- All Transaction are recorded data-wise in the journal using the double entry system.
- Each Transaction affect at least two accountants.

## Ledger

- Transaction from the journal are posted into individual ledger account.
- Helps in knowing the balance of each account.



## Trial Balance

- A statement showing all debit and credit balances of ledger accounts.
- Prepared to check the arithmetic accuracy.

## Trading Account

- Prepared to calculate Gross Profit or gross loss.
- Record direct expenses and sales / Purchase.

## Profit and Loss

- Prepared to calculate Net Profit or net loss.
- Record direct expenses and indirect incomes.

## Balance Sheet

- Final step of the Accounting Cycle.
- Shows Assets, Liabilities and Capital of the business on a particular date.

$$\text{Assets} = \text{Liabilities} + \text{Capital}$$



# Accounting Principles

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## PRINCIPLES OF ACCOUNTING

Fundamental principle  
of Accounting

(GAAP)  
Generally Accepted Accounting  
Principle.



## FUNDAMENTAL PRINCIPLE OF ACCOUNTING

- Business entity principle
- Money measurement Principle
- Cost Principle
- Dual Aspect Principle
- Going Concern Principle
- Accounting Period Principle
- Revenue Recognition Principle
- Matching Principle
- Full disclosure principle
- Consistency Principle
- Conservatism Principle
- Materiality principle



## Business entity Principle

The business is treated as a separate entity from its owner.

Example - Owner's personal expenses like house rent are not recorded in the business books.

## Money Measurement Principle

Only those transaction that can be expressed in monetary terms are recorded.

Example - Employee's honesty cannot be recorded but his salary can be.

## (मूल्य) Cost Principle (Historical cost)

Assets are recorded at their original purchase price, not at market value.

Example - A building bought for ₹10 lakh is shown at that cost even if its current value is ₹20 lakh.

## Dual Aspect Principle (Double Entry)

Every transaction have two effects - Debit & Credit

Ex - Purchase of furniture for cash → Furniture  
 A/c (Debit), Cash A/c (Credit)



## Going Concern Principle

The business is assumed to continue its operations for the foreseeable future.

Example — Assets are valued at cost not liquidation price.

## Accounting Period Principle

Accounts are prepared for a fixed period usually one year.

Example — Profit & Loss A/c prepared for April - March.

## Revenue Recognition Principle

Revenue is recognized when earned not when cash is received.

Example — Sale on credit is recorded as revenue at the time of sale.

## Matching Principle

Expenses must be matched with the revenues of the same period.

Example — March salaries are charged to March accounts even if paid in April.



## Full Disclosure Principle

All material facts must be disclosed in the financial statements.

example - Pending lawsuits should be mentioned in notes to account

## Consistency Principle

The same accounting method must be used each year to ensure comparability.

ex - If straight line depreciation is used it should not be changed frequently.

## Conservatism (Prudence) Principle

Anticipate losses but not profits. Do not overstate assets or income.

ex - Creating provision for doubtful debts.

## Materiality Principle

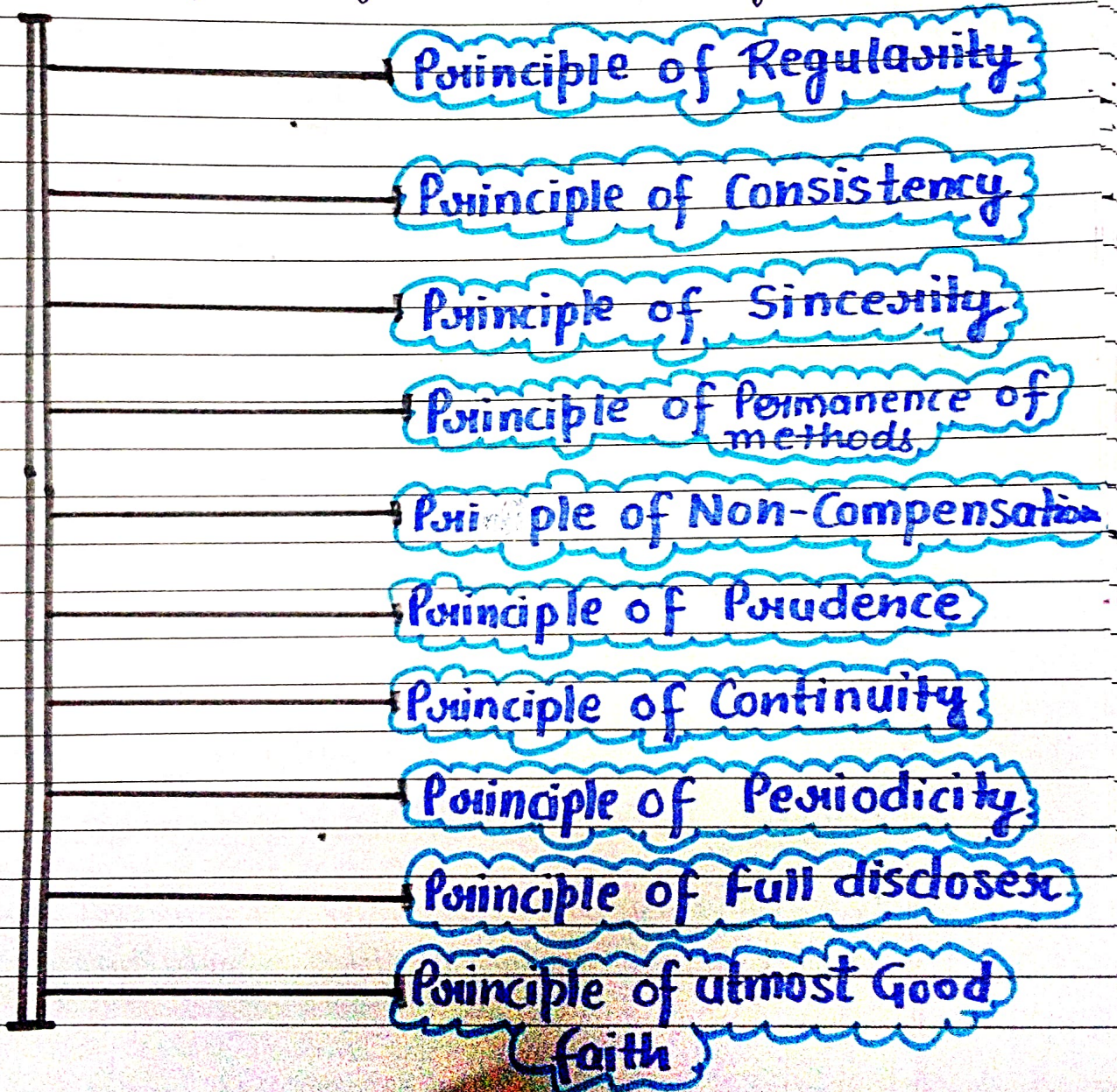
Only significant items that affect decision making should be recorded.

example - A stapler worth ₹ can be treated as expense instead of an asset.



## GAAP Principle (Generally Accepted Accounting Principle)

GAAP is a framework of rules and standard used for preparing financial statements. It insures uniformity, reliability and comparability in financial reporting.





### Principle of Regularity

Accounts must strictly follow GAAP rules.

### Principle of Consistency

The same accounting methods must be applied every period. Changes must be disclosed.

### Principle of Sincerity

Financial Statement must show the company's true financial performance.

### Principle of Permanence of Methods

Accounting methods must remain consistent to ensure comparability.

### Principle of non-compensation

Assets, liabilities, income and expenses must be reported separately without offsetting.

### Principle of Prudence

Do not overstate revenues or assets. Record expenses and liabilities carefully.



## Principle of Continuity

Business will continue operating in the future.

## Principle of Periodicity

Financial results must be reported for standard time periods (monthly, Quarterly, yearly)

## Principle of Full disclosure

All necessary and material information must be disclosed to stakeholders.

## Principle of utmost Good faith

Honesty and fairness must be maintained in recording financial data.

## Explain various books of Accounting

Book of Accounts

Journal

Ledger

① Subsidiary books

② Cash book

③ Purchase day book

④ Sales day book

⑤ Return outward books

⑥ Return inward books

⑦ Bill receivable books

⑧ Bill payable books

⑨ Journal proper

Single column cash book

Double column cash book

Three column cash book



## JOURNAL

A Journal is the book of original, chronological entry where financial transactions are first recorded in detail, providing an audit trails.

## LEDGER

A ledger is a principle book that classified and summarized these journal entries into individual Accounts, showing the analyzed balance for each account a process called posting.

## Subsidiary books -

The book in which transaction are recorded for first time is called a book of original entry.

Journal is a basic book in which day-to-day transaction are recorded in a systematic manner.



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## Cash Book

A cash book is a financial record for a business that chronologically documents all cash and bank transactions, acting as both a Journal and Ledger for cash items.

### CASH BOOK

| Date | Particular | L.F.<br>Ledger folio | Amount (Dr) | Amount<br>(Cr) |
|------|------------|----------------------|-------------|----------------|
|      |            |                      |             |                |
|      |            |                      |             |                |
|      |            |                      |             |                |
|      |            |                      |             |                |
|      |            |                      |             |                |
|      |            |                      |             |                |
|      |            |                      |             |                |
|      |            |                      |             |                |
|      |            |                      |             |                |

## Purchase day book

All credit purchase of goods are recorded in purchase book. Goods here means only those things in which the firm is dealing.

ex- A firm dealing in cloth purchases cloth, it will be treated as



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Purchase of goods and will be recorded in the purchase book.

## PURCHASE DAY BOOK

| Date | Particular | Invoice No. | L.F | Details (Rs) | (Amount) |
|------|------------|-------------|-----|--------------|----------|
|      |            |             |     |              |          |
|      |            |             |     |              |          |
|      |            |             |     |              |          |
|      |            |             |     |              |          |

## Sales Book

All credit sales of Goods are recorded in the sales book.

Cash sales will be recorded in the cash book not in the sale book.

Similarly, Credit sales of things other than the Goods in which the firm deals in all recorded in sale book

| Date | Particulars | Invoice No. | L.F | Details (Rs) | Amounts (Rs) |
|------|-------------|-------------|-----|--------------|--------------|
|      |             |             |     |              |              |
|      |             |             |     |              |              |
|      |             |             |     |              |              |
|      |             |             |     |              |              |



## Purchase Return Outwards Book

This book is use to record the written of such goods as where purchase on credit bases.

The book is also known as return outwards book.

Purchase Return Book

| Date | Particulars | Invoice No. | L.F | Details Rs | Amount Rs |
|------|-------------|-------------|-----|------------|-----------|
|      |             |             |     |            |           |
|      |             |             |     |            |           |

## Sales Return Inwards Book

Sales return or return inwards book is maintain to record the Goods returned by the purchaser that had been sold on credit.

A credit note is prepare on receipt of goods by the part to its customer.

Sales Return Book

| Date | Particulars | Invoice No. | L.F | Details (Rs) | Amount Rs |
|------|-------------|-------------|-----|--------------|-----------|
|      |             |             |     |              |           |
|      |             |             |     |              |           |



## Bill Receivable Books

The total of bills receivables books is posted on the debit side of the bill receivable accounts.

## Bill Payable Books

The bill payable books records all the transaction related to bills.

### Bill Receivable books

| Date | From whom received | Term | Due date | L.F | Amount |
|------|--------------------|------|----------|-----|--------|
|      |                    |      |          |     |        |
|      |                    |      |          |     |        |
|      |                    |      |          |     |        |
|      |                    |      |          |     |        |

### Bill Payable Books

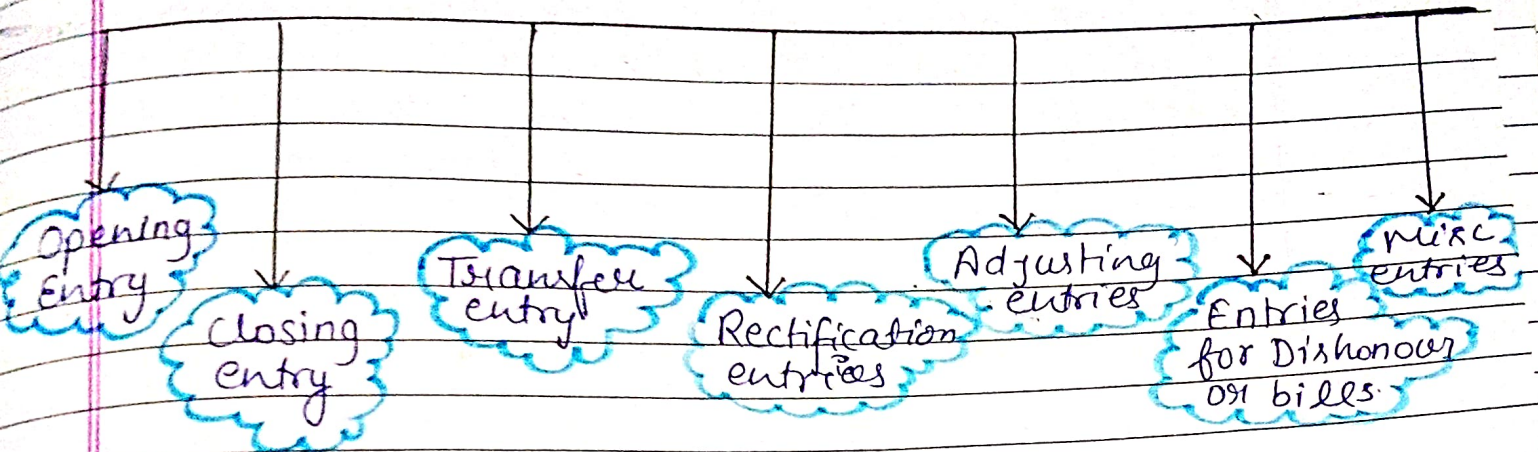
| Date | From whom Given | Term | Due date | L.F | Amount |
|------|-----------------|------|----------|-----|--------|
|      |                 |      |          |     |        |
|      |                 |      |          |     |        |
|      |                 |      |          |     |        |
|      |                 |      |          |     |        |
|      |                 |      |          |     |        |



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## JOURNAL PROPER



“ A residuary book in which only those transaction are recorded which cannot be recorded in any other book. Such book is called Journal proper.”

The following types of transaction are recorded in Journal proper

### Opening Entry

This entry is recorded at the beginning of a financial year to open the book by debiting assets and crediting liabilities and the capital appearing in the balance sheet of previous accounting period.



## Closing Entry

Closing entry are passed at the end of the year to close the accounts relating to expenses and revenues by transferring their balances to this account. The entries passed for this purpose are called closing entries.

## Transferring Entries

If an amount is to be transferred from one account to another such a transfer is also made through a journal entry only.

## Rectification Entry

Entries to rectify the errors in the books of original entries or of a ledger are recorded in the Journal proper.

## Adjusting Entries

At the time of preparation of final a/c's entries are needed to record certain unrecorded items such as closing stock, outstanding expenses, prepaid expenses, depreciation on fixed Assets interest on capital.



## Entries for dishonour of Bills—

If some one who accepted promissory note is not able to pay it on its due date a Journal entry is necessary to record the non-payment or dishonor.

## Misc Entries

Besides the above, the following entries also require journalizing —

a) Discount allowed and discount Received.

b) Effects of accidents such as loss of Property by fire/theft or any other reason.



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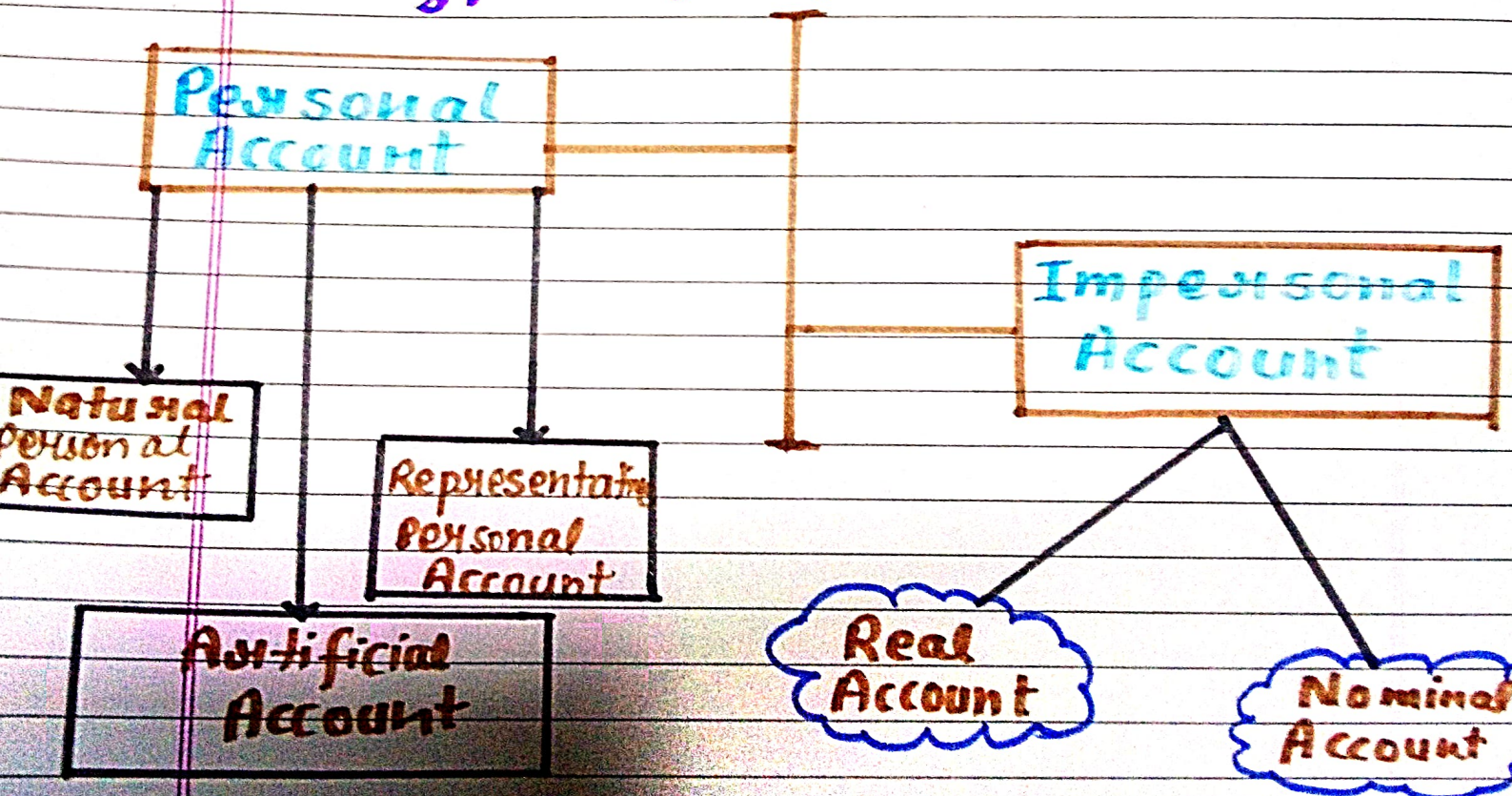
What are the types of Accounts?  
 Give the rules of Debit & Credit  
of the three types of accounts?

## Meaning of Accounts —

“An account is a summarized record of transaction at one place relating to a particular head.”

It records not only the amount of transactions but also their effect and direction.

## Types of Accounts





## Personal Account

Accounts which related to person that is individuals, firms, companies etc are considered as personal Account. It can be classified into three categories.

### Natural Personal Account

The term natural person means person who are creation of God.

Ex - Ram A/C, Kiran A/C, Upeksha A/C, Madhu A/C etc.

### Artificial Personal Account

These Accounts includes account of corporate bodies of institution.

Ex - A/C of Ram & Corporation,  
NIC Computer Center A/C.

### Representative personal Account

These are Accounts which represent a certain person or a group of person.

Ex - If rent is due to land <sup>owner</sup> lord,

An outstanding rent A/C will be opened in the books. Such accounts is regarded as representative A/C.



## Impersonal Account

Accounts which are not personal such as machinery A/C, Cash A/C, Rent A/C are term as impersonal A/C.

They are two types of A/C

### Real Account

Real Account are accounts which related to tangible or intangible asset of the firm.

Ex - Building, Cash, Stock, Debtors, Good will, Copy right, patents etc.

### Nominal Account

Accounts which are related to expenses of income of the firm are known as Nominal A/C.

Ex - Sallery, commission, purchase, Sales A/C etc.



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Lf > Ledger folio

Date \_\_\_\_\_  
Page \_\_\_\_\_

## Meaning of Debit (Dr.)

## And Credit (Cr.)

An Account is two parts. The left side of an account is debit and right side of an account is Credit.

| Date | Particular | L.F | Debit | Credit |
|------|------------|-----|-------|--------|
|      |            |     |       |        |
|      |            |     |       |        |

Thus debit means to write an amount on the left side and credit means to write amount on the right side.

## Golden Rules / Rules of Debit & Credit

|               | <u>Real A/C</u> | <u>Personal A/C</u> | <u>Nominal A/C</u>  |
|---------------|-----------------|---------------------|---------------------|
| <b>Debit</b>  | What comes in   | The Receiver        | All expenses & loss |
| <b>Credit</b> | What goes out   | The Given           | All income & profit |



**Applicable to**

This rule is applicable to all assets of the business

Like

- Cash
- Land & Building
- Plant & Machine
- Furniture & Fittings
- Trade marks etc.

This rule is applicable to persons, artificial persons & representative person

Like

- Aman
- Ram & Sons
- Happy's Store
- Outstanding Salaries
- Prepaid Expenses
- Bank A/c (SBI)

This rule is applicable to all expenses, income, and losses & profits

Like

- Salary
- Wages
- Purchase
- Sales
- Commission
- Receive etc.



(53)

Date \_\_\_\_\_  
Page \_\_\_\_\_

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> What do you understand by Accounting equation? Give Suitable formula.

### Meaning of accounting equation

An accounting equation is a formula of accounting which shows firm's assets are equal to their liabilities in other words — the Asset of business are always equal to the total of capital and liabilities.

There are certain formula to measure the accounting equations —

$$\text{Assets} = \text{Liabilities} + \text{Capital}$$

$$\text{Liabilities} = \text{Assets} - \text{Capital}$$

$$\text{Capital} = \text{Assets} - \text{Liabilities}$$

$$\text{Networth} = \text{Assets} - \text{Liabilities}$$



$$\text{Closing Capital} = \text{Opening capital} + \text{Additional capital} + \text{Net profits} - \text{Drawing}$$

$$\text{Total equity} = \text{Owner's equity} + \text{Creditors equity} \quad \text{or} \\ \text{Opening owner's equity} + \text{Revenue} - \text{Expenses} + \text{Creditors equity}$$

$$\text{Closing Capital} = \text{Closing Assets} - \text{Closing Liabilities}$$

$$\text{Profit} = \text{Closing Capital} + \text{Opening Capital}$$

Where Assets includes Cash, Bank, Debtors, plants & Machinery, Building, furniture, Bills Receivable, prepaid expenses, Accrued income etc.

Where liabilities includes Creditors, Bills payable, Outstanding Exp, income received in advance etc.



## Effects of Certain items

### Effects of Outstanding expense -

Increase in liabilities and decrease in capital.

### Effects of Prepaid Expense -

Increase in assets and decrease in cash.

### Effects of Accrued income -

Increase in assets and increase in capital.

### Effects of Income Received in Advance

Increase in asset (as cash) and increase in liabilities.



## Meaning of Journal

Journal is the basic book of the original record. Journal has been derived from the 'French Jour' which means 'day'.

Journal means daily records thus it is a book use for making primary records of day to day transaction chronologically / Day wise.

That is Cash Memo, invoices, purchase bills etc.

## Definition of Journal

According to M. J. Keeley -

"A Journal is a chronological record of financial transaction of a business".

### Terms or Expressions Used for Journal

1. Book of original Entry
2. Journal Entry
3. Posting
4. Journalizing



## 1. Book of Original Entry

Journal is called a book of original entry (also called book of primary entry) because a transaction is a first recorded or written in this book and there after transferred that is posted in the Ledger Accountant.

## 2. Journal Entry

An entry recorded in the Journal is called a Journal entry.

### Format of Journal

| Date  | Particulars                               | L. F | Amount (Dr) | Amount (Cr) |
|-------|-------------------------------------------|------|-------------|-------------|
| Year  | None of the Account                       |      |             |             |
| Month | to Dr to name                             |      |             |             |
| Day   | of the account to be Credited (Narration) |      |             |             |

#### Date ———

In the column the date on which transaction was recorded is maintain in written forms.

#### Particulars ———

In this column the name of the accounts are written in which the debit amount and credit amount are to be written.



## Narration —

After every Journal entry a brief explanation of this transaction with necessary detail is given.

## L.F (Ledger folio) —

Ledger folio shows the number of page on which the ledger Accountant of that particulars item is made.

## Amount Dr —

The Amount that is debited is mentioned in written form.

## Amount Cr —

The Amount that is Credited is mentioned in written form.

## Pasting —

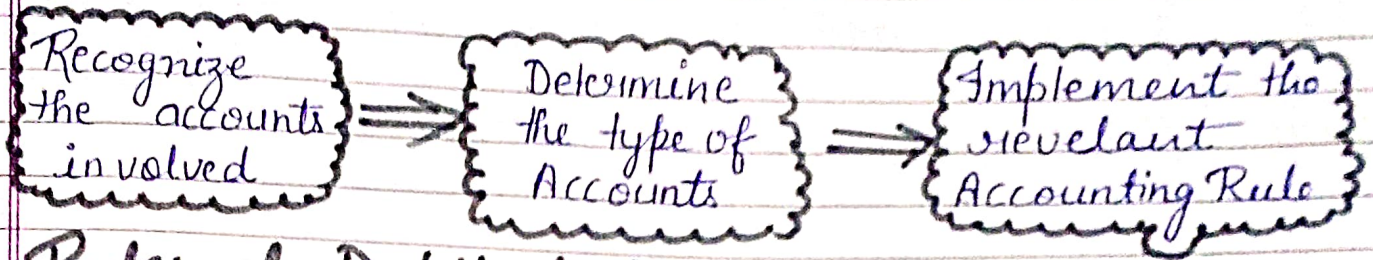
The Transfer of Journal entry to ledger account is called pasting.

## Journalizing —

The process of recording a transaction in a Journal is known as Journalizing.



## HOW TO PREPARE -



## Rules of Debit & Credit

Based on Traditional Classification of Accounts

Based on modern classification of Accounts

| Types of Account | Debit                   | Credit               | Types of Account | Debit    | Credit   |
|------------------|-------------------------|----------------------|------------------|----------|----------|
| Personal A/c     | The receiver            | The Giver            | Assets A/c       | Increase | Decrease |
| Real A/c         | What comes in           | What Goes out        | Liability A/c    | Decrease | Increase |
| Nominal A/c      | All expenses all losses | All income and Gains | Capital A/c      | Decrease | Increase |
|                  |                         |                      | Revenue A/c      | Decrease | Increase |
|                  |                         |                      | Expenses A/c     | Increase | Decrease |



## Steps in Journalising

- Step 1 - Determines the accounts that are to be debited and credited in the transaction.
- Step 2 - Determine the nature of the accounts to be debited and credited.
- Step 3 - Applying the rules of debit and credit on accounts to be debited and credited.
- Step 4 - Determine the Amount by which the Accounts are to be debited and credited.
- Step 5 - Record the date and month of the transaction in the Date 'column and the year at the Top.
- Step 6 - Record in the particular column the account to be debited. Along with the name of the account abbreviation Dr is written in the same line against the name of the account. Write the amount to be debited in the debit Amount column.
- Step 7 - Record in the particulars column the account to be credited. Name of the account to be credited is written in the next line proceeded by the word To the word To is



written towards the right after leaving a few spaces. Write the Amount to be credited in the Credit Amount column.

Step 8 - Record brief description of the transactions starting from the next line in the particulars column. This brief description of the transaction is called narration.

Step 9 - Draw a line across the Particulars column to separate one Journal entry from the other.

| Date  | Particulars                                                      | L.F | Dr. ₹ | Cr. ₹ |
|-------|------------------------------------------------------------------|-----|-------|-------|
| 2022  | Cash A/C                                                         |     |       |       |
| April | To Mohan ... Dr...                                               | 53* | 2500  |       |
| 5     | (Cash received from Mohan in payment of the Amount due from him) | 37* |       | 2500  |

> 53\* is the foliopage in the ledger which is cash Account where the posting of ₹ 2500 will be found.

> 37\* is the foliopage in the ledger which is Mohan's Account where the posting of ₹ 2500 will be found.