Skill Enhancement Course

Basic Accounting

Unit- 01

Introduction:

In the modern era, along with the increase in the size of business, the complexities of business have also increased. Business deals with many customers, suppliers and employees and hence hundreds, thousands or lakhs of transactions take place in the business world. It is difficult or impossible to remember all the transactions verbally. We want to know the profit of the business and also want to know how much are its assets, how many are its liabilities, how much is its capital etc. Accounting is required to know all these things.

In simple words, accounting means recording the deals (or transactions) of financial nature in a systematic manner, classifying them, preparing a summary and presenting them in such a way that they can be analyzed and interpreted. In accounting, summary is related to the preparation of trial balance and the basis of analysis and interpretation is the final accounts under which trading account, profit and loss account and balance sheet are prepared.

Definition:

American Institute of Certified Public Accounts (AICPA) defined accounting in 1961 as follows:

"Accounting is the art of recording, classifying and summarising in a significant manner and in terms of money transactions and events which are, in part or at least of a financial character, and interpreting the results thereof." -AICPA This definition has thrown full light on the scope of accounting, in this not only preparation of accounts is considered as the work of accounting but also emphasis has been laid on classification, analysis and interpretation of accounts. This definition clearly reflects all the benefits received from accounting.

American Accounting Principles Board (AAPB) has defined accounting in the following words-

"Accounting is a service activity. Its function is to provide quantitative information, primarily financial in nature, about economic entities that is useful in making economic decisions, in making reasoned choices among alternative courses of action." –AAPB

According to this definition, accounting is a service activity. Its function is to provide quantitative information, primarily financial in nature, about economic entities that is useful for making economic decisions and making a well-thought-out choice among alternative courses of action.

According to Smith and Ashburn, "Accounting is the science of recording and classifying business transactions and events, primarily of financial nature and of giving important summary of these transactions and events."

It is the art of making, analysing, interpreting and communicating the results to persons who have to take decisions on their basis.

"Accounting is the science of recording and classifying business transactions and events, primarily of a financial character and the art of making significam summaries, analysis and interpretation of these transactions and events and communicating the results to persons who must make decisions or form judgements." **-Smith & Ashburne**

In this definition, accounting has been considered both as a science and an art. In this, the field of accounting has been expanded by including drawing conclusions on the basis of accounts and communicating these to the concerned persons.

Features of Accounting:

By observing the definitions of accounting, its following features become clear-

(1) Accounting is the art of writing and classifying business transactions.

(2) These transactions are wholly or partly of financial nature.

(3) The transactions are expressed in currency.

(4) It is the art of writing summaries, analysing and interpreting.

(5) The analysis and interpretation should be informed to those persons who have to draw conclusions or results or take decisions on the basis of these.

Accounting Cycle

Just as there are many types of seasons and the cycle of seasons continues throughout the year, similarly there is a business cycle in the business world and an accounting cycle in the field of accounting.

To understand the accounting cycle, we must first pay attention to the definition of accounting. It is clear from the definition of accounting that accounting is the art and science of recording and classifying financial transactions and events, summarizing them, interpreting them and delivering the results to those persons who have to take decisions based on these. In this way, the accounting process takes the form of a cycle. Certainly, accounting has to pass through many stages to reach the final goal. In short, the accounting cycle can be divided into the following stages:

1. Recording of transactions i.e. initial journal,

2. Classification of transactions i.e. ledger,

3. Calculating balance i.e. balancing,

4. Presenting summary i.e. trial balance and final accounts,

5. Analysis and interpretation, Preparation,

6. Communicating reporting.

1. Overwriting of transactions Initial Accounts i.e. Rojnamcha (Original Record Journal) - First of all, the transactions are recorded in the initial books. The books in which original accounting is done are called Books of Original Accounts or Original Books. This book is called Journal. In big business establishments, the journal is subdivided into eight books, such

as (1) Cash Book, (2) Sales Book, (3) Purchase Book, (4) Sales Return Book, (5) Purchase Return Book, (6) Bills Receivable Book, (7) Bills Payable Book and (8) Proper Journal.

2. Classification - Writing the entries made in the books of initial accounts in the proper part of the matters related to it is called classification. The book in which the classification of transactions is done is called ledger. The process of recording in the ledger is called posting.

3. Balancing - After posting the transactions in various accounts, the balance of the accounts is calculated on a fixed date, usually at the end of the month.

4. Summarising the Transactions - Two things are done in the summary stage - (i) Preparation of Trial Balance and (ii) Preparation of Final Accounts on the basis of Trial Balance. Under final accounts, trading account or manufacturing and trading account, profit and loss account and balance sheet are prepared. These are also called financial statements. Their preparation reveals the profit and loss and financial position of the organization at the end of the year.

5. Analysis and Interpretation - Under this, various types of accounting ratios are calculated which reveal the liquidity, solvency and profitability of the business. On the basis of these, the people or parties maintaining accounting take decisions as per their needs.

6. Communicating/Reporting the Results - Finally, the result that comes out on the basis of analysis, discussion and interpretation of the records of transactions is communicated to the concerned. This work is done by professional persons.

NATURE OF ACCOUNTING:

The following facts are important regarding the nature of accounting:

(1) **Accounting: An Art -** Accounting is considered an 'art'.

According to A. I. C. P. A., "Accounting is the art of effectively writing, classifying and summarizing the accounts and events of business, which are fully or partially related to finance, in currency and interpreting their results."

(2) **Accounting: A Science** Accounting is a science because

In this, the subject matter is studied in a systematic and orderly manner. Accounting has its own principles and rules. Although the principles of accounting are not as firm and universal as the rules of natural sciences, they are generally accepted. The principles of accounting are based on tradition, practice, experience and logic.

(3**) Accounting is an intellectual discipline** Accounting is considered as an intellectual discipline because it deals with the study, analysis and interpretation of financial transactions which helps the concerned persons in taking decisions.

(4) **Accounting: A Profession -** It is a well-accepted ideology of the present era that accounting is a profession. Profession is a work in which a person uses his special knowledge, skill, On the basis of training and experience, people get remuneration by providing personal services to other people, like lawyers, chartered accountants etc. Similarly, today accountants also earn remuneration by providing their skills, expertise and services acquired through special study and training. Now accounting is a profession.

(5) Accounting: A Social Force In ancient times, accounting was responsible to its owners, but in the present era, accounting is considered to be as responsible to the entire society as it is to the owners. Today, accounting information is used to solve public interest problems, like pricing, price control, taxation etc.

(6) Accounting: A Service Activity - Accounting is a financial activity. Its purpose is to provide quantitative financial information regarding business activities. It provides accounting information to those people who want to take important decisions based on it. 12

OBJECTIVES OF ACCOUNTING

(1) To Determine Net Profit/Loss - The basic objective of accounting is to find out the profit and loss of a certain period. To find out the profit and loss, the businessman prepares the Profit and Loss Account or Income Statement.

(2) To Know Financial Position - The second objective of accounting is to obtain information regarding the financial position of the organization. To fulfill this objective, a position statement is prepared in which on one side capital and liabilities are shown and on the other side assets are shown. The position statement is called the Balance Sheet. If liabilities are less than assets, then the business is considered to be in a strong position and if liabilities are more, then it indicates a bad economic position.

(3) To Provide Information for Economic Decisions-One of the functions of accounting is to provide information of financial nature so that managers can take decisions easily and correct decisions can be taken. Accounting also provides alternative methods for this.

(4) To Provide Information to Interested Parties- There are many parties interested in a business, such as proprietor, employees, managers, creditors, investors etc. To provide information related to various parties interested in the business is also an objective of accounting.

(5) To Determine Taxable Income- One of the objectives of accounting is to determine taxable income. This income is determined on the basis of income statement and balance sheet. Various documents related to this are presented at the time of tax assessment.

SCOPE OF ACCOUNTING

The scope of accounting is constantly growing. Accounting of financial transactions is very important not only for businessmen but also for every person and organization. Many new aspects are being added under accounting. Therefore, today Financial Accounting, Cost Accounting, Management Accounting, Management Reporting System, Tax Accounting, Human Resource Accounting, Social Accounting, National Accounting and International Accounting are studied under accounting.

NEED AND SIGNIFICANCE OF ACCOUNTING

In today's era, the importance of accounting or accountancy (accounting method) has increased a lot. The knowledge of this science not only benefits businessmen but also benefits the government and other parties. The following are the benefits of accounting-

(1) Compensation of lack of memory No matter how capable a person is, he cannot remember everything. In business, hundreds of transactions take place daily, goods are bought and sold. These can be both in cash and on credit. Payments are made in the form of wages, salary, commission etc. It is difficult to remember all these. Accounting removes this deficiency.

(2) Information related to business is obtained. Such as - Knowledge of accounting helps in knowing many important things related to business

(i) To know profit and loss;

(ii) To know assets and liabilities;

(iii) How much money to take and how much to give

(iv) What is the financial condition of the business; etc.

(3) Proper evaluation of business While selling or purchasing a business organisation, its correct evaluation is required. If the organisation has a correct accounting system, then the business can be properly evaluated on the basis of the financial condition of that organisation.

(4) Evidence in court In case of disputes with other businessmen, accounting records can be presented as evidence in the court. The court recognizes the accounting records presented.

(5) Helping in the proceedings for declaring a businessman bankrupt A businessman can be declared bankrupt only when his liabilities are more than the value of his assets. Similarly, when a business organisation reaches such a situation that it is unable to pay its liabilities, then it can be declared bankrupt. Any court gets this knowledge only from the ledgers and accounts. Therefore, accounting proves to be very helpful in declaring a businessman bankrupt.

(6) Helping in tax assessment Businessmen have to pay many types of taxes; Such as income tax, sales tax, property tax, entertainment tax, production tax etc. Accounting helps a lot in determining these taxes. If the businessman does not maintain the necessary books, then the concerned officers will impose taxes arbitrarily.

(7) Helpful in taking loan, Loan is required from time to time for expansion of business and for its successful operation. If the accounts are maintained properly, the correct financial position of the business will be reflected. The lender can be satisfied by showing the accounts and thus it becomes easier to get a loan by showing the accounts.

(8) Helpful in partnership Accounting is helpful in partnership in the following ways-

(i) With the help of accounting, the new partner gets to know the financial position of the firm easily.

(ii) With the help of accounting at the time of admission of a new partner, it becomes easier to evaluate the goodwill.

(iii) It helps in evaluating the goodwill at the time of retirement of a partner.

(iv) At the time of dissolution of the firm, the accounts which are maintained properly reduce the disputes regarding transactions among the partners to a great extent.

(v) Information about how much money is to be paid to a partner on his retirement or death or how much money is payable by him to the firm is possible only through accounting.

(9) Protection from fraud and forgery Ledgers protect employees from fraud and forgery. Efficiency of employees can also be known through ledgers.

(10) Comparative study- By comparing accounts of different years, a businessman can get a lot of useful and necessary information. With this, he can increase profits by making plans for future development or expansion or can take necessary steps to avoid losses.

(11) Knowledge of important information: With the help of ledgers, a businessman can collect useful data, such as data of income-expenditure, purchase-sale, capital, liabilities, property, depreciation, stock, investment etc. These data not only provide important information but also help in drawing necessary conclusions on the basis of these.

(12) Profit to the government- Accounting benefits the government in the following ways-

(i) Financial assistance can be given to a business organisation on the basis of accounts.

(ii) On the basis of accounting, it is easy to determine income tax, sales tax and other taxes and it is also easy to set new targets for the future.

USERS OF ACCOUNTING INFORMATIONS

Accounting provides important information to various individuals or groups and institutions regarding the activities of a business enterprise, which helps them in taking decisions and formulating policies. Accounting information is used by various people, such as the owner of the business, manager, creditor (or supplier of goods), investor, employee, government, public, researcher etc. For convenience, we can divide the users of accounting information into three categories-

1. Users with Direct Financial Interest,

2. Users with Indirect Financial Interest,

3. Managers or Management

1. The Owner of Business - The owner of the business is particularly interested in accounting information. The main objective of business is to earn profit. Since the capital of the business owner is invested in the business, he pays special attention to the profitability and financial soundness of the business organization. The reason for this is that both of these are a symbol of safety of capital. With the increase in the size of the business and business complexities, the need for accounting information increases for the business owner, especially the shareholders.

2. Present and Potential Investors - The prospective investors are particularly interested in the company's past performance, solvency of the business, income earning possibilities, financial soundness and development possibilities. For this, they decide on (profitable) investment only after analyzing and discussing the company's financial statements, reports and other information. After studying these, the present investors decide whether to continue investing in the existing company or withdraw from there and invest in some other company.

3. Creditors/Suppliers - Similarly, present and future creditors, bankers providing goods and services on credit, investors and insurance companies and other financial institutions consider the financial strength of the business before giving credit or goods on credit. Creditors want to

know whether the company has sufficient cash to pay interest and loan or not. For this, analysis of the company's liquidity, profitability and cash flow situation is necessary. By studying this, complete information about the financial position of the company is obtained and it facilitates credit-decision.

4. Employees - Employees have a financial interest in the business, so they are particularly interested in the accounting information of the organization. The present and future of the employees of a business organisation Greed depends on earning capacity, financial position and future development plans. Security of job of employees, pension plan, bonus and future promotion depend on profit and expansion plans of the business organization. Therefore, they have special interest in the financial statements of the organization.

5. Public/Customers Some people do not have direct interest in the business organization but they definitely have indirect financial interest. Consumers fall in this category. Public or consumer class wants that proper accounts should be maintained in the business, production cost and sales and distribution expenses should be reduced, so that customers can get standard goods at low price, supply of goods should be uninterrupted and they should get warranty and after sales services. In other words, business organizations should fulfill social responsibility and work in public interest. For this purpose, consumer class uses accounting information of business organizations.

6. Trade Unions Trade unions have special interest in accounting reports because only on the basis of these they can effectively bargain on wage hike, bonus, allowances and labour welfare schemes.

7. Financial Analysts and Advisors/ Brokers/ Underwriters - Financial analysts and consultants/ brokers/ underwriters etc. use accounting information and reports so that they can help those parties who have direct financial interest in the business.

8. Government Central and State Governments have special interest in accounting information and reports. Tax assessment officers find it easy to determine and collect tax liability of the company on the basis of accounting information and reports. The tax paying capacity of a business is determined on the basis of its net profit. Government and regulatory agencies monitor the financial activities of business organizations with a view to regulation and protection of public interest.

9. Managers/Management - In sole proprietorship, the owners of the business are the managers. In partnership business, some or all the partners play the role of managers but in case of joint capital company, ownership and control are divided into two parts. The owners of the company are the shareholders, while its management is done by professional managers. Managements have special interest in accounting information because the responsibility of running the business smoothly rests on them. Business has definite objectives. The company has to work according to a definite plan. Accounting provides timely and important information to the management which helps in planning, control, execution, evaluation, selection of one of the options, decision making process etc. in the company. On the basis of accounting information, comparative study of goals, plans and actual achievements/performances helps in formulating policies.

Thus, "Management is one of the most important users of accounting information and a major function of accounting is to provide useful information to the former."

10. **Researchers** - Accounting information is also used by researchers. Researchers draw conclusions by analysing, discussing and interpreting accounting statements and reports. They use these conclusions as per their plan.

LIMITATIONS OF (FINANCIAL) ACCOUNTING

Some of the major limitations of accounting are as follows-

(1) Lack of a complete collection of principles One of the biggest drawbacks of the principles of accounting is that there is no complete collection or list of its principles available.

(2) Postmortem analysis- Financial accounting presents a postmortem analysis (i.e. it is for past problems). It ignores future plans.

(3) Lack of consensus on principles Many accountants do not have consensus on many of the accounting principles. The accounting principles are 'generally accepted principles'.

(4) Difference in compliance of principles There are many differences in compliance of accounting principles. As a result, there is difference in the results and there is difficulty in comparison.

(5) Accounting of only monetary facts in accounting, only those events and facts are recorded which can be expressed in monetary terms. Hence, no matter how important any event is for the business, it is not possible to record it in the books unless its monetary measurement is taken.

(6) Presenting a picture of a limited period (financial) accounting presents a picture of a limited period only, such as profit and loss account for a certain period or balance sheet of a certain date.

(7) Lack of explanatory details - Accounting also lacks explanatory details (analytical details), due to which it is difficult to determine the increased profitability of the enterprise.

(8) Inability to tell the actual value in accounting, assets are recorded at their cost price. Hence, it does not present the net value of the business, i.e., it does not tell the actual value.

Concepts of Accounting:

Accounting concepts are the basic guidelines and assumptions that underlie the practice of accounting. These principles form the foundation for recording and reporting financial transactions in a consistent, systematic manner. Here's a detailed look at the main accounting concepts:

1. Business Entity Concept:

The business entity concept states that a business is treated as a separate entity from its owner(s). This ensures that the transactions of the business are recorded separately from the personal transactions of the owner(s). The finances of the business are separate from the finances of its owner, allowing for clear financial reporting. This concept applies to all business types, whether sole proprietorships, partnerships, or corporations.

2. Money Measurement Concept

This concept asserts that only transactions that can be expressed in terms of money are recorded in the accounting system. Non-monetary items such as employee skills, market reputation, and customer satisfaction are not recorded in the books, as they cannot be quantified in monetary terms. For Example, If a company signs a contract but no money is exchanged yet, the contract is not recorded until a monetary transaction occurs.

3. Going Concern Concept

The going concern concept assumes that a business will continue to operate indefinitely unless there is clear evidence to the contrary. This assumption affects the valuation of assets and liabilities. Assets are valued based on their long-term utility rather than their liquidation value. For example, When a company purchases machinery, it's recorded at cost, and the company expects to use it over its useful life, not with the intent of selling it immediately.

4. Cost Concept (Historical Cost)

The cost concept states that assets are recorded in the books at their historical cost, which is the price paid at the time of purchase, not their current market value. This principle ensures objectivity in the accounting records, as historical cost is verifiable. The book value of assets may differ from their current market value due to depreciation and market conditions. For example, If land is purchased for $100,000, it will remain on the books at that amount, even if its market value rises to $150,000.

5. Dual Aspect Concept

This concept underpins the double-entry system of accounting, stating that every transaction affects at least two accounts, ensuring the accounting equation (Assets = Liabilities + Equity) always remains balanced. For every debit, there is a corresponding credit, ensuring that all changes in assets, liabilities, and equity are accurately recorded. For example, when a company takes a loan, cash (asset) increases, and loans payable (liability) also increases, maintaining the balance.

6. Accounting Period Concept

The accounting period concept divides the life of a business into specific periods, usually a year, for which financial statements are prepared. This allows for periodic reporting and analysis of financial performance. The most common accounting period is a fiscal year, but businesses may also prepare quarterly or monthly financial statements. For example, a company's annual financial statements cover January 1 to December 31.

7. Accrual Concept

The accrual concept states that transactions should be recorded when they occur, not when the cash is received or paid. Revenue is recognized when earned, and expenses are recognized when incurred, regardless of when the cash transaction happens. This concept aligns with the matching principle. For example, If a service is provided in December but the payment is received in January, the revenue is recorded in December under the accrual method.

8. Matching Concept

The matching concept ensures that expenses are recorded in the same accounting period as the revenues they help generate. This allows for an accurate calculation of profits by ensuring that expenses are matched with the revenues they produce. Example, If a company incurs costs to manufacture products sold in June, the expenses are recorded in June, even if the payment for materials or labor is made later.

9. Materiality Concept

The materiality concept asserts that only information that is material or significant should be included in the financial statements. Materiality is relative and depends on the size and nature of the transaction. If an omission or misstatement could influence the decisions of users of financial statements, the information is considered material. Example, a small stationery expense might be immaterial for a large company but could be significant for a small business.

10. Conservatism (Prudence) Concept-

The conservatism concept dictates that when there are uncertainties in recording transactions, accountants should choose the solution that does not overstate assets or income. This means recognizing potential losses but not anticipated gains. It ensures that the financial statements present a cautious view of the company's financial position. Example, if there is uncertainty about the collectability of a debt, a provision for doubtful debts may be made, reflecting the possibility of loss.

Conventions of Accounting:

Accounting conventions are guidelines or practices that have evolved over time to ensure consistency, comparability, and reliability in financial reporting. Unlike accounting concepts, which are theoretical frameworks, conventions are more practical rules derived from common practices in the accounting profession. Here’s a detailed look at the major accounting conventions:

1. Consistency Convention

The consistency convention requires that once an accounting method or principle is chosen, it should be applied consistently from one accounting period to another. The purpose of this convention is to ensure that financial information is comparable over time. If a company consistently uses the same accounting methods, users of financial statements can more easily identify trends and make meaningful comparisons between periods. Example, If a company uses the straight-line method of depreciation for its assets in one year, it should continue to use the same method in future years. If there is a change in method, it must be disclosed, and the impact of the change on financial statements should be explained.

2. Full Disclosure Convention

The full disclosure convention mandates that all material and relevant information must be disclosed in the financial statements or their accompanying notes, allowing stakeholders to make informed decisions. This convention ensures transparency in financial reporting. If there is any information that could influence a user’s understanding of the financial statements, it should be clearly disclosed. This includes both qualitative and quantitative details. Example, a company facing significant lawsuits that could impact its financial standing must disclose this

information, even if the outcome is uncertain. Additionally, any accounting changes, contingent liabilities, or events occurring after the reporting period but before the financial statements are finalized must be disclosed.

3. Conservatism (Prudence) Convention

The conservatism convention states that when choosing between two possible reporting options, accountants should opt for the one that presents the least favorable scenario for the business. This means anticipating potential losses but not gains. The principle of conservatism is designed to prevent overstating a company's financial position. By accounting for probable losses and not recognizing unrealized gains, financial reports present a cautious, rather than overly optimistic, view of the company's situation. Example, if there is uncertainty about the collection of a receivable, a company might create a provision for doubtful debts. If inventory values are expected to decrease, they should be written down to reflect the lower expected value. However, if an investment is expected to increase in value, the gain is not recognized until it is realized.

4. Materiality Convention

The materiality convention asserts that only items that are significant or material to the financial statements should be recorded and reported. Minor items that will not affect users' decisions can be omitted or aggregated. Materiality is a relative concept. What is considered material for one company may not be for another. A transaction or amount is considered material if its omission or misstatement would influence the decisions of the users of the financial statements. Example, a $500 loss from damaged inventory might be immaterial for a large corporation with millions of dollars in revenue, but it could be material for a small business. Additionally, minor expenses such as office supplies might be grouped together rather than itemized in the financial statements.

5.Objectivity Convention

The objectivity convention ensures that accounting information is based on verifiable data and evidence, free from bias or personal opinions. This convention requires transactions to be recorded based on objective, measurable facts. The objectivity principle ensures that financial reports are reliable and that they present a true and fair view of the company's financial position. This convention emphasizes the importance of using source documents, such as invoices, receipts, or contracts, as evidence for transactions. Example, if a company purchases inventory, it will record the transaction based on the supplier's invoice. This invoice serves as objective evidence that the transaction took place, providing verification for the amount recorded.

6. Matching Convention

The matching convention requires that expenses should be matched with the revenues they help generate in the same accounting period. This convention ensures that the financial statements reflect the true profitability of a business by recording expenses in the period when the corresponding revenue is recognized. It aligns with the accrual concept of accounting, as expenses are recorded when incurred, not when paid. Example, a company that sells products in December but receives the invoice for materials in January will still record the cost of materials as an expense in December to match the revenue earned in that period.

GAAP (Generally Accepted Accounting Principles)

GAAP (Generally Accepted Accounting Principles) refers to a set of accounting standards and guidelines that companies follow when preparing and presenting their financial statements. These principles ensure transparency, consistency, and comparability in financial reporting, which is essential for investors, regulators, and other stakeholders to make informed decisions.

Main Features of GAAP

- **Consistency**: Consistency in accounting refers to the practice of applying the same accounting methods and policies from one period to the next. This ensures that financial statements remain comparable over time, which is essential for accurate analysis and decision-making by stakeholders such as investors and regulators.
- **Relevance**: Relevance refers to how valuable financial information is for decision-making. Information is considered relevant if it helps stakeholders—like investors, managers, and regulators—make informed decisions about a company's financial status and performance.
- **Reliability**: Reliability in accounting means that financial information is accurate, complete, and trustworthy. Reliable data allows stakeholders—such as investors, managers, and regulators—to make informed decisions about a company's financial health.
- **Comparability**: **Comparability** in accounting means that financial statements should be presented in a way that allows for meaningful comparison both over time and across different companies. This principle helps users evaluate and analyze a company's performance relative to others and track its financial progress.

Core GAAP Principles

- **Revenue Recognition**: Revenue Recognition is an accounting principle that determines when revenue should be recorded in financial statements. Revenue is recorded when it is earned and realizable, not necessarily when cash is received.
- **Expense Matching**: Expense Matching is an accounting principle that requires expenses to be recorded in the same period as the revenues they help to generate. This ensures that expenses are properly aligned with the revenues they are associated with, providing a more accurate picture of a company's financial performance. **Full Disclosure**: All relevant financial information must be disclosed in the financial reports.
- **Cost Principle**: The Cost Principle is an accounting rule that requires assets to be recorded and reported at their original purchase price rather than their current market value. This approach ensures that financial statements reflect the actual cost of acquiring assets, providing consistency and reliability.

Advantages of GAAP

- **Consistency**: GAAP establishes a uniform framework for preparing and presenting financial statements, which ensures consistency and reliability in reporting. This facilitates comparisons over time and between different companies.

- **Transparency**: Adhering to GAAP requires detailed disclosures and specific reporting practices, enhancing transparency. This helps stakeholders, such as investors and regulators, gain a clearer understanding of a company's financial situation.
- **Credibility**: GAAP ensures that financial statements are prepared in an objective and standardized manner, which boosts their credibility. This fosters trust among investors, creditors, and other stakeholders.
- **Comparability**: Standardized accounting principles under GAAP allow for easier comparison between companies and across different time periods, aiding informed decision-making.
- **Regulatory Compliance**: Following GAAP helps companies meet regulatory requirements and avoid legal complications related to financial reporting, ensuring compliance with established standards.
- **Decision-Making Support**: GAAP provides a structured approach that supports better decision-making by delivering clear and accurate financial information.
- **Enhanced Accountability**: By adhering to GAAP, companies are required to be transparent and precise in their financial reporting, promoting accountability.

Limitations of GAAP

1. **Complexity**: GAAP can be complex and difficult to understand, especially for smaller companies or those without extensive accounting resources. This complexity can lead to higher compliance costs and potential errors.
2. **Lack of Flexibility**: GAAP's rigid standards may not accommodate all business practices or industries. This can make it challenging for companies to accurately reflect their financial position if their practices differ from standard GAAP guidelines.
3. **Historical Cost Focus**: The cost principle under GAAP records assets at their original purchase price, which may not reflect their current market value. This can result in financial statements that do not accurately represent the true value of a company's assets.
4. **Potential for Manipulation**: Despite being designed to prevent it, GAAP can sometimes be manipulated through creative accounting practices. Companies may find ways to exploit certain rules to present a more favorable financial position.
5. **Relevance Lag**: GAAP principles may not always reflect the latest economic conditions or financial innovations. As a result, financial statements might not fully address current trends or new types of transactions.
6. **No Universal Standard**: While GAAP is widely used in the United States, it differs from International Financial Reporting Standards (IFRS), which are used in many other countries. This lack of universal standards can complicate financial reporting for multinational companies.

Accounting Standards

An **accounting standard** is a set of rules and guidelines that businesses use when preparing their financial statements. These standards help ensure that financial reports are consistent, clear, and comparable across different companies and industries. By following these standards, companies provide accurate and trustworthy financial information, which allows investors, regulators, and other stakeholders to evaluate their financial performance and health.

Accounting standards also play a key role in preventing financial fraud or misrepresentation by setting specific methods for recording and reporting financial transactions. Different regions may follow various standards, like IFRS (International Financial Reporting Standards) or GAAP (Generally Accepted Accounting Principles), to maintain consistency in financial reporting around the world.

Purpose-

- **Consistency:** Ensures financial statements from different organizations follow the same principles.
- **Comparability:** Makes it easier for stakeholders (investors, creditors, regulators) to compare financial data across different companies or industries.
- **Transparency:** Provides clear information on how financial statements are prepared.
- **Accuracy:** Promotes accurate representation of a company's financial health.

International Standards:

- **IFRS (International Financial Reporting Standards)**: **International Financial Reporting Standards (IFRS)** are a set of globally recognized accounting rules and guidelines developed by the International Accounting Standards Board (IASB). IFRS aims to provide a common language for financial reporting so that companies' financial statements are consistent, transparent, and comparable across different countries.
- **GAAP (Generally Accepted Accounting Principles)**: These are the accounting rules used mainly in the U.S.

Indian Standards (Ind AS):

Indian Accounting Standards (Ind AS) are a set of accounting standards used by companies in India to ensure that their financial statements are transparent, consistent, and comparable. These standards are largely based on **International Financial Reporting Standards (IFRS)**, but have been adapted to meet the specific requirements of the Indian economic and legal environment.

List of Accounting Standards

Accounting Standards	Contents
AS 1	Disclosure of Accounting Policies
AS 2	Valuation of Inventories
AS 3	Cash Flow Statements
AS 4	Contingencies and Events Occurring After the Balance Sheet Date
AS 5	Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies
AS 7	Construction Contracts
AS 9	Revenue Recognition
AS 10	Property, Plant and Equipment
AS 11	The Effects of Changes in Foreign Exchange Rates
AS 12	Accounting for Government Grants
AS 13	Accounting for Investments
AS 14	Accounting for Amalgamations
AS 15	Employee Benefits
AS 16	Borrowing Costs
AS 17	Segment Reporting
AS 18	Related Party Disclosures
AS 19	Leases
AS 20	Earnings Per Share
AS 21	Consolidated Financial Statements
AS 22	Accounting for Taxes on Income
AS 23	Accounting for Investments in Associates in Consolidated Financial Statements
AS 24	Discontinuing Operations
AS 25	Interim Financial Reporting
AS 26	Intangible Assets
AS 27	Financial Reporting of Interests in Joint Ventures
AS 28	Impairment of Assets
AS 29	Provisions, Contingent Liabilities and Contingent Assets

Double Entry System

The double entry system is a fundamental bookkeeping method where each financial transaction is recorded in at least two accounts: one as a debit and the other as a credit. This approach ensures that the accounting equation, **Assets = Liabilities + Equity**, stays balanced after every transaction. For each entry, there is a corresponding debit and credit, and the total debits must always equal the total credits, guaranteeing that the financial records remain balanced.

For example, if a business purchases an asset like machinery, it records an increase in the asset account (debit) and a corresponding decrease in cash or an increase in liabilities (credit). By ensuring that total debits always equal total credits, the double-entry system provides a clear, accurate, and comprehensive picture of a company's financial position, making it easier to detect errors and maintain transparency in financial records.

Advantages of the Double-Entry System

- **Accuracy**: Since every transaction involves a debit and a credit, it ensures that the accounts are always balanced, minimizing errors and improving reliability.
- **Transparency**: Each transaction impacts at least two accounts, making it easier to trace and review financial data, which aids in audits and financial analysis.
- **Complete Record**: The system provides a detailed view of a company's financial activities, showing how transactions affect assets, liabilities, and equity, giving a comprehensive overview of its financial health.

Disadvantages of the Double-Entry System

- • Complexity: This system is more intricate compared to single-entry methods and requires specialized training to ensure accuracy, which can be challenging for small businesses or individuals without accounting knowledge.
- • **High Costs**: Due to its complexity, the double-entry system often requires hiring additional staff, such as accountants or bookkeepers, which increases operational expenses, especially for smaller businesses.
- • **Time-Intensive**: Each transaction in the double-entry system requires two entries (debit and credit), making it more time-consuming than simpler accounting methods.
- • **Error-Prone**: Despite its aim for precision, human errors, such as incorrect amounts or mis posted transactions, can still occur, impacting the accuracy of financial records.
- • **Fraud Vulnerability**: Although it improves accountability, the system can still be manipulated. If both sides of a transaction are deliberately falsified, fraud or mistakes may go unnoticed without a detailed audit.
- • **Unsuitable for Small Businesses**: For smaller businesses with simpler financial transactions, the double-entry system may be overly complex and resource-intensive.

Accounting Equation

The **accounting equation** is a fundamental principle in accounting that illustrates the relationship between a company's assets, liabilities, and equity. It is expressed as **Assets = Liabilities + Capital (Owner’s Equity)**. This equation shows that a company's assets, which are resources owned and used for generating future economic benefits, are funded either by

borrowing (liabilities) or through the owners' investments and retained earnings (equity). In other words, all the assets of a company are balanced by the sum of its liabilities and equity. This equation ensures that the company's financial statements remain balanced and provides a clear snapshot of its financial health at any given time.

Formula:

Assets = Liabilities + Capital (Owner's Equity)

OR

Liabilities = Assets – Capital (Owner's Equity)

OR

Capital (Owner's Equity) = Assets- Liabilities

Examples

Show the accounting equation on the basis of following transactions.

1. Gopal started business with Rs 75,000.
2. Gopal purchased furniture for cash Rs 5,000.
3. Gopal purchased goods for cash Rs 20,000 & on credit Rs 16,000.
4. Goods costing Rs 12000 sold on credit for Rs 15,000.
5. Paid Rs 1,000 for Rent.

Transaction	**Assets**	**Liabilities + Capital**	
	Cash + Furniture + Goods + Debtors	Creditors	capital
Gopal started a business with Rs. 75,000	75000 + 0 + 0 + 0	0	75000
Gopal purchased furniture for cash Rs 5,000	75000 + 0 + 0 + 0 -5000 + 5000 + 0 + 0	0 + 0	75000 + 0
Gopal purchased goods for cash Rs 20,000 & on credit Rs 16,000.	70000 + 5000 + 0 + 0 -20000 + 0 + 36000 + 0	0 + 16000	75000 + 0
Goods costing Rs. 12000 were sold on credit for Rs 15,000.	50000 + 5000 + 36000 + 0 0 + 0 - 12000 + 15000	16000 + 0	75000 + 3000 (profit)
Paid Rs 1,000 for Rent.	50000 + 5000 + 24000 + 15000 - 1000 + 0 + 0 + 0	16000 + 0	78000 - 1000 -
Total	49000 + 5000 + 24000 + 15000	16000	77000

So,

Assets = Cash (49000) + Furniture (5000) + Goods(24000) + Debtors (15000) = Rs. 93000

Liabilities = Rs. 16000

Capital = Rs. 77000

The final accounting equation are –

Assets = Liabilities + Capital

93000= 16000 + 77000

Basic Accounting

Unit- 02

JOURNAL

A businessman has to use many books to record his accounts. If the business is of an average level, then the following three books are enough. Lucas Pacioli, the founder of the double entry system, has also mentioned these three books. These books are as follows:

(i) Memorandum Book or Rough Book, (ii) Journal, and (iii) Ledger.

MEANING OF JOURNAL

Journal is the primary or basic book of businessmen. It is the register in which all business transactions are entered date wise. In this, entries are made in the same order in which the transactions took place in the business.

In sequence, the word 'Journal' has originated from the French word 'Jour' which means - Day Book, Diary or Day'. It is called 'Divas' or 'Din' or 'Roz' in Hindi. By adding nal to Jour, Journal is formed whose Hindi translation is 'Rojnamcha'. Since the transaction records are done in it through Waste Book or Smaran Book, hence it is also called Pakki Nakal Bahi. Thus, since entries are made in it every day according to the date, hence it is also called Dainik Panji or Dainik Lekha (Daily Record).

It is worth mentioning here that the process of doing accounting in the journal is called Journalising and Journalising is done according to certain rules. In the journal, one account is debited and the other is credited.

Thus, journal is a book in which the initial accounting of both aspects of all business transactions is done date wise and as per rules. Hence, according to a learned writer, "The book in which all business transactions are initially written in a systematic manner is called journal." Definition of Journal

According to Carter, "Journal or 'daily record' is the book of primary entries in which date wise transactions are written from the memory book or waste book. While writing entries, they are classified as debit and credit, so that later it is convenient to make correct posting in the ledger."

Following are the objectives of Journal:

(1) The purpose of the journal is to keep a record of all transactions sequentially and date wise.

(2) In the double entry system, every transaction has two sides. The journal tells us which account should be debited and which account should be credited.

(3) The third purpose of the journal is to facilitate posting in the ledger. (4) The fourth purpose of the journal is to provide information regarding the transaction.

(5) The fifth purpose of the journal is to help in resolving disputes and differences. Advantages/Importance of Journal

The use of journal has ended in many countries because its work is done by subsidiary books. Again, entries can be made in the ledger even without a journal. Still, in some countries; such as France, Italy, Spain, Australia and Russia, the use of journal is considered mandatory. In

Russia, the situation is such that in the courts, business disputes are decided only on the basis of the journal. This fact makes the importance of the journal clear.

In short, the following are the advantages or importance of the journal:

1. Getting date-wise details of transactions Transactions are entered in the journal date-wise, so details of transactions are available date-wise.

2. Facility of posting Journal facilitates posting of entries in various accounts opened in the ledger. Although, it is possible to write directly from the waste book to the ledger, but it may be difficult.

3. Getting complete details of transactions Along with the entry of transactions in the journal, a brief description of the transaction is given in the form of a narration. As a result, complete details of the transaction are available at one place.

4. Less possibility of errors in the journal, entries of both the forms of transactions, i.e. debit and credit, are made simultaneously. In this, the possibility of errors is reduced.

5. Journal is necessary for some transactions There are some transactions which cannot be written in any subsidiary book; for them, it is necessary to make entries in the journal. For example, bad debts, opening and closing stocks, adjustment accounts, etc.

[Suppose a trader sold goods worth Rs. 1,000 on credit to a customer. He entered it in the sales ledger. Then he posted the amount of sale in the debit section of the customer's account. After a month, the customer went bankrupt and only Rs. 600 was received from him. Thus, a loss of (1,000 600) = Rs. 400 occurred which is called debt (dcbt). The accrual and expenditure of this bad debt can neither be made in the cash book nor in the sales ledger. Hence, the use of journal is necessary for such transactions.] 6. Settlement of disputes Journals also help in settling business disputes and differences.

(RULES OF JOURNALISING OR RULES OF DEBIT AND CREDIT)

In double entry system, every entry has two sides – one side is ‘debit’ and the other is ‘credit’. Hence, while doing accounting, the following points should be kept in mind:

1) Which two accounts are being affected by this entry (or account)?

2) What type of accounts are affected?

(3) Which of these two accounts should be ‘debited’ (Debit or Dr. in micro) and which account should be ‘credited’ (Credit or Cr. in micro)?

Therefore, in the context of rules of journal accounting i.e. debit and credit, first of all we should know how many types of accounts are there.

Usually three types of accounts are maintained in business organizations:

1. Personal Accounts - Accounts related to individuals, firms, corporations, institutions and companies are called personal accounts. For example, Sanjeev's account, Public Fancy Vastralaya's account, Das and Brothers' account, Bihar Iron and Steel Company's account, Ramprasad and Sons' account, Food Corporation of India's account, bank account, insurance

company's account etc. A person's status can be that of a debtor or creditor. Accounts of payers and receivers are personal accounts.

Types of personal accounts

There can be three forms of personal accounts:

(i) Natural Personal Account - Account of the owner of the business, or account of the payer of cash, account of the receiver of goods or cash; for example, Sanjeev's account, Neeraj's account are natural personal accounts.

(ii) Artificial Personal Account – Companies' accounts, bank accounts, insurance company accounts, accounts of an institution, accounts of a firm, government accounts come under artificial personal account.

(iii) Representative Personal Account – When an account represents a person or some persons, it is called a representative personal account. Some examples of representative personal accounts are as follows: Outstanding Wages A/c, Outstanding Salary A/c, Prepaid Interest A/c, Accrued Income A/c.

2. Real Accounts - Accounts which are related to any object, property or rights are called real accounts; such as cash, goods, furniture, machinery, stock, land, building, trade mark, patents, goodwill etc. Real accounts are of two types - Tangible Real Account and Intangible Real Account. Cash, goods etc. are tangible real accounts because they have real shape and form, they can be seen but goodwill, patents etc. are intangible real accounts. They can only be experienced. All assets from Real Account

3. Nominal Account - Nominal accounts are also called nominal or income-expenditure accounts. These accounts are related to the expenses and income or profit-loss of the business; such as wages, salary, rent, commission, discount, bad debt, interest etc. These can only be experienced, cannot be seen or touched. These are unreal or imaginary.

Personal Account and Non-Real Account

There are some items which appear to be related to non-real accounts but we put them in the category of personal accounts. The table below provides some important and useful information regarding non-real and personal accounts which will remove the misconceptions in the minds of students.

Nominal Account	Personal Account
1. Salary Account	Salary Outstanding Account Outstanding Salary Account Prepaid Salary Account Salary Paid in Advance Account
2. Interest Account	Outstanding Interest Account Prepaid Interest Account Accrue Interest Account Interest Received in Advance Account
3. Insurance Account	Prepaid Insurance Account Unexpired Insurance Account Insurance Outstanding Account

It is clear from the above examples that outstanding, unexpired, prepaid, accrued, received in advance, income-expenditure items, despite being related to non-real accounts, fall under the

category of personal account. Rule - The following formula is formed from the above examples - "If prefix or suffix is added to non-real accounts, then it becomes a personal account." If any word (as a prefix or as a suffix) is added to a nominal account, then it becomes a personal Account. The rules of the journal are made on the basis of accounts. Hence the following rules of debit and credit should be remembered:

Rules of the Journal

1. For Personal Accounts: Debit the Receiver, Credit the Giver.

Example: Rs. 500 was given to Samaresh. Here Samaresh's account is a personal account. Samaresh is the receiver. Hence, Samaresh's account will be debited.

2. For Real Accounts: Debit what comes in, Credit what goes out. Example: a) One form of the transaction is real account and the other form is personal account. Tractor purchased from Ashok. In this transaction, tractor will be debited because tractor arrives. Ashok's account will be credited. (b) Both sides of the transaction: Real account- Purchased goods for cash. This transaction has two sides- (i) Cash, (ii) Goods. Goods are incoming goods, so 'goods' will be debited. Cash is outgoing goods, so cash will be credited. (c) One side of the transaction is a real account, the other is a nominal account. Salary is paid. Salary is a nominal account and cash is a real account. Cash is an outgoing item, so it will be credited and cash is an expenditure, so it will be debited. (See rules of nominal account)

3. For Nominal Account: Debit all expenses and losses (Debit all expenses and losses), Credit all gains and profits (Credit all gains and profits) Example: (a) Salary was paid. 'Salary' is a nominal account. Here salary is an expense. Salary is paid for the purpose. Cash is a real account and it is an outgoing item, so salary will be debited and cash will be credited. (b) Interest was received. 'Interest' is a nominal account and it is income, so interest will be credited here and cash account will be debited because cash is a real account. The rules of debit and credit can be presented in the form of a diagram as follows:

Rules or Debit and Credit

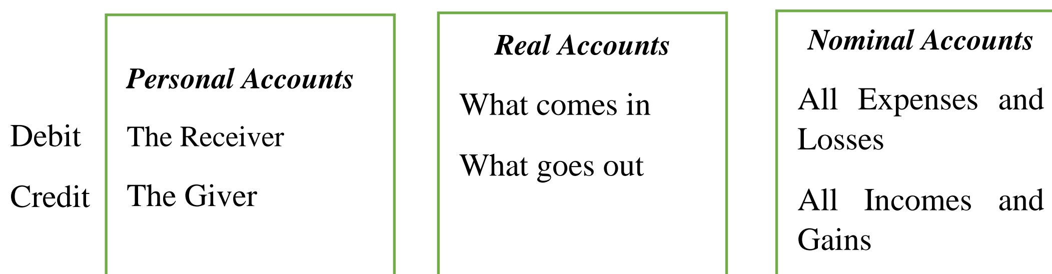

Diagram: Rules of Debit and Credit

Form of Journal There are five columns in a journal. Its format is as follows:

Journal

Date	Particulars	L.F.	Dr. Amount Rs.	Cr. Amount Rs.
(1)	(2)	(3)	(4)	(5)

Explanation

1. Date - This is the first column of the journal. In this column, the year is written at the top, then the date of the transaction is written below. While writing the date, first write the month and then the date.

2. Particulars - This is the most important column. In this column, the names of the affected accounts are written in two lines. In the first line (Linc), the name of the account to be debited (Dr.) is written and in the second line, the name of the account to be credited (Cr.).

Notable points

- When accounting in English language:

(i) After writing the name of the account in the first line, the word Dr. (short form of the word Debit) is used. It is written at the end of the first line on the left side of the Ledger Folio column.

(ii) In the second line, the name of the account which is to be credited is written but neither the word Credit nor the word Cr. is written before the name of that account. Rather, before writing the name of the account to be credited, the word To is written leaving some space from the left side. For example:

Purchases A/c Dr To Cash A/c.
Ramesh Dr. To Cash A/c

Note- Nowadays, if the account is personal, the word A/c is not used before the name. But even if the word A/c is written, it will not be considered wrong.

- When accounting in Hindi language:

(i) In the first line, the word 'Naam' or 'Rani' is used before the name of the account. (ii) In the second line, leaving some space from the left edge, after writing the word Jamaat, the name of the account to be deposited is written. Nowadays, the word Jamaat is not used, rather the word 'Ka' or 'Se' is used before the account to be deposited.

Such as:

1.	Cash Account Name Credit Capital Account
Or, 2.	Cash Account Debtor To Capital Account
Or, 3.	Cash Account Name To Capital Account

Narration - After recording debit and credit in two lines in the narration box, a brief description of the transaction is written in brackets in the third line, which is called narration. It is known from the description why a particular account was debited. Without description or explanation, the journal account is considered incomplete.

Method of writing description or explanation: First (i) start the sentence by using the word Being, then (ii) write the noun, (ii) after this the verb in Past participle (i.e. Third form) and finally (iv) Object. Nowadays, the practice of writing the word Being has ended.

3. Ledger Folio - The third column of the journal is the ledger folio. This column is made small. The title is written in abbreviation, like L.F. (Ledger Folio). In this column, the page number of the ledger is written on which the account has been posted.

4. Amount - There are two columns for amount. The amount of the debit account is written in the first column and the amount of the credit account is written in the second column. The amount of the accounts to be debited is written in front of the debit entry and the amount of the accounts to be credited is written in front of the credit entry.

While making Journal Entries, it is necessary to pay attention to the following points while making journal entries:

(1) In the first line, the account to be debited should be written at the end and Account or A/c should be written after it and after it (in the statement box itself) before the account page,

'Dr.' (name) word should be written. For example: Cash A/c………….Dr.

But A/c should not be written at the end of personal account and if it is written then ' should be added to the name. For example: (i) Shailesh……..Dr. Or (ii) Shailesh's,A/c...Dr.

Shailesh's - Dr. should not be written. This is wrong. A/c should be written after adding 's'.

(2) In the second line, the name of the account to be credited is written but this account should be written leaving a little space at the end and the name of the account should be written after adding 'D'. The word To should be written before writing. The word Cr. is not written.

(3) After entering debit and credit, a detailed description of the transaction should be written in the statement box itself, which is called explanation or narration. This description should be enclosed in small brackets.

(4) After writing the description or narration, draw a thin line in the description box (from one end to the other) so that the various entries can be made clear.

(5) The first letter of the account to be debited and credited should be capital letter; e.g. Capital A/c, Salaries A/c, Cash A/c etc.

(6) The amounts of the accounts to be debited and credited should be written in front of them in the debit and credit columns respectively. The debit and credit amounts should be equal.

(7) When all the transactions are recorded in the journal, their amounts should be cast. The total of the debit and credit amounts of the journal should be put in a straight line. The word Total ('Yog' when written in Hindi) should be written in front of the totals in the statement box.
(8) The totals of the debit and credit accounts should be the same, if there is a difference between these two, then it should be understood that the total is wrong.

(9) After casting, two horizontal lines should be drawn.

(10) Other Rules: Casting, Carry Forward and Brought Forward - In bookkeeping, 'Casting' means 'Totaling' and it means adding. In each page of the journal, the sum of the amount of debit and credit columns is calculated by drawing a line. If the entries in the journal or daily journal do not end on one page and are entered on other pages, then the first entry should be made.

The total of the amounts in the 'Debit' and 'Credit' sections of the page should be added in a straight line and the word 'Carry Forward' (C/F) should be written in the statement box on the left in front of this total. To record the remaining transactions on the next page, the total of the previous page should be taken down in the debit (Dr.) and credit (Cr.) sections and 'Brought Forward' (B/F) should be written in the statement box on the left.

If the journal is in several pages, then the total of the first page is carried to the second page and the total of the second page is carried to the third page, similarly the total of other pages is also added. The total of the last page is called the Grand Total. Remember that (i) One line is drawn above the amount of the Maha Yog or the overall total and two lines are drawn below it. (ii) In front of the grand total amount, in the column of the statement on the left side, 'Grand Total' should be written and in the L.F. column, the abbreviated form of Rupees should be written as Rs. or Rs. If the journal accounts are finished in a single page, then the Grand Total should not be written, instead the word 'Total' should be written.

LEDGER

After making entries of transactions in 'Journal' and subsidiary ledgers, they are classified. This classification is done in 'Ledger'. 'Ledger' is the principal book of business and trader in which brief and classified account of business transactions is maintained. In this, transactions related to each party of a fixed time are written at one place which is called the account of that party. The purpose of doing this is to get information about the status of transactions related to an account at a given time. In short, the ledger presents a summary of business transactions related to a given time.'

According to **Arthur Fieldhouse**, "The book which keeps all the monetary transactions of the business in the form of minute and classified articles from the books of original accounts is called ledger."

In the words **of Stanley R. Roland**, "Ledger is the main book of accounting. Each page of it is divided into two parts vertically - the left part is debit and the right part is credit. It contains the description of the accounts."

All personal, real and unreal accounts are kept in the ledger. Generally, one page is kept for each account in it. But as per the need, if the business is big, two or more pages can also be kept for one account. On the contrary, if the number of accounts is less, then many accounts can be made on a single page.

Generally, the ledger is in the form of a register. The page number is marked on each of its pages. An index is kept on the initial pages of the register which tells which account is on which page.

Need and Importance

Accounts are written in the 'Journal' date wise and without any classification, so if we want to get information about the status of a particular person or a particular account, then we cannot get the information immediately. For this, we will have to go through all the pages of the journal. This will also waste time. Similarly, the assets and liabilities, profit-loss etc. of the business cannot be estimated only from the journal or subsidiary books.

It is difficult to find out. If the entries made in the journal or subsidiary books are recorded in the 'ledger', then their information can be obtained easily and quickly. This is the reason why 'ledger' has become an integral part of business organizations. William Pickles has rightly said that "Ledger is the most important book among the books of accounts and this book is the designated place for the accounts which are made in the journal or its subsidiary books."

Briefly, the following are the reasons for the need and importance of ledger:

(1) Ledger is considered beneficial from the point of view of obtaining information because it saves time and labor. If there is no ledger and only journal, then a lot of hard work and time will have to be wasted in obtaining information related to an account. The reason is, to get information, all the pages of the journal will have to be turned over. How much does a person have to pay?

(2) The ledger gives information about the situation of the businessman. It is easily and quickly known from the ledger. And how much does a businessman have to take from whom. In other words, separate and complete information is available about creditors and debtors.

(3) The ledger gives information about all the accounts related to personal account, real account and nominal account.

(4) The ledger also gives information about the status of assets, capital and liabilities.

(5) The ledger is also necessary because without the ledger, 'Trial Balance' and Final Account cannot be prepared.

(6) Due to the ledger, businessmen can get many other necessary information about their business in a short time.

(7) The ledger serves as evidence in the court regarding financial disputes.

(8) The information obtained from the ledger helps in making future plans for the progress of the business.

In summary, the ledger is a major and important book of accounting and it is necessary for every business and trader to maintain it.

FORM OF LEDGER

Generally, the ledger is in the form of a bound register. It has many pages according to the business. Each page is divided into two parts by a thick straight line. The left side of the page is called the 'Name' or 'Debit' side and the right side is called the 'Credit' side. Each part has four columns. Thus, there are eight columns on the entire page. Before making the columns, the title or name of the account is written. Generally, the title is written in bold letters. The format of the account is as follows:

Name of the Account Page No.

Dr. Cr.

Date	Particulars (A/c Credited)	J.F.	Amount	Date	Particulars (A/c Debited)	J.F.	Amount

The following account is often called T-Shape Account because its shape is similar to the English capital. While taking classes, teachers make accounts in this manner. Pickles has written the letter 'T'

Name of the Account

Dr. Cr.

To	By

Name of each column and their use

As has been said earlier that each page of the account is divided into two parts- Debit part and Credit part. Each part has four columns. The names of these columns are as follows: Date is given before the debtor, then month is written below and the date of transaction is written sequentially.

1. Date - The first column of each section is of date. In this column, remember that the transactions were made to all the accounts and (i) only those dates are written in this column on which the transactions related to this account have been written in the journal. (ii) The date of posting is not written.

2. Particulars - The column (column) after the date is of details. In the left side column, the word 'To' is written before each account and in the right side column, the word 'By' is written before each account.

3. Journal page number (Journal Folio or J.F.) - In this column, the page number of the journal from where the relevant account is taken is written.

4. Amount - In the fourth and last column, the amounts related to the account written in the column are written. In India, Rs. pa is written in the amount column whereas in England it is written in pound-pence and in USA it is written in dollar.

Councils of the ledger maintained by the bank

The format of the ledger in the bank is somewhat different because after deposit or withdrawal in the bank, the balance is taken out immediately. Thus, in a bank's ledger there are columns for (i) date, (ii) description, (iii) withdrawal, (iv) deposit, (v) balance and (vi) initial signature. Obviously, in this account there is only one column for description, in the last column the bank clerk signs. The signature is done by the clerk who does the posting. In case of a current account there is one more column between the deposit column and the balance column in which the balance Dr./Cr. is written.

Specimen **A/c No……**

Date	Prticulars	Withdrawal	Deposit	Balance	Initial

POSTING

Meaning-When the entries made in the 'journal' or 'roznamcha' are entered in the 'ledger' or 'ledger', then this process is called 'Khatauni' or 'Khataiyaana' (posting). Shri J.R. According to Batliboy, "The process of transferring the transactions which have been recorded in the Journal into the appropriate accounts in the ledger is called posting."

Rules of Posting

(1) Open accounts for all the accounts whose names appear in the journal.

(2) Write the names of the accounts in bold and clear letters in the middle of the pages of the ledger.

(3) If columns are not made in the ledger, then draw lines according to the format or sample of the ledger given (i.e. four for the debit side and four for the credit side).

(4) Now write all the accounts related to one name at one place. Remember, two accounts cannot be opened in the same name. If there are two customers in the same name, then write their exact address in front of the account, so that the difference between the two can be known. For example, account of Sanjiv (Aligarh), Sanjiv (Bareilly).

(5) Post the entries made in the journal in a sequential manner, i.e. date wise.

(6) The name in which the account is opened, that name should be written in the Dr. of that account. Or it is never written in the Cr. side.

(7) The word 'To' is written before the debit side account and the word 'By' is written before the credit side account.

(8) If we are preparing the account of the account which has been debited in the journal, then write the date of transaction in the first column of the debit part of that account, then write the credit account related to that account in the column containing details. In the third column, write the page number of the journal from where they have been brought and in the fourth column write the amount. Thus, the account to be credited in the journal is written on the debit side of the account related to it in the ledger.

(9) As per rule 8, open an account for the side to be credited in the journal and on the credit side, write the date of the transaction in the first column, in the second column (i.e. description column) write the name of the account written in the first line of the journal i.e. the account to which the transaction has been debited. In the third column, write the page number of the journal from where it has been brought and in the fourth column write the amount.

Thus, the account to which the transaction is debited in the journal is written on the credit side of the ledger.

E.g.:	Rs.	Rs
Cash A/c …….Dr.	1,500	
To Sales A/c		1,500

Here two accounts will be created (i) Cash A/c, and (ii) Sales A/c

Cash Account

Dr. Cr.

	To Sales A/c		Rs. 1,500				Rs.

Sales Account

Dr. Cr.

			Rs.		By Cash A/c		Rs. Rs. 1,500

(10) If there is more than one transaction in the debit side of the account, do not use the word To repeatedly. After writing the word To once, put a sign („) i.e. Ditto.

(11) Similarly, do not write the word By repeatedly on the credit side of the account, but put a sign (..) i.e. Ditto.

(12) While doing Khatauni, it is not necessary to write the word Account or A/c before the name of the personal accounts.

(13) If the complete details of any account cannot be entered on one page of the ledger, then the total of that account should be carried to the next page and written as Carried forward (c/f) or Carried down (c/d)] and written as Brought forward (b/f) or Brought down b/d on the next page.

(14) Number should be written on each page of the ledger.

(15) Page number of the journal (Journal Folio or J.F.) should be written in the ledger. This makes it easy to refer to each other and to take out the related account or journal.

(16) If any mistake is made while doing the posting; like- if there is a mistake in writing the amount or in writing in the description column, then do not make any deductions in the account

or do not write it again. Due to cutting and overwriting, the ledger will not remain clean and will not give credibility. For this, it will be appropriate that an account is opened for correction of errors and then the account book is recorded.

(17) Mark those articles in the journal whose account book has been completed, so that it can be known which account book has been recorded and which account book has not been recorded.

BALANCING AND CLOSING OF ACCOUNTS

To know the status of various accounts, the balance of all accounts is usually calculated at the end of the year or on a certain date. In other words, it is necessary to calculate the balance of accounts to get information about how much cash is left in the business, how much money is in the bank, what is the status of debtors and creditors, how much property is there etc. By balance of accounts, we mean the difference between the sum of the amounts of the debit side and the credit side of a particular account. In this way, when the sum of the debit and credit sides is calculated to find out which side is bigger and by how much amount, then this process is called closing the account and calculating the balance.

(i) Debit Balance - If the sum of the debit part is more than the sum of the credit part, then the difference amount will be written in the credit part of the account as By Balance c/d and such balance will be called debit balance.

(ii) Credit Balance - If the total of the credit part is more than the total of the debit part, then the difference will be written in the debit part of the account as To Balance c/d and such balance will be called credit balance.

In short, the balance amount (Balance c/d) is written on that side whose total is less.

1. After writing the amount of the balance (Balance c/d) of the account, the total of the debit and credit sides of each account should be written in a straight line and two straight lines should be drawn below the amount. Now the total of the debit and credit side will appear to be the same.

2. Sometimes the amounts of both sides of the account (i.e. debit and credit side) become equal. In such a situation, we will just do the total and leave it. The process of finding the balance (balance) will not be done. The total of both sides becoming equal is the proof of the fact that the account has been closed automatically.

3. Balance brought down or b/d - If an account has a debit balance (i.e. By Balance c/d is written on its credit side) then in the next month or on the first date of the new year, the amount of Balance c/d will be written on the debit side by writing To Balance b/d or To Balance b/f.

Similarly, if the account has a credit balance (i.e. To Balance c/d is written on its debit side), then on the first date of the next month or new year, the amount of Balance c/d will be written on the credit side by writing By Balance b/d.

In short,

(i) Balance c/d is taken out at the end of the month or year.

(ii) Balance b/d is written on the first date of the next month or new year.

(iii) The amount of Balance c/d becomes Balance b/d on the opposite side of the account.

RELATIONSHIP BETWEEN JOURNAL AND LEDGER

Both journal and ledger are important books used under double entry system. Their relationship (or difference) can be expressed as follows:

1. Business transactions are first recorded in the journal and then they are posted in the ledger. Thus, the journal is a book of original (i.e. first) entry whereas the ledger is the book of second entry. (The Journal is a book of original (i.e. first) entry whereas the ledger is the book of second entry)

2. In the journal, transactions or business dealings are written in chronological order or date-wise. While the ledger records the transactions in a classified form.

3. Journal is a subsidiary book, it helps in the preparation of the main book of accounts (i.e. ledger).

4. The unit of classification of data in the journal is transaction, while the unit of classification of data in the ledger is account.

5. The process of recording financial transactions in the journal is called 'journalising', while the process of writing transactions in the ledger is called 'posting'.

6. In case of dispute, journal is given more importance as legal evidence, while for accounting purpose ledger is considered the main source of information.

7. Journal is a temporary record, while ledger is the book of final or permanent record.

8. Journal is used especially at the beginning of a transaction, later it is used less. On the contrary, the ledger is used repeatedly by the businessman because it presents the final result of each account.

TRIAL BALANCE

Various accounts are opened in the ledger and after posting the journal entries in it, their 'balance' is calculated. 'Trial Balance' is prepared for the purpose of finding out the mathematical accuracy of the accounts. Trial Balance is also called 'Test List'.

"A Trial Balance is a Summary of Ledger". This is a list in which the mathematical accuracy of the books is found out on the basis of debit and credit balances of all the accounts (or accounts) of a ledger. Thus, when the sums of the amounts on the debit side and credit side of the trial balance are equal, then it is understood that the accounts are mathematically correct. Following are some of the major definitions of 'Trial Balance':

(1) According to William Pickles, "Trial Balance is a list of balances of accounts opened in the ledger at the end of the financial year or on any other date which is prepared to check whether the debit total is actually equal to the credit total."

(2) In the words of Spicer and Pegler, "If all postings are completed on a certain date (i.e. double accounting of every transaction is done) then a list of balances is prepared, this list is called trial balance."

Ideal Definition - "Trial Balance is a list or schedule of debit and credit totals of various accounts of the ledger or balances of accounts which is prepared with the purpose of finding out the arithmetical accuracy of the posting on a certain date."

FEATURES OF A TRIAL BALANCE

(1) It shows the debit and credit totals or balances of the ledger accounts.

(2) It is prepared on a particular date.

(3) Its purpose is to find out the arithmetical accuracy of the balances of the accounts.

(4) It is generally prepared at the end of the year.

(5) It is a special type of list.

(6) If the totals of the debit and credit sides of the trial balance are equal, then the entries are generally considered to be mathematically correct and if their totals are not equal, then it is understood that there is some mathematical error in them.

7) Final accounts are prepared from the trial balance.

(8) It is prepared on a separate plain paper.

(9) It presents all the accounts before us in a systematic and factual form.

OBJECTS OF PREPARING A TRIAL BALANCE

Many purposes are fulfilled by preparing it, so almost all businessmen and business organizations prepare it. The main purpose of preparing it is to get information about the accuracy of the accounts opened in the ledger, especially the arithmetical accuracy.

In short, the following are the objectives of a trial balance:

(1) Information about arithmetical accuracy.

(2) Knowledge of balance. The balance of any account in the ledger can be known easily.

(3) To prepare the final accounts, every businessman wants to get information about the profit-loss and financial position of his business. To fulfill this purpose, a trial balance is prepared. From the trial balance, important decisions can be made by doing comparative study.

METHODS OF PREPARING A TRIAL BALANCE

There are two methods of preparing a trial balance:

(1) Total Method and

(2) Balance Method.

Among these two, the second method i.e. balance method is more popular and the best method.

(1) Total Method- In this method, the trial balance is prepared by taking the totals of both sides of each account of the ledger. In this method, there are four columns in the trial balance- in the first column, the 'head of accounts' is written, in the second column, the 'page number of the ledger' is written, in the third column, the debit totals of each account are written. In the fourth column the totals of all the accounts are written and in the fourth column the totals of

credit and debit sides are written. Finally, the grand total of the totals of the debit and credit side is calculated. Remember that to use this method, the debit and credit side of each account in the ledger must be written.

(2) Balance Method- Under this method, the debit balance or credit balance of each account is written. In this method also the trial balance has four columns- (i) Title column of the accounts, (ii) column for page number of the ledger, (iii) Debit balance and (iv) column for credit balance. In this method, the accounts which do not have any balance are not shown in the trial balance. Finally, the grand total of the debit and credit balances is calculated separately- The total of the trial balance should be written with a light pencil first. If there is any error in the total, it can be corrected later.

IS TRIAL BALANCE A CONCLUSIVE PROOF OF THE ACCURACY OF ACCOUNTS?

The main purpose of preparing the trial balance is to check the mathematical accuracy of the accounts. Generally, if the totals of both the sides of the trial balance (i.e. debit and credit sides) match, then it is understood that the accounts of both the aspects are complete and there is no arithmetical error. But the question arises whether the matching of both the sides of the trial balance is a proof of the complete accuracy of the accounts. The answer to this question is that matching of the trial balance can only give knowledge of mathematical accuracy, it cannot be considered as a proof of the complete accuracy of the accounts. It has been seen many times that the trial balance matches, but there are errors in the books. Actually, there are some errors or errors which do not affect the matching of the trial balance. Therefore, it is necessary to consider those errors in spite of which the trial balance matches.

ERRORS NOT AFFECTING THE TRIAL BALANCE

1. Errors of Principles - When entries are not made on the basis of principles of book keeping and accounting, they are called errors of principle. Example - Considering revenue expenditure as capital expenditure or considering capital expenditure as revenue expenditure. Similarly considering income as capital income. There is no difference in the total of the trial balance due to theoretical errors. For example - Rs. 100 was spent on repairing the building. For this, Repairs A/c should be debited by Rs. 100. If the building account is debited by Rs. 100, then there will be no effect on the total of the trial balance. Yes, it will definitely affect the profit and loss account and balance sheet of the business.

2. Errors of Omission - Omission errors are also called errors of omission. When a transaction is not entered in the books of accounts, i.e., it is missed from making an entry, it is called an error of omission. If an entry is not made in the journal, such a transaction will also be missed from being recorded in the ledger and when its account is not there in the ledger, it will not be recorded in the trial balance either. This type of error can be complete/partial.

Example- (i) Partial error Goods worth Rs. 500 were sold to Shiv Kumar on credit. This transaction was recorded in the 'Sales Account' but was not recorded in Shiv Kumar's account, this will be called a partial error.

(ii) Complete error- Goods worth Rs. 500 were sold to Shiv Kumar on credit. For this transaction, neither the 'Sales Account' was credited nor Shiv Kumar was debited. In this way

both the accounts got deprived of the entry, hence there will be no effect on the total of the trial balance.

3. Errors of Commission - When the amount of any transaction is written incorrectly or a mistake is made while posting it in the books of initial accounts, then it is called accounting error.

Example- (i) Wrong entry in the opening ledger. For example, if goods worth Rs. 500 were sold to Manohar and the entry was made for Rs. 50 or Rs. 5,000 only, then the debit and credit sides would be affected equally.

(ii) Posting to wrong account but on the correct side- If the journal entries are correct but while posting in the ledger, instead of posting in the correct account, the amount is credited to some other account, though the correct side- debit or credit is debit, then the error will not be detected in the trial balance. For example, if Shailesh's account was debited by Rs. 1,000 in the journal and the cash account was credited by Rs. 1,000, but while posting in the ledger, Rs. 1,000 was not credited to the debit side of Shailesh's account but it was debited to Mahesh's account, then it will not affect the total of the trial balance. Some accounting errors affect the trial balance. These are mentioned below.

4. Compensating errors- If the error in the accounting books is such that it eliminates the effect of the first error, then it is called compensating error.

Example, Rs. 250 was received from Mohan. Instead of writing Rs. 250 in Mohan's credit side, Rs. 300 was written. Rs. 200 was received from Sohan. But instead of writing Rs. 200 in Sohan's credit side, Rs. 150 was written. On one hand, Rs. 50 more was credited in Mohan's account, while on the other hand, Rs. 50 less was credited in Sohan's account. As a result, there was no effect on the matching of the trial balance.

ERRORS DISCLOSED BY TRIAL BALANCE

Sometimes the trial balance is not available. In such a situation, it is necessary to find out the errors so that corrective measures can be taken. The errors which affect the matching of the trial balance, i.e., the errors due to which the trial balance does not match, are called 'errors affecting the matching of the trial balance'. These errors can be divided into two parts:

(a) Errors of Commission, Balance Errors) |

(b) Errors in the trial balance

(a) Errors of Commission - The following are the errors in accounting:

(1) Mistake in addition in the initial books.

(2) Not posting of amount in the ledger from the initial books.

(3) Writing of amount twice in an account.

(4) An amount is written in the wrong side of an account.

(5) Wrong balance of an account is calculated.

(6) Wrong amount is posted in the accounts from the initial accounting books.

7) Wrong total of an account is calculated.

(8) Not showing the balance of the cash book or the balance of any account in the trial balance.

9) Writing wrong amount while taking the total of one page to another page.

10) Mistake in making the list of debtors and creditors.

(b) Trial Balance Errors - Some errors may occur while preparing the trial balance. These are called trial balance errors. These are as follows:

(1) Omitting to write the balance of any account in the trial balance.

(2) Writing any amount wrongly in the trial balance.

(3) Writing any amount in the wrong column in the trial balance. For example, writing the debit balance in the credit section and writing the credit balance in the debit section.

(4) The sum of the debit and credit columns of the trial balance being wrong.

METHODS OF RECONCILING TRIAL BALANCE

The sum of both sides of the trial balance not being equal is an indication of the presence of errors. There is no specific rule to find out the errors, however the following measures should be taken for its matching:

(1) First of all, add the totals of both sides of the trial balance again. If the totals were calculated from top to bottom earlier, then this time it should be calculated from bottom to top.

(2) If the totals of both sides of the trial balance and this side are correct, then the difference of both sides of the trial balance should be noted down on a separate paper.

(3) Then see whether any amount equal to the difference on the side of the trial balance where there is a shortage has been left out from being recorded in the trial balance from the ledger.

(4) It should also be seen whether any amount equal to half the difference has been mistakenly recorded on the opposite side.

(5) The totals and balances of all the accounts should be checked.

(6) It should be seen whether the amounts of all the accounts in the ledger have been correctly recorded in the correct part of the trial balance.

(7) Whether the cash and bank balances from the cash book have been transferred to the trial balance or not.

(8) Whether the totals of subsidiary books have been written in the ledger or not and whether the balances of the accounts related to them have been carried to the trial balance or not.

(9) Whether the journal has been posted correctly in the ledger or not.

(10) The totals of the books of initial accounts should be checked.

(11) Sometimes errors occur due to change in the position of the digits. For example: (i) Rs. 342 written instead of Rs. 324, difference Rs. 18.

(ii) Rs. 452 written instead of Rs. 542, difference Rs. 90. In such errors, the difference in the trial balance should be divided by 9. If the difference in the trial balance is divided by 9, then it should be understood that the error is due to change in the digit.

(iii) Similarly, the error can also be related to zero. Due to mistake, zero may increase or zero may be omitted. If zero has been added; like writing 250 instead of 25, then the amount would have been multiplied by 10 and if zero has been omitted; like writing 25 instead of 250, then the amount would have become 1/10. In both the cases, the 'difference amount' will definitely be divided by 9.

(12) Whether the balance brought in the previous year (Balance b/d) has been correctly written in the books of this year or not.

(13) If there is a huge difference in the totals of the trial balance, then it can be checked only by matching it with the trial balance of the previous year and if there is a big difference in the amount of both the trial balances, then it should be checked. If any item has been left out from being written in the trial balance, then that will also be revealed by matching both the trial balances.

(14) If the difference or mistake is not detected even after checking the journal, ledger and trial balance, then the difference amount should be recorded in the 'Errors and Omissions Account' or 'Suspense Account'. When errors are detected in future, then the 'Errors and Omissions' or 'Suspense' account should be closed by making necessary entries for rectifying the errors.

SUSPENSE ACCOUNT

Meaning-When despite various efforts, the totals of the debit side and credit side of the trial balance do not equalize, then to reconcile the trial balance, the difference is written in the 'Suspense' or 'Errors and errors' account (Suspense A/c). If the total of the debit side of the trial balance is more, then the amount of the error and errors account is written in the credit side and if the total of the credit side is more, then the amount of the error and errors account is written in the debit side. Showing the error and errors account in the balance sheet If the amount of the error and errors account is written in the debit side of the trial balance, then the error and errors account will be shown in the asset side in the balance sheet. On the contrary, if the amount of the error and errors is written in the credit side of the trial balance, then the error and errors account will be written in the liability side of the balance sheet.

Closing the Errors Account in future, the Errors Account will be closed. First, the errors will be discovered and then necessary journal entries will be made for rectification of errors. One account will be related to errors and the other two errors. After all errors are discovered and journal entries are made, the Errors Account will be closed automatically. For a detailed study, see the chapter on Correction of Errors. Thus,

(1) Debit Balances = Either Assets or Expenses or Losses
(2) Credit Balances = Either Capital or Income or Gains or Liabilities

In other words, all expenses, assets, debtors and losses have debit balances while capital, liabilities, creditors and income have credit balances.

Final Accounts

Final accounts are an integral part of a financial accounting year for every business. In other words, it is the end product of the accounting process carried out the whole year. These need to be prepared by every business on or by the 31st of March every financial year as it marks the end of the year.

Meaning

Final accounts are the financial statements prepared by a business at the end of each financial year. They provide a clear and accurate picture of the entity's financial position, which is valuable for management, investors, owners, shareholders, and other stakeholders.

The final accounts include the following:

- Trading Account
- Profit and Loss Account
- Balance Sheet

Trading Account

The Trading Account is the initial step in preparing the final accounts, aimed at calculating the Gross Profit or Gross Loss from a business's primary trading activities over an accounting period. It mainly concentrates on the Cost of Goods Sold (COGS) and the income generated from sales.

Trading account for the year ended...........

Particulars		Amount	Particulars		Amount
To opening stock		xxx	By Sales	xxxx	
To purchases	xxxx		Less returns	xx	
Less returns	xxx			--------	xxxx
	-------------	xxxx	By closing stock		xxx
To Direct expenses:			By gross loss (if loss)		xxx
Carriage inward		xxx			
Freight		xxx			
Octroi		xxx			
Dock dues		xxx			
Excise duty		xxx			
Royalty		xxx			
Motive power		xx			
Coal, gas, water		xxx			
Factory expenses		xxx			
To Gross Profit (if profit)		xxx			
		xxxxx			xxxxx

Profit/ Loss Account

The Profit and Loss Account (P&L Account) is a financial statement that outlines a company's revenues, costs, and expenses to calculate its net profit or net loss for a given period. It provides a comprehensive overview of the company's operational performance by detailing how much income was generated and what expenses were incurred. By comparing total revenues against total costs and expenses, the P&L Account reveals whether the business is making a profit or suffering a loss, thus offering valuable insights into its financial health and efficiency.

Income Statement Or Profit & Loss Account

For the Financial Year 2021-22

Company Name

Okhla Industrial area Phase-1 New Delhi -110020

Particulars	Amount	Particulars	Amount
To Gross Loss(Brought From Trading A/C)	-	By Gross Profit	-
To Salaries (Adjust O/S & Prepaid	-	By Rent Received	-
To Rent & Taxes	-	By Discount Received	-
To Travelling Expenses	-	By Interest Earned(Accruals Adjusted)	-
To Stationery & Printing	-	By Bad Debts Recovered	-
To Postage	-	By Commision Earned	-
To Audit & Legal Charges	-	By Dividends Received	-
To Telephone Expenses	-	By Income From Other Sources	-
To Insurance Premium(Prepaid Adjusted)	-	By Net Loss(Transferred to Capital A/C)	-
To Marketing & Advertisement	-		
To Interest Paid	-		
To Discount Allowed	-		
To Sundary Expenses	-		
To Carriage Outwards	-		
To Bad Debts	-		
To Depreciation	-		
To Repairs & Renewals	-		
To Commission To Other Expenses	-		
To Loss By Fire Or Theft	-		
To Net Profit(Transferred to Capital A/C)	-		
Total	-	Total	-

Balance sheet

The Balance Sheet is a financial statement that provides a snapshot of a company's financial position at a specific point in time. It details the company's assets, liabilities, and shareholders' equity, offering a clear picture of what the business owns and owes, as well as the residual value available to shareholders.

The Balance Sheet is structured into two main sections: Assets, which include both current and non-current assets like cash, inventory, and property; and Liabilities, which encompass both short-term and long-term debts. The difference between total assets and total liabilities equals the Shareholders' Equity, representing the owners' residual interest in the company. This statement is essential for assessing the company's financial stability, liquidity, and overall health.

When accounting records are maintained on an accrual basis, incomes and expenses must be recorded based on when they are earned or incurred, regardless of whether they have been received or paid. This means that income earned in the current financial year must be recorded even if it has not yet been received, and expenses incurred during the year must be recorded even if they have not yet been paid. These adjustments, which are necessary to ensure accurate financial reporting, are made outside of the Trial Balance.

Some Common Adjustments such as –

- Closing Stock
- Outstanding Expenses
- Prepaid or Unexpired Expenses
- Accrued or Outstanding Income
- Income Received in Advance or Unearned Income
- Depreciation
- Bad Debts
- Provision for Doubtful Debts
- Provision for Discount on Debtors
- Manager's Commission
- Interest on Capital
- Goods Distributed among Staff Members for Staff Welfare
- Drawing
- Abnormal losses

Format of Balance Sheet

Company Name:
Balance Sheet as at:

	Particulars	Note No.	As At 31st March XXXX	As At 31st March XXXX
I.	**Assets**			
	Non-Current Assets			
	(a) Property,Plant and Equipment			
	(b) Intangible Assets			
	(c) Deferred Tax Assets			
	Total Non- Current Assets		**0**	**0**
	Current Assets			
	(a) Inventories			
	(b) Final Assets			
	(i) Trade Receivables			
	(ii) Cash And Cash Equivalents			
	(iii) Other Financial Assets			
	(c) Other Current Assets			
	Total Current Assets		**0**	**0**
	Total Assets		0	0
II.	**Equity and Liabilities**			
	Equity			
	(a) Partners' Capital Account			
	(b) Partners' Current Account			
	Total Equity		0	0
	Liabilities			
	Non-Current Liabilities			
	(a) Financial Liabilities			
	(i) Borrowings			
	(ii) Other Financial Liabilities			
	Total Non-Current Liabilities		0	0
	Current Liabilities			
	(a) Financial Liabilities			
	(i) Borrowings			
	(ii) Trade Payables			
	(iii) Other Financial Liabilities			
	(b) Other Current Liabilities			
	Total Current Liabilities		0	0
	Total Liabilities		0	0
	Total Equity and Liabilities		**0**	**0**

Practical Example of Final Accounts

Let's take an example of a small business, XYZ Traders, and prepare their final accounts for the year ended December 31, 2023. The final accounts consist of the Trading and Profit & Loss Account and the Balance Sheet.

Trial Balance of XYZ Traders as of December 31, 2023

Particulars	Debit (₹)	Credit (₹) |
Capital		1,00,000
Drawings	15,000	
Sales		1,90,000
Purchases	1,20,000	
Opening Stock	20,000	
Wages	10,000	
Salaries	15,000	
Rent	8,000	
Debtors	25,000	
Creditors		30,000
Bank Loan		20,000
Interest on Loan	2,000	
Furniture	20,000	
Cash	5,000	
Closing Stock	30,000	
Total	2,70,000	2,70,000

Step 1: Trading Account for the Year Ended December 31, 2023

Particulars	₹	Particulars	₹
To Opening Stock	20,000	By Sales	1,90,000
To Purchases	1,20,000	By Closing Stock	30,000
To Wages	10,000		
To Gross Profit c/d	70,000		
Total	2,20,000	Total	2,20,000

Step 2: Profit and Loss Account for the Year Ended December 31, 2023

Particulars	₹	Particulars	₹
To Salaries	15,000	By Gross Profit b/d	70,000
To Rent	8,000		
To Interest on Loan	2,000		
To Net Profit transferred to Capital A/c	45,000		
Total	**70,000**	**Total**	**70,000**

Step 3: Balance Sheet as of December 31, 2023

Liabilities	**₹**	**Assets**	**₹**
Capital	1,00,000	Furniture	20,000
Add: Net Profit	45,000	Debtors	25,000
Less: Drawings	(15,000)	Cash	5,000
Total Capital	1,30,000	Closing Stock	30,000
Creditors	30,000		
Bank Loan	20,000		
Total	**1,80,000**	**Total**	**1,80,000**

Key Point:

- **Trading Account:** This shows the gross profit of ₹70,000.
- **Profit & Loss Account:** After deducting operating expenses like salaries, rent, and interest, the net profit is ₹45,000.
- **Balance Sheet:** The balance sheet balances at ₹1,80,000, showing a healthy financial position of the business.

This practical example demonstrates how final accounts are prepared, providing an overview of a business's profitability and financial status at the end of a fiscal period.

Computerised Accounting

Computerised Accounting is the use of accounting software to manage and automate financial transactions and record-keeping. It simplifies traditional manual accounting by leveraging technology to process financial data more efficiently and accurately.

What accounting software does?

- Accounting software simplifies and automates financial processes by using computers to record and monitor a business's financial transactions.
- It serves as a tool for maintaining financial records and conducting analysis.
- The software tracks purchases, sales, and other financial activities, helping businesses save time, money, and resources.
- Designed to streamline bookkeeping and financial operations, accountants rely on it to ensure accuracy and efficiency in recording and managing financial data.
- Its purpose is to make accounting tasks faster, easier, and more precise.

Features of Computerised Accounting

- **Data Security:** Data security involves safeguarding sensitive information from unauthorized access, breaches, and cyber threats. In the context of MIS and software systems, robust security measures are crucial to protect critical financial, operational, and personal data.
- **Quick Decision Making:** Well-designed MIS and software systems provide real-time data and analytics, enabling managers and decision-makers to access current information swiftly, facilitating faster and more informed decision-making.

- **Reliability:** Reliability refers to the consistent performance of a system without interruptions or failures. A reliable MIS ensures continuous access to accurate data and minimizes downtime, which is vital for smooth business operations.
- **Improved reporting:** MIS and customized software often come with advanced reporting tools that allow businesses to generate detailed, accurate reports tailored to their needs. These reports offer valuable insights into various business activities, from financial health to operational performance**.**

Benefits

1. **Faster Processing**- In this accounting system, accounting work is completed at a faster speed than in the human accounting system, due to which there is no delay in obtaining information.

2. **Accurate information-** Complete accuracy is maintained in accounting with this accounting system. Entry of every transaction is made in the same account. Hence, there is absolutely no possibility of error. Accurate information is obtained with this accounting method as compared to the human accounting system.

3. **Reliability-** Complete reliability is maintained in this accounting system. In case of more work in human accounting system, reliability can be doubted but in this accounting system, even if the work pressure is high, 100% correct results are obtained and hence reliability is maintained.

4. **Updated Information**- In this accounting system, when any information is entered, the accounts get updated, whereas in human accounting system, it becomes necessary to change many documents (records) to update the information.

5. **Legibility-** Accounts prepared by this accounting system are completely clear and readable, whereas in human accounting system, accounting information is not clear due to unclear handwriting

Limitations:

Cost: Cost is a significant factor, as both the initial investment in software and the ongoing expenses for updates, licenses, and technical support can be substantial.

Lack of Expertise: Lack of expertise can be a challenge; implementing and effectively using accounting software often requires specialized training and skills, which can be time-consuming and costly to develop or acquire.

Technical failure: Technical failures also pose a risk, with potential issues like system downtime or data loss impacting financial operations if proper backup and recovery measures aren't in place.

Fear of Unemployment: The fear of unemployment is a concern, as automation might lead to job displacement or reduced roles for accounting professionals, causing resistance to new technology and altering job dynamics.

Types of Accounting Software

Ready-to-Use Accounting Software: Ready-to-Use Accounting Software, also called off-the-shelf software, is pre-made and available for small and medium-sized businesses. It's designed to handle basic accounting tasks and has built-in features for managing financial data. Examples include QuickBooks, Wave Accounting, and Xero.

Customized Software: software which can be modified as per the requirement of the users is called customized software. Today, many vendors provide branded applications for accounting but customers opt for custom accounting software because of its uniqueness and suitability.

Tailor-Made Accounting Software: Tailor-Made Accounting Software is custom-built to fit the specific needs of a business. It's flexible and can be adjusted to suit the unique requirements of larger companies that have more complex accounting needs. This type of software offers a lot of automation and can integrate with other systems. Examples include SAP and Oracle Financials.