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Study Material

Paper Name	**:**	**ACCOUNTING FOR MANAGEMENT**
Paper Code	:	23UBXC002
Batch	:	2024-25
Semester	:	Odd Semester
Staff In charge	:	Mr. K. Karthick M.com., B.Ed., MBA.,

PRINCIPAL

MODELQUESTIONPAPER

TIME:3HOURS **MAXIMUM :75MARKS**

PART–A(15 x1=15Marks)

[AnswerallQuestions]

1. FromUnit–I
2. FromUnit–I
3. FromUnit–I
4. FromUnit–II
5. FromUnit–II
6. FromUnit–II
7. FromUnit–III
8. FromUnit–III
9. FromUnit–III
10. FromUnit–IV
11. FromUnit–IV
12. FromUnit–IV
13. FromUnit–V
14. FromUnit–V
15. FromUnit–V

PART–B(2x5 =10Marks)

[AnswerANY TWO Questions& Answertoeachquestionshallnot exceedthreepages]

16. FromUnit–I
17. FromUnit– II
18. FromUnit– III
19. FromUnit– IV
20. FromUnit– V

PART– C (3x10 =30Marks)

[AnswerALL FIVE Questions&Answertoeach questionshallnotexceed sixpages]

21. A)FromUnit– I ORB)FromUnit– I

22. A)From Unit – II OR B)From Unit – II

23. A)From Unit – III OR B)From Unit – III

24. A)From Unit – IV OR B)From Unit – IV

25. A)From Unit – V OR B)From Unit – V

ACCOUNTING FOR MANAGEMENT - BBA23UBXC002

UNIT - I

Meaning and scope of Accounting, Basic Accounting Concepts and Conventions – Objectives of Accounting – Accounting Transactions – Double Entry Book Keeping – Journal, Ledger, Preparation of Trial Balance

UNIT – II

Subsidiary book – Preparation of cash Book – Bank reconciliation statement – rectification of errors – Suspense account

UNIT - III

Preparation of Final Accounts – Adjustments – Closing stock, outstanding, prepaid and accrued, depreciation, bad and doubtful debts, provision and discount on debtors and creditors, interest on drawings and capital.

UNIT – IV

Hire Purchase System – Default and Repossession – Hire Purchase Trading Account – Installment System

UNIT - V

Single Entry – Meaning, Features, Defects, Differences between Single Entry and Double Entry System – Statement of Affairs Method – Conversion Method

Reading List

1. Goel.D.K and Shelly Goel, 2018, Financial Accounting, Arya Publications, 2nd edition.

2. Jain .S.P &Narang .K, 1999, Financial Accounting, Kalyani Publishers, Ludhiana, 4th edition

3. Rakesh Shankar. R &Manikandan.S, Financial Accounting, SCITECH, 3rd edition.

4. Shukla&Grewal, 2002, Advanced Accounting, Sultan Chand &Sons,New Delhi, 15th edition.

5. Tulsian P.C., 2006, Financial Accounting, Pearson Education

References Books

1. Dr.K.Ganesan&S.UshenaBegam – Accounting for Managers - Volume 1, Charulatha Publications, Chennai

2. TS Reddy & amp; A.Murthy; Financial Accounting -MarghamPublications , 6th Edition, 2019

3. David Kolitz; Financial Accounting – Taylor and Francis group, USA 2017

4. M N Arora; Accounting for Management- Himalaya Publications House 2019.

5. SN Maheswari; Financial Accounting - Vikas Publishing House, Jan 2018.

6. T. Horngren Charles, L. Sundern Gary, A. Elliott John; Introduction to Financial Accounting, Pearson Publications Oct 2017.

UNIT - I

INTRODUCTION

In all activities (whether business activities or non-business activities) and in all organizations (whether business organizations like a manufacturing entity or trading entity or non-business organizations like schools, colleges, hospitals, libraries, clubs, temples, political parties) which require money and other economic resources, accounting is required to account for these resources. In other words, wherever money is involved, accounting is required to account for it. Accounting is often called the language of business. The basic function of any language is to serve as a means of communication. Accounting also serves this function.

MEANING OF ACCOUNTING:

Accounting, as an information system is the process of identifying, measuring and communicating the economic information of an organization to its users who need the information for decision making. It identifies transactions and events of a specific entity. A transaction is an exchange in which each participant receives or sacrifices value (e.g. purchase of raw material). An event (whether internal or external) is a happening of consequence to an entity (e.g. use of raw material for production). An entity means an economic unit that performs economic activities.

DEFINITION OF ACCOUNTING:

According to the **American Institute of Certified Public Accountants (AICPA)** “Accounting is the art of recording, classifying and summarizing in a significant manner and in terms of money transaction and events which are of it financial character and interpreting the result thereof”

DEFINITION OF BOOK- KEEPING

Book keeping may be defined as the science as well as the art of recording business transaction under appropriate accounts.

TYPES OF BOOK KEEPING

There are two types of book keeping. They are as follows.

1. Double entry system
2. Single entry system

1. Double entry system:

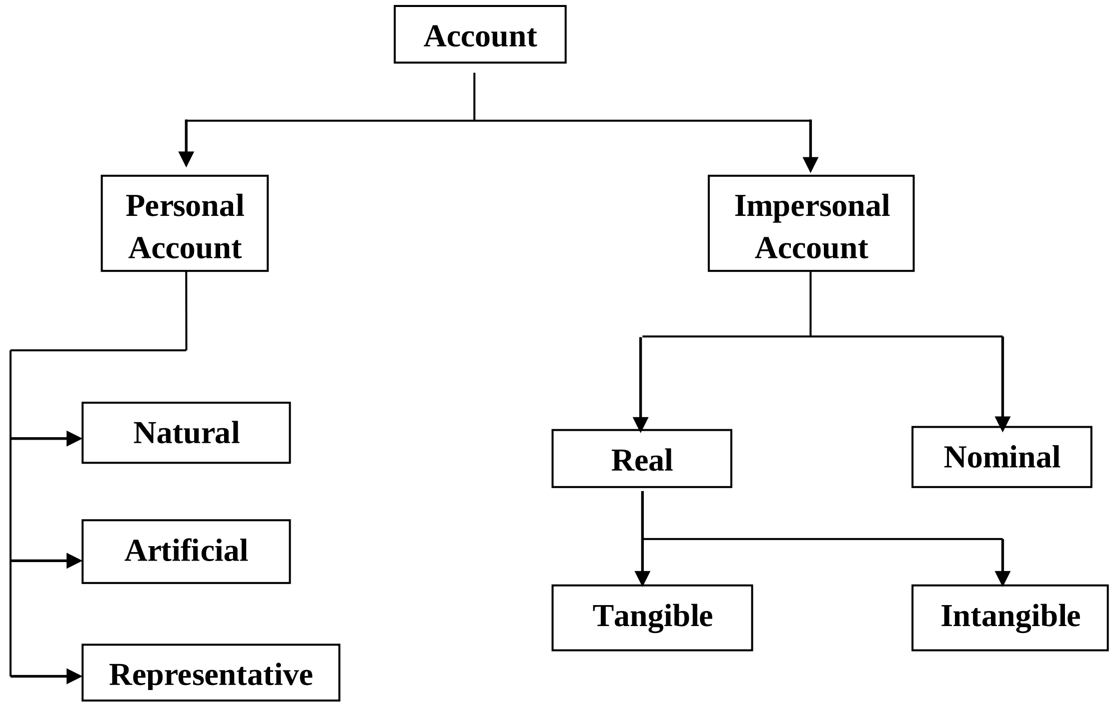
Under the double entry system for every transaction we make two entries. For every transaction we debit one account and credit another account. If we want to debit one account we must credit another account. If we want to credit one account we must debit another account. There cannot be a Debit without a Credit. There cannot be a Credit without a Debit. Thus the word debit and credit always go together.

2. **Single entry system**

Under the single entry system, for most of the transactions we make only one entry. For a few transactions, two entries are made and some transactions are not recorded at all. It is wrong to call it a system. It is incomplete and imperfect.

CLASSIFICATION OF ACCOUNT:-

An account can be classified into the following categories:



1. **PERSONAL ACCOUNT:-**

It is an account relating to persons. The person may be natural, artificial or representative.

a) **Natural person's account:-**

Natural person refers to the human beings. **For example**, Rahul's Account. Natural person's account includes proprietor's account. For proprietor, two personal accounts, namely, Capital account and Drawings account are maintained.

b) **Artificial person's account:-**

Artificial person refers to the person other than human beings who is recognized by law as a person. It includes business concerns, charitable institutions, etc.,
Example: Bank account, XYZ Limited account.

c) **Representative personal account:-**

It is the account which represents a person or a group or persons, **Example**: Salary outstanding account, prepaid expenses account.

2. **IMPERSONAL ACCOUNT:-**

An account, which is not a personal account, is called impersonal account. It can be classified as:

a) Real Account   b) Nominal Account

a) Real Account:-

It is an account of things or properties. It can be classified into:

i) Tangible real account: It is an account of such things, which have physical existence.
Example: Land, buildings, Sales, Purchases, Salem returns and Purchases returns.

ii) Intangible real account : This represents account of things or assets having no physical existence.
Example: Goodwill, Trademarks, Copy rights, Patent rights.

b) Nominal Account:-

An account relating to incomes, gains, expenses and losses is called nominal account. Example: Salary, interest.

EXAMPLES of various accounts

Personal A/c	Real A/c	Nominal A/c
Dhoni's A/c	Sales, Sales returns	Salary
Capital	Purchases, Purchase returns	Printing expenses
Drawings	Cash	Postage
Bank	Machinery	Loss on sale of fixed assets
Bank overdraft	Furniture	Profit on sale of fixed assets
Bills payable	Buildings	Discount
Bills receivable	Motor vehicles	Commission
Outstanding expenses	Stock	Wages
Prepaid expenses	Good will	Carriage
Income received in advance	Copy rights	Freight
Income accrued but nor received	Patent Rights	Advertisement
	Trade marks	Interest

GOLDEN RULES OF DEBIT AND CREDIT

- **PERSONAL ACCOUNTS:**

  Debit the Receiver

  Credit the Giver

- **REAL OR PROPERTY ACCOUNT**

  Debit what Comes In

  Credit what Goes Out

- **NOMINAL ACCOUNT**

  Debit all Expenses and Losses

Credit all Incomes and Gains.

ACCOUNTING CONCEPT AND CONVENTIONS

1 .ACCOUNTING CONCEPTS

Accounting concept refers to certain necessary assumption or conditions on which the accounting system is based. Assumption provides a foundation for the accounting process. In general both accounting concepts and conventions are accepted as accounting principles

Accounting principle = Accounting concepts + conventions

a) Accounting entity concept

According to this assumption business is treated as a unit or entity apart from its owners, creditors and others. In other words the proprietor of a business concern is always considered to be separate and distinct from the business which he controls. All the business transactions are recorded in the books of accounts from the view point of the business. Even the proprietor is treated as a creditor to the extent of his capital.

b) Money measurement concept.

In accounting, only those business transactions and events which are of financial nature are recorded. For example when sales manager is not on good terms with production manager, the business is bound to suffer. This fact will not be recorded because it cannot be measured in terms of money.

c) Accounting period concept.

The user of financial statement needs periodical report to know the operational result and the financial position of the business concern. Hence it becomes necessary to close the accounts at regular intervals. Usually a period of 365 days or 52 weeks or 1 year is considered as the accounting period.

d) Going concern concept

As per this concept the business will exist for a long period and transaction are recorded from this point of view. There is neither the intension nor the necessary to wind up the business in the features.

e) Dual aspect concept

Dual aspect principle is the basis for double entry system of book keeping. All business transactions recorded in accounts have two aspects- receiving benefit and giving benefit. For example when a business acquires an asset (receiving of benefit) it must pay cash (giving of benefit)

f) Revenue realization concept

This concept deals with the point of time at which the revenue is taken as earned. It says that revenue is realized when goods are transferred or services are rendered to a customer. An order received from a customer is not taken as revenue earned or realized. Realization of revenue takes place only on the execution of that order.

g) Historical cost concept

Under this concept assets are recorded at the price paid to acquire them and this cost is the basis for all subsequent accounting for the asset. For example if a piece of land is purchased for Rs.5,00,000 and its market value is Rs 8,00,000 at the time of preparing final accounts, the land value is recorded only for Rs 5,00,000. Thus the balance sheet does not indicate the price at which the assets could be sold for.

h) Matching concept

In order to ascertain the profit or loss of a business the cost incurred during the accounting period must be matched against the revenue earned during that period. As per the matching concept only those expenses pertaining to the current accounting period must be matched against the revenue relating to the same period.

i) Full disclosure concept

Accounting statements should disclose fully and completely all the significant information. Based on this, decision can be taken by various interested parties. It involves proper classification and explanations of accounting information which are published in the financial statement.

j) Verifiable and objective evidence concept

This principle requires that each recorded business transactions in the books of accounts should have an adequate evidence to support it. For example cash receipt for payment made. As accounting records are based on documentary evidence which are capable of verification it is universally acceptable.

II. ACCOUNTING CONVENTIONS

In order to have universal acceptance the practice of accounting has to followed certain conventions or principles. The following are the major principles used in accounting procedure.

a) Convention of disclosure

This convention suggests that all accounting statements must be prepared honestly and must contain all relevant material information. But it does not mean that trade secrets or similar matters must be made public. It implies that the published financial statements must fully disclose the true and fair view of the state of affairs of the concern for a particular period or on particular date.

b) Convention of consistency

Comparability is one of the important characteristics of accounting. Management can draw important conclusions and take appropriate decisions only by comparing the financial statements of one year with that of another year. This if possible only if the convention of consistency is followed. It is a fundamental principle that accounting policies are consistent from one period to another.

c) Convention of conservation

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

d) <u>Convention of materiality</u>

Financial statements should disclose all material items which might influence the decisions of the users of financial statements. Hence any item which is not significant and is not relevant to the users need not be disclosed in the financial statements.

This principle is basically an exception to the full disclosure principle. The term materiality is subjective in nature.Materiality depends on the amount involved in the transaction, size of the business, nature of information, requirement of the person making the decision etc.An item material to one person may be immaterial to another person.

<u>ACCOUNTING EQUATIONS</u> :

Dual aspect concept is the basis for rules of debit and credit used in the double entry system of book keeping. According to this concept every business transaction recorded in accounts has two aspects – giving of benefit and receiving of benefit. The former is the credit aspect and the latter is debit aspect. Both the aspect has to be recorded in accounting appropriately. American accountant derived the rules of debit and credit through a medium called accounting equation. The equation is as follows.

Assets = Equities
Assets = Liabilities + Capital
Capital = Assets – liabilities

<u>Rules of accounting equation</u>

1. **Capital** : When capital is increased, it is credited; when capital is withdrawn it is debited.
2. **Outsider’s liability**: When liabilities increase, outsider’s accounts are credited. When liabilities decrease their accounts are debited.
3. **Revenue income** : Owners’ equity is increased by the amount of revenue income.
4. **Revenue expense** : Owners’ equity is decreased by the amount of revenue expense.
5. **Assets** : If there is increase in assets, the assets, accounts are debited. If there is decrease in assets, the assets accounts are credited.

<u>Conclusion</u>

Accounting equations is the formula which indicates the “equivalence” of assets and capital and liabilities. Recording of all business transactions is based on accounting equations. Balance sheet is the end result of accounting process. The balance sheet itself conforms to accounting equation.

<u>GROUPS INTERESTED IN ACCOUNTING INFORMATION</u>

The users of accounting information can be classified into a) External users b) internal users.

A) <u>EXTERNAL USERS</u>

- **<u>Creditors :</u>**Creditors supply financial resources to the firm. They are interested in the continuing profitable performance of the firm so that they may regularly receive interest and repayment of the principal sum. They need accounting information to evaluate the firm's performance and to determine the risk to which they are exposed.

- **Investors:** Investors are interested in knowing whether the performance of the company is good so that they can get a better return on their investment

- **Government:** Government needs information to assess tax for providing subsidies to the business unit and for other purposes.

- **Customers:** Customers need information to satisfy them that the business unit will provide goods and services continuously and the price charged by it is reasonable.

- **Researchers :**Researchers to carry out their research can make use of accounting information.

B) INTERNAL USERS

- **Owners**Owners have the primary interest in the financial information. They have entrusted their financial resources to the firm and, therefore, would like to know periodically its performance. Managers are the custodians of their investments and, therefore, they must submit periodical financial reports to owners.

- **Employees :**Employees need the information to assess their job security and for getting better salary and bonus.

- **Management:** The efficiency of management can be accessed from the results of the organization which information can be obtained from the accounting records.

OBJECTIVES OF ACCOUNTING

Objective of accounting may differ from business to business depending upon their specific requirements. However, the following are the general objectives of accounting.

i) To keeping systematic record: It is very difficult to remember all the business transactions that take place. Accounting serves this purpose of record keeping by promptly recording all the business transactions in the books of account.

ii) To ascertain the results of the operation: Accounting helps in ascertaining result i.e., profit earned or loss suffered in business during a particular period. For this purpose, a business entity prepares either a Trading and Profit and Loss account or an Income and Expenditure account which shows the profit or loss of the business by matching the items of revenue and expenditure of the same period.

iii) To ascertain the financial position of the business: In addition to profit, a businessman must know his financial position i.e., availability of cash, position of assets and liabilities etc. This helps the businessman to know his financial strength. Financial statements are barometers of health of a business entity.

iv) To portray the liquidity position: Financial reporting should provide information about how an enterprise obtains and spends cash, about its borrowing and repayment of borrowing, about its capital transactions, cash dividends and other distributions of resources by the enterprise to owners and about other factors that may affect an enterprise's liquidity and solvency.

v) To protect business properties: Accounting provides up to date information about the various assets that the firm possesses and the liabilities the firm owes, so that nobody can claim a payment which is not due to him.

vi) To facilitate rational decision –making: Accounting records and financial statements provide financial information which help the business in making rational decisions about the steps to be taken in respect of various aspects of business.

vii) To satisfy the requirements of law: Entities such as companies, societies, public trusts are compulsorily required to maintain accounts as per the law governing their operations such as the Companies Act, Societies Act, and Public Trust Act etc. Maintenance of accounts is also compulsory under the Sales Tax Act and Income Tax Act.

FUNCITIONS OF ACCOUNTING

i) Record Keeping Function: The primary function of accounting relates to recording, classification and summary of financial transactions- journalisation, posting, and preparation of final statements. These facilitate to know operating results and financial positions. The purpose of this function is to report regularly to the interested parties by means of financial statements. Thus accounting performs historical function i.e., attention on the past performance of a business; and this facilitates decision making programme for future activities.

ii) Managerial Function: Decision making programme is greatly assisted by accounting. The managerial function and decision making programmes, without accounting, may mislead. The day-to-day operations are compared with some pre-determined standard. The variations of actual operations with pre -determined standards and their analysis are possible only with the help of accounting.

iii) Legal Requirement function: Auditing is compulsory in case of registered firms. Auditing is not possible without accounting. Thus accounting becomes compulsory to comply with legal requirements. Accounting is a base and with its help various returns, documents, statements etc., are prepared.

iv) Language of Business: Accounting is the language of business. Various transactions are communicated through accounting. There are many parties-owners, creditors, government, employees etc., who are interested in knowing the results of the firm and this can be communicated only through accounting. The accounting shows a real and true position of the firm or the business.

ADVANTAGES OF ACCOUNTING

1. **Maintaining systematic records:** It is a primary function of accounting to keep a proper and chronological record of transactions and events, which provides a base for further processing and proof for checking and verification purposes. It embraces writing in the original/subsidiary books of entry, posting to ledger, preparation of trial balance and final accounts.

2. **Meeting legal requirements**: Accounting helps to comply with the various legal requirements. It is mandatory for joint stock companies to prepare and present their

accounts in a prescribed form. Various returns such as income tax, sales tax are prepared with the help of the financial accounts.

3. **Protecting and safeguarding business assets**: Records serve a dual purpose as evidence in the event of any dispute regarding ownership title of any property or assets of the business. It also helps prevent unwarranted and unjustified use. This function is of paramount importance, for it makes the best use of available resources.

4. **Facilitates rational decision-making: Accounting** is the key to success for any decision-making process. Managerial decisions based on facts and figures take the organisation to heights of success. An effective price policy, satisfied wage structure, collective bargaining decisions, competing with rivals, advertisement and sales promotion policy etc. all owe it to well set accounting structure. Accounting provides the necessary database on which a range of alternatives can be considered to make managerial decision-making process a rational one.

5. **Communicating and reporting:** The individual events and transactions recorded and processed are given a concrete form to convey information to others. This economic information derived from financial statements and various reports is intended to be used by different groups who are directly or indirectly involved or associated with the business enterprise

NATURE AND SCOPE OF FINANCIAL ACCOUNTING:

Financial accounting is a useful tool to management and to external users such as shareholders, potential owners, creditors, customers, employees and government. It provides information regarding the results of its operations and the financial status of the business. The following are the functional areas of financial accounting:-

- **Dealing with financial transactions:** Accounting as a process deals only with those transactions which are measurable in terms of money. Anything which cannot be expressed in monetary terms does not form part of financial accounting however significant it is.
- **Recording of information:** Accounting is an art of recording financial transactions of a business concern. There is a limitation for human memory. It is not possible to remember all transactions of the business. Therefore, the information is recorded in a set of books called Journal and other subsidiary books and it is useful for management in its decision making process.
- **Classification of Data:** The recorded data is arranged in a manner so as to group the transactions of similar nature at one place so that full information of these items may be collected under different heads. This is done in the book called 'Ledger'. For example, we may have accounts called 'Salaries', 'Rent', 'Interest', Advertisement', etc. To verify the arithmetical accuracy of such accounts, trial balance is prepared.
- **Making Summaries:** The classified information of the trial balance is used to prepare profit and loss account and balance sheet in a manner useful to the users of accounting

information. The final accounts are prepared to find out operational efficiency and financial strength of the business.

- **Analyzing:** It is the process of establishing the relationship between the items of the profit and loss account and the balance sheet. The purpose is to identify the financial strength and weakness of the business. It also provides a basis for interpretation.
- **Interpreting the financial information:** It is concerned with explaining the meaning and significance of the relationship established by the analysis. It should be useful to the users, so as to enable them to take correct decisions.
- **Communicating the results:** The profitability and financial position of the business as interpreted above are communicated to the interested parties at regular intervals so as to assist them to make their own conclusions.

LIMITATIONS OF FINANCIAL ACCOUNTING:

One of the major limitations of financial accounting is that it does not take into account the non-monetary facts of the business like the competition in the market, change in the value for money etc. The following limitations of financial accounting have led to the development of cost accounting:

1. **No clear idea of operating efficiency**: You will agree that, at times, profits may be more or less, not because of efficiency or inefficiency but because of inflation or trade depression. Financial accounting will not give you a clear picture of operating efficiency when prices are rising or decreasing because of inflation or trade depression.

2. **Weakness not spotted out by collective results**: Financial accounting discloses only the net result of the collective activities of a business as a whole. It does not indicate profit or loss of each department, job, process or contract. It does not disclose the exact cause of inefficiency i.e. it does not tell where the weakness is because it discloses the net profit of all the activities of a business as a whole.

3. **Not helpful in price fixation**: In financial accounting, costs are not available as an aid in determining prices of the products, services, production order and lines of products.

4. **No classification of expenses and accounts:** In financial accounting, there is no such system by which accounts are classified so as to give relevant data regarding costs by departments, processes, products in the manufacturing divisions, by units of product lines and sales territories, by departments, services and functions in the administrative division. Further expenses are not attributed as to direct and indirect items. They are not assigned to the products at each stage of production to show the controllable and uncontrollable items of overhead costs.

5. **No data for comparison and decision-making**: It will not provide you with useful data for comparison with a previous period. It also does not facilitate taking various financial decisions like introduction of new products, replacement of labour by machines, price in normal or special circumstances, producing a part in the factory or sourcing it from the market, production of a product to be continued or given up, priority accorded to different products and whether investment should be made in new products etc.

6. **No control on cost:** It does not provide for a proper control of materials and supplies, wages, labour and overheads.

7. **No standards to assess the performance**: In financial accounting, there is no such well-developed system of standards, which would enable you to appraise the efficiency of the organisations in using materials, labour and overhead costs. Again, it does not provide you any such information, which would help you to assess the performance of various persons and departments in order that costs do not exceed a reasonable limit for a given quantum of work of the requisite quality.

8. **Provides only historical information**: Financial accounting is mainly historical and tells you about the cost already incurred. As financial data is summarized at the end of the accounting period it does not provide day-to-day cost information for making effective plans for the coming year and the period after that.
9. **No analysis of losses:** It fails to provide complete analysis of losses due to defective material, idle time, idle plant and equipment. In other words, no distinction is made between avoidable and unavoidable wastage.

10. **Inadequate information for reports:** It does not provide adequate information for reports to outside agencies such as banks, government, insurance companies and trade associations.

11. **No answer to certain questions**: Financial accounting will not provide you with answers to such questions as:

    - Should an attempt be made to sell more products or is the factory operating to its optimum capacity?
    - If an order or contract is accepted, is the price obtainable sufficient to show a profit?
    - If the manufacture or sales, of product X were discontinued and efforts made to increase the sale of Y, what would be the effect on the net profit?
    - Why the annual profit is of a disappointing amount despite the fact that output was increased substantially?
    - If a machine is purchased to carry out a job, which at present is done by hand, what effect will this have on the profit line?
    - Wage rates having been increased by 50 paisa per hour, should selling price be increased and if so, by how much?

1. JOURNALS

A journal is chronological record of transactions showing the names of accounts to be debited and credited and the amount to be debited and credited. The form of journal is given below.

JOURNALS

Date	Particular	L.F	Dr (Rs)	Cr (Rs)

MODEL JOURNAL ENTRIES:

SL. NO PARTICULARS DEBIT (RS) CREDIT (RS)

1. **FOR INTRODUCTION CASH AS CAPITAL** :

Cash A/c	Dr	xxxx	
To Owners capital A/c			xxxx
(Being cash introduced as capital into business)			

2. **FOR INTRODUCTION OF ASSETS AS CAPITAL** :

Respective Assets A/c	Dr	xxxx	
To capital A/c			xxxx
(Being assets introduced as capital into business)			

3. **FOR CASH PURCHASES OF GOODS** :

Purchase A/c	Dr	xxxx	
To Cash A/c			xxxx
(Being purchases made for cash)			

4. **FOR CREDIT PURCHASE OF GOODS** :

Purchase A/c	Dr	xxxx	
To Suppliers A/c			xxxx
(Being credit purchase made)			

5. **FOR CASH SALES OF GOODS** :

Cash A/c	Dr	xxxx	
To Sales A/c			xxxx
(Being cash sales made)			

6. **FOR CREDIT SALES OF GOODS** :

Customers A/c	Dr	xxxx	
To Sales A/c			xxxx
(Being credit sales made)			

7. **FOR PURCHASE RETURN OF GOODS** :

Suppliers A/c Dr xxxx

To Purchase Return A/c xxxx

(Being good returned to supplier)

8. **FOR SALES RETURN OF GOODS** :

Sales Return A/c Dr xxxx

To Party A/c xxxx

(Being goods returned by customer)

9. **FOR EXPENSES PAID BY CASH** :

Respective expenses A/c Dr xxxx

To Cash A/c xxxx

(Being cash paid for expenses)

10. **FOR EXPENSES PAID BY CHEQUE** :

Respective expenses A/c Dr xxxx

To Bank A/c xxxx

(Being cheque paid for expenses)

11. **FOR INCOME RECEIVED IN CASH** :

Cash A/c Dr xxxx

To Respective expenses A/c xxxx

(Being income received by cash)

12. **FOR INCOME RECEIVED BY CHEQUE** :

Bank A/c Dr xxxx

To Respective expenses A/c xxxx

(Being income received as cheque)

13. **FOR PURCHASES OF ASSETS BY CASH** :

Respective assets A/c Drxxxx

To Cash A/c xxxx

(Being assets purchase and cash paid)

14. **FOR PURCHASES OF ASSETS ON CREDIT** :

Respective assets A/c Drxxxx

To Party A/c xxxx

(Being assets purchased on credit)

15. **FOR PROVIDING DEPRECIATION OF ASSETS** :

Depreciation A/c Dr xxxx

To Assets A/c xxxx

(Being depreciation provided)

16. **FOR DEPOSITING CASH INTO BANK** :

Bank A/c Dr xxxx

To Cash A/c xxxx

(Being cash deposited into bank)

17. **FOR WITHDRAWING CASH FROM BANK** :

Cash A/c Dr xxxx

To Bank A/c xxxx

(Being cash withdrawing from bank for office use)

18. **FOR CASH WITHDRAWING FOR PERSONAL USE** :

Drawing A/c Dr xxxx

To Cash A/c xxxx

(Being cash withdrawing for personal use)

19. **FOR GOODS WITHDRAWING FOR PERSONAL USE** :

Drawing A/c Dr xxxx

To Purchase A/c xxxx

(Being goods taken for personal use)

2. LEDGERS

A ledger is a collection of all accounts debited or credited in the general journal or various special journals. It is the principal or main book of an accounting system. It is the main book as it contains a summarized record of all the transactions of the period. A ledger is usually in the form of a bound register. It may also be in the form of cards or separate sheets maintained in a loose leaf binder. In the ledger each account is opened preferably on a separate page.

3. POSTING

The process of transferring entries from books of original entry to the ledger is called "posting". It is bringing together all transactions in respect of one particular account at one place for further accounting process.

TRIAL BALANCE: Trial balance is a statement prepared with the balances or total of debits and credits of all the accounts in the ledger to test the arithmetical accuracy of the ledger accounts. If the total of the debit and credit amount columns of the trial balance equal it is assumed that the posting to the ledger in terms of debit and credit amount is accurate.

Objectives of preparing a Trial Balance

1) To ascertain arithmetical accuracy of ledger accounts
2) To help in locating errors
3) To help in preparation of final accounts
4) Summary of each account.

FORMAT OF A TRIAL BALANCE:

PARTICULARS	DEBIT (RS)	CREDIT (RS)
CASH	XXXXX	
BANK	XXXXX	
STOCK	XXXXX	
DEBTORS	XXXXX	
BILLS RECEIVABLE	XXXXX	
PREPAID EXPENSES	XXXXX	
ACCRUED INCOME	XXXXX	
INVESTMENTS	XXXXX	
FURNITURE	XXXXX	
VEHICLES	XXXXX	
MACHINERY	XXXXX	
LAND & BUILDINGS	XXXXX	
PURCHASES	XXXXX	
WAGES	XXXXX	
CARRIAGE	XXXXX	
SALES RETURN	XXXXX	
OFFICE EXPENSES	XXXXX	

SELLING EXPENSES	XXXXX	
SALES		XXXXX
INCOME RECEIVED IN ADVANCE		XXXXX
PURCHASE RETURN		XXXXX
CAPITAL		XXXXX
LOANS		XXXXX
CREDITORS		XXXXX
BILLS PAYABLE		XXXXX
OUTSTANDING EXPENSES		XXXXX

UNIT- I

PART – A

CHOOSE THE CORRECT ANSWER: - (1 MARKS)

1. The origin of a transaction is derived from the

A) source document B) Journal C) Accounting equation

2. Amount owned by the proprietor is called

A) Assets B) Liabilities C) Capital D) Credit

3. The accounting equation is connected with

A) Assets only B) Liabilities only C) Assets, Liabilities and capital

4. Goods sold to srinivasan should be credited to

A) Cash A/c B) Srinivasan A/c C) Sales A/c

5. Purchased goods from venkat for cash should be credited to

A) venkat A/c B) Cash A/c C) Purchases A/c

6. Withdrawals f cash from bank by the properties for office use should be credited to

A) Drawings A/c B) Bank A/c C) Cash A/c

7. Purchased goods from murthy on credit should be credited to

A) murthy A/c B) Bank A/c C) Cash A/c

8. An entry is passed in the beginning of each current year is entry

A) Original entry B) Final entry C) Opening entry

9. Ledger is book of

A) Original entry B) Final entry C) All cash transaction

10. Personal and real accounts are

A) Closed B) Balanced C) Closed & transferred

11. The column of ledger which links the entry with journal is

A) L.F Column B) J.F Column C) Particulars column

12. Posting on the credit side of an account is written as

A) To B) By C) Being

13. Nominal Accounts having credit balance represents

A) Income/ gain B) Expenses /losses C) Assets

14. Real accounts always show

A) Debit balance B) Credit balance C) NIL Balance

15. Accounts having credit balance is closed by writing

A) To balanced B/d B) By balance C/d C) to balance C/d

16. When the total of debits and credit are equal, it represents

A) Debit balance B) Credit balance C) Nil balance

17. The balances of personal and real accounts are shown in the

A) Profit and loss account B) Balance Sheet C) Above 2

18. Purchase of machinery is recorded in

A) Sales book B) Journal proper C) purchase book

19. Purchase book is kept to record

A) All purchases B) only cash purchases C) only credit purchased

20. Credit sales are recorded in

A) Sales book B) Cash book C) Journal proper

21. Goods returned by customer are recorded in

A) Sales book B) Sales return book C) purchase return book

22. On 1st January 2003, chandran draws a bill on sundar for 3 months, its due date is

A) 31st march 2003 B) 1st April 2003 C) 4th April 2003

23. The cash book records

A) All cash payments B) All cash receipts C) All cash receipts & payments

24. When goods are purchased for cash, the entry will be recorded in the

A) Cash book B) purchase book C) journal

25. Petty cash may be used to pay

A) Salaries to staff B) purchases on furniture C) Expenses relating to post and telegrams

ANSWERS:-

1) A 2) C 3)C 4) B 5) B 6) B 7) A 8) B 9) B 10) B 11) B 12) B 13) A 14) A 15) C 16) C

17) B 18) B 19) C 20) A 21) B 22) C 23) C 24) A 25) C

5 MARKS

1. Briefly explain the conventions of accounting.

2. Explain the Branches of Accounting.

3. List out the objectives of the accounting in detail..

4. What are the golden rules of accountancy.

5. Discuss the importance of accounting.

6. Explain the external users of accounting information.

7. Explain the advantages of double entry system.

8. Write the difference between journal and ledger.

10 MARKS

1. Explain the accounting concepts and conventions.

2. Journalize the following detail and post the respective ledgers.

a) Owner start the business with cash RS 1,00,000 and asset RS 50,000.

b) Cash sales RS 10,000

c) Credit purchase of goods RS 5,000

d) Cash deposit in to bank RS 2,000

e) Cash withdrawn for personal use RS 3,000

f) Asset purchase RS 15,000

g) Rent paid by cash RS 500

3. Briefly explain the scope of accounting.

4. Draw a format of Trial balance.

UNIT – II

SUBSIDIARY BOOKS

Under the double entry system of book keeping the journal which is the book of prime entry is sub divided into various books and they are called sub divisions of the journal or subsidiary books. The following are the subsidiary books maintained under double entry system.

- Purchase book

All purchases intended for re sale are recorded in this book. It is also called invoice book. The documentary evidence to record transactions is the inward invoice received from the buyer. At the end of the month the book is totaled and transferred to the debit of purchase account in the general or nominal ledger.

SPECIMEN OF PURCHASE BOOK :

Date	Particulars	Invoice No	Ledger folio	Details	Amount (Rs)

- Sales book

This is also called day book. All credit sales are recorded in this journal with the help if outward invoice sent to all customers. At the end of the month the total of this book is transferred to the credit side of sales account in the general ledger.

SPECIMEN OF SALES BOOK :

Date	Particulars	Invoice No	L.F	Gross amount	Trade discount	Net amount	Sales tax	Total amount

- Purchase return book

This is also called as returns outwards book. The entries in this book are made from the debit notes sent to the suppliers for goods returned by them. The total of this book at the end of the month is transferred to purchase return account to the credit side in the general ledger.

SPECIMEN OF PURCHASE RETURN BOOK :

Date	Particulars	Debit note	L.F	Amount	Remarks

		No			

❖ Sales return book

This is also called as returns inwards book. The entries in this book are made from credit notes sent to our customers for goods returned to us. The total of this book is transferred at the end of the month to the debit of sales return account in the general ledger.

SPECIMEN OF SALES RETURN BOOK :

Date	Particulars	Credit note No	L.F	Amount	Remarks

❖ **Cash book:** This serves both as a journal and a ledger. All cash transactions are recorded in this book. It has got two sides, the debit side representing receipts, and the credit side representing payments. There are three types of cash book.

A.) Single column cash book: Single column cash book is one which has only one column for amount on each side. In this type of cash book all cash receipts are recorded on the debit side and all cash payments on the credit side.

SPECIMEN OF A SINGLE COLUMN CASH BOOK:

DR **CASH BOOK** **CR**

Date	Receipts	R.N	L.F	Amount	Date	Payments	V.N	L.F	Amount

R.N = Receipt number, L.F = Ledger Folio, V.N = Voucher number

B.) Double column cash book, [cash with discount column]

As the name suggests this type of cash book contains two additional columns for amounts namely (1) cash receipts or payments and (ii) discount allowed or received. The discount is an incentive given or received for prompt payment. In order to record discount one additional column on both the sides of the cash book is added in this type of cash book.

SPECIMEN OF A DOUBLE COLUMN CASH BOOK:

DR **CASH BOOK**

CR

Dat	Receipt	R.	L.	Discou	Amou	Dat	Payme	V.	L.	Discou	Amou

e	s	N	F	nt	nt	e	nt	N	F	nt	nt

C.) Three column cash book [cash with discount column and bank column]

This type of cash book is used by big business houses where large number of transaction and receipts and payments are made though cheque. Under this cash book, three columns meant for 1. Discount 2.Cash and 3. Bank, are shown on both sides of the cash book. Other columns remains as usual. As this cash book contains three column it is termed as Three Column Cash Book.

SPECIMEN OF A THREE COLUMN CASH BOOK:

DR **CASH BOOK** **CR**

Date	Receipts	R.N	L.F	Discount	Cash	Bank	Date	Payment	V.N	L.F	Discount	Cash	Bank

❖ <u>Petty cash book</u>

While large payments are made by “account payee” crossed cheque by large business firms, for small payments such as cartage, coolly, postage and telegrams, sundry charges, taxi fare etc, only cash payment are made. For making such payments sufficient amount of cash is kept in the office by a clerk in charge and he is called petty cashier

❖ <u>Bills receivable book</u>

Transaction regarding bills receivable accepted by our customers are recorded in this book. This is kept in columnar form. At the end of the month the total of this book is transferred to bills receivable accounts debit side in the ledger.

❖ <u>Bills payable book</u>

When bills are accepted by us and drawn by our suppliers they are entered in this book which is maintained in columnar form. The total of this book at the end of the month is transferred to the credit side of bills payable account ledger.

Importance or Objectives or Advantages of Subsidiary Books

1. **Saving of Time and Labor:** If all the transactions of similar nature are recorded together in a separate book, a considerable amount of labor and time can be saved. There is no need of preparing journal for each transaction with its narration. In other hands, different subsidiary books may be prepared by different clerks so that all the transactions are entered in subsidiary immediately as they occur. For example, many credit purchases of all the day can be recorded in purchase book as a single entry.
2. **Divisions of Works:** Recording of transaction in subsidiary books can be performed by different clerk as per nature of subsidiary books. It means a person may be employed to

record the purchase on credit whereas another may be for credit sales. Thus, it introduces the division of labor. Division of labor increases the work efficiency of labors. The working labors have the specialization on their job.

3. **Quick Access to Information:** Since the transactions relating to one particular head are recorded in a separate book, it is easy to get any type of information in detail.
4. **Possibility of Internal Check:** Different subsidiary books may be maintained by different clerks and the balance of a subsidiary book determined by a clerk also may be recorded by another clerks while posting into ledgers and preparing trial balance. Thus, error or fraud committed by one may be checked by another.

AVERAGE DUE DATE

Average due date is a mean date on which a single amount can be paid in lieu of several payment on different dates without affecting the interest amount.

Application of average due date

- In settlement of accounts with a creditor or debtor
- In determination of interest on partners drawings
- Settlement of accounts involving a series of bills of exchange due on different dates
- In connection with the settlement of mutual indebtedness, for example A and B sells goods to each others.
- In settlement of accounts between a Principal and an Agent

CALCULATION OF AVERAGE DUE DATE

Calculation of average due date by applying the following formula:

$$\text{Base date} + \frac{\text{Difference in Products}}{\text{Difference in Amounts}}$$

II. ACCOUNT CURRENT

A statement showing the transactions between two parties together with interest is called “Account Current”. The transactions are recorded in the chronological order (date wise). It is a copy of the debtors ledger account in the books of the creditor and vice versa.

The name of the party receiving the statement is written first. Then the phrase “in account current with” followed by the party rendering the statement is written.

SITUATIONS WHEN ACCOUNT CURRENT IS PREPARED

An account current is prepared under the following situations.

- ✓ For transactions between a banker and customers
- ✓ In case of joint venture when no separate set of book is maintained

- ✓ In case of consignment where the consignee is to settle the account at the end of the consignment along with interest on outstanding balance.
- ✓ For transactions regularly taking place between parties and interest is chargeable on outstanding balance.

METHOS OF CALCULATING INTEREST

The following are the methods used to calculate interest:

1. Forward method.
    a. Interest table method
    b. Product method
2. Backward or Epoque method
3. Daily balance or periodical balance method.

1. Forward method

Under this method the number of day are calculated from the date of each transaction to the date of settlement or the closing date of account current. It includes a.) Interest table method and b.)Product method.

a.) Interest table method: Account current will have interest column on both the sides. To calculate the interest amount for each transaction interest table is used. The interest on both the sides are added and then balanced. The balance is recorded in the principal amount column on the side in which the total of interest is higher. This method involves more clerical work as interest has to be calculated for each transaction.

b.) Product method: Under this method account current will have product column on both sides. Amount of each item is multiplied by the number of days and the product will be placed in the product column. The interest amount is calculated on the balance of the product for one day or for one month. The interest amount is recorded in the amount column of the side having higher total of the product.

FORMULA FOR CALCULATING INTEREST

In case the product are in terms of **days:**

$$\text{INTEREST} = \frac{\text{BALANCE OF THE PRODUCT x RATE OF INTEREST}}{365 \times 100}$$

In case the product are in terms of **months:**

$$\text{INTEREST} = \frac{\text{BALANCE OF THE PRODUCT x RATE OF INTEREST}}{12 \times 100}$$

RED INK INTEREST

Under forward method, if due date of a transaction falls under the closing period of the account current, interest should be deducted for the number of days by which the due date falls after the date of account current. In practice the product of such items is written in red ink and hence it is called “red ink interest method”.

1. **Backward or Epoque method**

It is opposite to forward method. Under this method number of days is calculated from the date of beginning of the account to the due date of the transaction. Accounts of the each items is multiplied by the number of days and the product will be placed in the product column. The product column are then added and balanced. The interest amount is calculated on the balance of the product or for one month. He interest amount is recorded in the amount column of the side having lesser total of the product.

2. **Daily balance or periodic balance method**

This method is normally followed by he banks to calculate interest on savings bank account or interest on overdraft, when the rate of interest differs for the debit and credit balances. The savings bank account has debit and credit columns. In the credit column deposits are recorded and debit column withdrawals are recorded.

III. BANK RECONCILIATION STATEMENT [BRS]

DEFINITION

“Bank reconciliation statement is a list in which the various items that causes a difference between bank balance as per cash book and pass book on any given date are indicated”.

NEED AND IMPORTANCE

After tracing the various items of difference a bank reconciliation statement is prepared. The following are its advantages in which lies its importance.

i. The errors that might have taken place in the cash book in connection with bank transactions can be easily found
ii. Regular preparation of bank reconciliation statement prevents frauds
iii. It indirectly imposes moral check on the accounting staff
iv. By the preparation of bank reconciliation statement, un credited cheque can be detected and steps can be taken for their collection.

CAUSES OF DISAGREEMENT

1. Cheques paid into bank but not yet collected
2. Cheques issued but not yet presented for payment
3. Amount credited by the banker in the pass book without the immediate knowledge of the customers

4. Amount debited by the banker in the pass book without the immediate knowledge of the customers.

Difference between Trial Balance and Balance Sheet:

	Trial Balance		Balance Sheet
1	It is prepared to verify the arithmetical accuracy of books of accounts	1	It is prepared to disclose the true financial position of the business
2	It is prepared with balances of all the ledger accounts	2	It is prepared with the balances of assets and liabilities accounts.
3	It is not a part of final accounts	3	It is an important part of final accounts.
4	It is prepared before the preparation of final accounts	4	It is prepared after the preparation of trading and profit and loss account.
5	It may be prepared a number of time in an accounting year.	5	It is generally prepared once at the end of accounting year.
6	Generally, it includes opening stock but not closing stock.	6	It always includes closing stock but not opening stock.
7	There is no rule for arranging the ledger balances in it.	7	Assets and liabilities must be shown in it according to the rule of marshaling.
8	It is not required to be filed to anybody.	8	It must be filed with the registrar of companies if the business is a company.
9	Auditor need not to sign it.	9	Auditor must sign

ONE MARK QUESTIONS

1). 1. In cash book, the favorable balance indicates

A) Credit BalanceB) Debit BalanceC) Bank OverdraftD) Adjusted Balance

Answer: B

2. On the bank statement, cash deposited by the company is known as

A) CreditB) DebitC) LiabilityD) Expenses

Answer: A

3. Bank reconciliation statement compares a bank statement with _________

A) Cash payment journalB) Cash receipt journalC) Financial statements

D) Cashbook

Answer: D

4. What is “Deposit in transit” in bank reconciliation?

A) Added to Bank BalanceB) Subtracted From Bank Balance

C) Subtracted From the Cash Book BalanceD) Added to Cashbook Balance

Answer: A

5. ‘NSF’ marked in cheque sent back by the bank indicates

A) Cheque has been forgedB) A bank couldn’t verify the identity

C) Not sufficient fundsD) A cheque cannot be cashed because it’s illegal

Answer: C

6. Bank reconciliation description is composed of

A) Bank AccountantB) Business ManagerC) Business Accountant

D) Controller of the bank

Answer: C

7. An unadjusted balance in cash book is because of the result of which error?

A) Deposit in transitB) The omission of Bank charges

C) Outstanding chequesD) Presented cheques

Answer: B

8. Unpresented cheques also referred to as

A) Bounced chequesB) Outstanding chequesC) Uncredited cheques

D) Uncollected cheques

Answer: B

9. In cash book, bank charges of ₹5,000 was not recorded. Name the correct cash book adjustment

A) It will be credited in cash bookB) It will be debited in cash book

C) No adjustment needed in the cash bookD) Charges will be added to the cash book balance

Answer: A

10. What type of cheques is that which is issued by a firm but not yet presented to the bank

A) Uncredited chequesB) Outstanding chequesC) Uncollected cheques

D) Bounced cheques

Answer: B

11). The Cash Book debit balance is equivalent to?

A. Credit Balance as per passbook B) Overdraft as per Cash Book C) Overdraft as per Pass BookD) None of the above

Ans: A. Credit Balance as per passbook

12. How is the Bank Reconciliation Statement prepared?

A. By matching entries in the passbook with entries in the bank and cash column of the cash book
B. By matching the entries in the passbook with entries in the bank column of the cash book
C. By matching the entries in the passbook with entries in the cash column of the cash book
D. None of the above

Ans: C. By matching the entries in the passbook with entries in the bank column of the cash book

13. When the Cash amount as per the Cash Book is the beginning point, explicit deposits by the bank holder are known as?

A. Subtracted B) Added C) Not need to be adjustedD) Neither of the two

Ans: B.) Added

14. The Bank Reconciliation Statement is the Part of?

A. Double-entry system
B. Not a Part of the Double-entry system
C. Bank Statement
D. None of all of these

Ans: B.) Not a Part of the double-entry system

15). Who is preparing the Bank Reconciliation Statement?

A. Debtor
B. Creditor
C. Account Holder
D. Bank

Ans: C.) Account Holder

16). Which amount of the following does not need to be adjusted into the cash book balance?

A. Cheques mistakenly credited by the bank
B. Cheques deposited but not cleared
C. cheques issued but not showing
D. All of these

Ans: A.) Cheques mistakenly credited by the bank

17). If the Account holder deposits the cash in the bank, then it is known as?

A. Expense
B. Liability
C. Credit
D. Debit

Ans: C.) Credit

18). A Bank Reconciliation Statement is made up using the ……… from following which?

A. The bank column of the Cashbook and the Bank Statement

B. The Cash column of the Cashbook and Bank statement

C. Bank column of the cash book and cash column of the Cashbook

D. None of all of the above

Ans: A.) The bank column of the Cashbook and the Bank Statement

19). The customer account is …………when he withdraws the amount from the bank?

A. Debited

B. No effect

C. Credited

D. None of these

Ans: A.) Debited

20). **What is the "deposit in transit" treatment in a bank reconciliation?**

A. Recorded in books

B. Recorded in banks

C. Subtracted from the cash book balance

D. Subtracted from the Passbook balance

Ans: A) Added to the passbook balance

21) "NSF" mark in the cheque sent back by the bank indicate?

A. No sufficient funds or money

B. The check has been rejected

C. The Cheque has been forged

D. A bank could not verify the identity

Ans: A.) No sufficient funds or money

22). Unpresented cheques are also known as?

A. Uncollected cheques

B. Uncreditedcheques

C. Outstanding cheques

D. None of all of the above

Ans: C.) Outstanding cheques

23). If any cash balance is instantly deposited into the bank, then it is shown what?

A. Cashbook will show a double balance

B. Cashbook will display less amount of the cash, and the Passbook will demonstrate the more balance

C. Passbook will show a double balance

D. Cashbook will show increased balance, and the bank will show fewer

Ans.D) Cashbook will show less balance, and the bank will show more

24). If the Cash amount as per the passbook is the beginning point, then the rate of the bank interest will be permitted?

A. Deducted

B. Added

C. No effect

D. None of all of these

Ans: A.) Subtracted

25). The Balance of the replenished petty cash fund contains a credit to

A. Petty Cash

B. Cash

C. Freight-In

D. Postage Expense

Ans: B.) Cash Account

5 MARKS

1. Briefly explain the importance of Average Due Date. (Nov/Dec 2019)
2. Write short note on Account current. (Nov/Dec 2018).
3. What are the guidelines to determine the average due date? (Nov/Dec 2021)
4. Explain the methods of preparing balance as per bank pass book and cash book. (Nov/Dec 2018)
5. What are methods of calculation of interest on account current? (Apr/May 2022)
6. What is the need for bank reconciliation statement? (Apr/May 2020)
7. Describe the subsidiary books and its importance.

10 MARKS

1. Explain the objectives, importance and benefits of bank reconciliation statement.
2. What are the methods of preparation of bank reconciliation statement?
3. Explain the various reasons for the differences in two balances in bank reconciliation statement.
4. Prepare a specimen of cost sheet.
5. Define subsidiary books and its classifications.

UNIT III

FINAL ACCOUNTS

The important objectives of accounting are to measure the performance of a business in terms of profit or loss and to ascertain its financial position. With these objectives in view, financial statements consisting of income statement and position statement are prepared. Income statement is traditionally known as trading and profit and loss account and position statement is known as balance sheet. Both these statement are collectively called final accounts. Thus final accounts of a sole trader usually include

1. Trading accounting
2. Profit and loss accounting
3. Balance sheet

If the trader manufactures product meant for sale, he may prepare an account called Manufacturing account to find out the cost of goods manufactured. In such case final accounts consist of manufacturing accounting also.

1. TRADING ACCOUNT

Trading account is a part of profit and loss account. Usually profit and loss account of a business is divided into two parts. The first part is termed as trading account which is to be prepared as to show the amount of profit and loss account of purchasing the goods and selling them. Such profit is termed as "gross profit" and loss as "gross loss"

SPECIMEN OF A TRADING ACCOUNT:

PARTICULARS	**Rs**	**Rs**	**PARTICULARS**	**Rs**	**Rs**
To opening stock		Xxx	By sales :		
To purchases	Xxx		Cash	Xxx	
Less : purchase return	Xxx		Credit	Xxx	
	Xxxx			Xxxx	
Less : free samples	Xxx		Less : sales return	Xxx	
	Xxxx			---------	Xxxx
Less: drawings	Xxx		By closing stock		Xxxx
	-----------	Xxxx	By loss of stock by fire		Xxxx

To wages To carriage inwards To octroi To excise duty To customs duty To freight on purchases To clearing charges To repairs to factory To salary of foreman To fuel and power To coal, water and gas To motive power To other factory exp. To royalty on manufacture To **GROSS PROFITS C/D**		Xxxx Xxxx Xxxx Xxxx Xxxx Xxxx Xxxx Xxxx Xxxx Xxxx Xxxx Xxxx Xxxx Xxxx Xxxxx xxxxx	By **GROSS LOSS C/D**		xxxx
		xxxxxx			Xxxxx

2. **PROFIT AND LOSS ACCOUNT**

Profit and loss account is an account prepared to find out the net profit earned or net loss incurred by a business during an accounting period. It is debited with the operating expenses and losses and credited with incomes and profits. The amount of net profit or net loss transferred to capital account.

Purpose for preparing the profit and loss account

- To know the net profit or loss of the business
- To compare the actual performance with the desired one

SPECIMEN OF A PROFIT AND LOSS ACCOUNT:

PARTICULARS	**Rs**	**Rs**	**PARTICULARS**	**Rs**	**Rs**
To **GROSS LOSS** b/d		Xxxx	By **GROSS PROFIT** b/c		Xxx

To salaries		Xxx	By discount received		Xxx
To rent		Xxx	By commission received		Xxx
To electricity		Xxx	By rent received		Xxx
To printing and stationery		Xxx	By dividend received		Xxx
To postage		Xxx	By interest received		Xxx
To insurance to office		Xxx	By **NET LOSS** transferred to capital a/c		xxxx
To legal charges					
To audit fees		Xxx			
To advertisement		Xxx			
Tosalesmen’s comm.		Xxx			
Carriage outwards		Xxx			
To storage expenses		Xxx			
To **depreciation** :		Xxx			
Building					
Furniture	Xxx				
Vehicles	Xxx				
Plant and machinery	Xxx				
To repairs & maintenance	Xxx	Xxxx			
To interest on capital		Xxx			
To interest on loans		Xxx			
To discount allowed		Xxx			
To bank charges		Xxx			
To general expenses		Xxx			
To bad debts		Xxx			
To loss by fire not covered by insurance		Xxx			
To loss on sale of assets		Xxxx			
To **NET PROFIT** transferred to capital a/c		Xxxxx			

		xxxxx			Xxxxx

3. BALANCE SHEET

A balance sheet is a statement prepared to ascertain the true position of assets and liabilities as on a particular date. It is prepared at the end of the accounting period, after the preparation of trading and profit and loss accounts. It shows the financial position of a business on a particular date. All assets and liabilities are displayed in the balance sheet according to certain principles.

SPECIMEN OF A BALANCE SHEET :

LIABILITIES	**Rs**	**Rs**	**ASSETS**	**Rs**	**Rs**
Capital	Xxxx		Goodwill		Xxx
Add : Net profit	Xxx		Patent rights		Xxx
Add : Interest on capital	Xxx		Trademarks		Xxx
	Xxxx		Copy rights		Xxx
Less : Drawings	Xxx		Land and building	Xxxx	
Less : Interest on drawings	Xxx		Less : depreciation	Xxx	xxxx
	Xxxx	Xxxxx	Plant and machinery	Xxxx	
Less : Net loss		Xxx	Less : depreciation	Xxx	xxx
Bank loan		Xxx	Vehicles	Xxxx	
Loan on mortgage		Xxx	Less : depreciation	Xxx	xxx
Sundry creditors		Xxx	Furniture	Xxxx	
Bills payable		Xxx	Less : depreciation	Xxx	xxx
Bank overdraft		Xxx	Sundry debtor	Xxxx	
Outstanding expenses		xxx	Less : provision	Xxx	xxx
Income received in advance			Bills receivable		xxx
			Prepaid expenses		xxx
			Cash in hand		xxx
			Cash at bank		xxx
			Closing stock		xxx
		xxxx			Xxxx

ADJUSTMENTS:

Final accounts are prepared based on the ledger account balances as shown by the trial balance. The ledger account may have either debit or credit balance. It will appear in any one place in the final accounts. Final accounts are prepared for an accounting period as a whole. But there may be some expenses which have been incurred but not paid or there may be some income which have been earned but not received. Similarly, there may be income received in advance, prepaid expenses, depreciation, provision etc, for which journal entries have not been made in the books of account. Hence, adjustments are required for these items.

Every adjustment will have two effects i) Debit effects and ii) Credit effect.

ACCOUNTING TERMINOLOGY

It is necessary to understand some basic accounting terms which are daily in business world. These terms are called accounting terminology.

1. Transaction: It means an operation involving movement of value.

2. Debtor: A person who owes money to the firm mostly on account of credit sales of goods is called a debtor. For example, when goods are sold to a person on credit that person pays the price in future, he is called a debtor because he owes the amount to the firm.

3. Creditor: A person to whom money is owing by the firm is called creditor. For example, Madan is a creditor of the firm when goods are purchased on credit from him

4. Capital: It means the amount (in terms of money or assets having money value) which the proprietor has invested in the firm or can claim from the firm. It is also known as owner's equity or net worth. Owner's equity means owner's claim against the assets. It will always be equal to assets less liabilities, say: Capital = Assets - Liabilities.

5. Liability: It means the amount which the firm owes to outsiders that is, accepting the proprietors. In the words of Finny and Miller, "Liabilities are debts; they are amounts owed to creditors; thus the claims of those who ate not owners are called liabilities". In simple terms, debts repayable to outsiders by the business are known as liabilities.

6. Asset: Any physical thing or right owned that has a money value is an asset. In other words, an asset is that expenditure which results in acquiring of some property or benefits of a lasting nature.

7. Goods: It is a general term used for the articles in which the business deals; that is, only those articles which are bought for resale for profit are known as Goods.

8. Revenue: It means the amount which, as a result of operations, is added to the capital. It is defined as the inflow of assets which result in an increase in the owner's equity. It includes all incomes like sales receipts, interest, commission, brokerage etc., However, receipts of capital nature like additional capital, sale of assets etc., are not a part of revenue.

9. Expense: The terms 'expense' refers to the amount incurred in the process of earning revenue. If the benefit of an expenditure is limited to one year, it is treated as an expense (also know is as revenue expenditure) such as payment of salaries and rent.

10. Expenditure: Expenditure takes place when an asset or service is acquired. The purchase of goods is expenditure, whereas cost of goods sold is an expense. Similarly, if an asset is acquired during the year, it is expenditure, if it is consumed during the same year; it is also an expense of the year.

11. Purchases: Buying of goods by the trader for selling them to his customers is known as purchases. As the trade is buying and selling of commodities purchase is the main function of a trade. Here, the trader gets possession of the goods which are not for own use but for resale. Purchases can be of two types. viz, cash purchases and credit purchases. If cash is paid immediately for the purchase, it is cash purchases, If the payment is postponed, it is credit purchases.

12. Sales: When the goods purchased are sold out, it is known as sales. Here, the possession and the ownership right over the goods are transferred to the buyer. It is known as. 'Business Turnover' or sales proceeds. It can be of two types, viz.,, cash sales and credit sales. If the sale is for immediate cash payment, it is cash sales. If payment for sales is postponed, it is credit sales.

13. Stock: The goods purchased are for selling, if the goods are not sold out fully, a part of the total goods purchased is kept with the trader unlit it is sold out, it is said to be a stock. If there is stock at the end of the accounting year, it is said to be a closing stock. This closing stock at the yearend will be the opening stock for the subsequent year.

14. Drawings: It is the amount of money or the value of goods which the proprietor takes for his domestic or personal use. It is usually subtracted from capital.

15. Losses: Loss really means something against which the firm receives no benefit. It represents money given up without any return. It may be noted that expense leads to revenue but losses do not. (e.g.) loss due to fire, theft and damages payable to others,

16. Account: It is a statement of the various dealings which occur between a customer and the firm. It can also be expressed as a clear and concise record of the transaction relating to a person or a firm or a property (or assets) or a liability or an expense or an income.

17. Invoice: While making a sale, the seller prepares a statement giving the particulars such as the quantity, price per unit, the total amount payable, any deductions made and shows the net amount payable by the buyer. Such a statement is called an invoice.

18. Voucher: A voucher is a written document in support of a transaction. It is a proof that a particular transaction has taken place for the value stated in the voucher. Voucher is necessary to audit the accounts.

19. Proprietor: The person who makes the investment and bears all the risks connected with the business is known as proprietor.

20. Discount: When customers are allowed any type of deduction in the prices of goods by the businessman that is called discount. When some discount is allowed in prices of goods on the basis of sales of the items, that is termed as trade discount, but when debtors are allowed some discount in prices of the goods for quick payment, that is termed as cash discount.

21. Solvent: A person who has assets with realizable values which exceeds his liabilities is insolvent.

22. Insolvent: A person whose liabilities are more than the realizable values of his assets is called an insolvent.

23. DEBIT NOTE :Debit note is a statement prepared in duplicate by the trader who return goods to the supplier.

24. CREDIT NOTE :Credit note is a statement prepared by a trader who receives back from his customer the goods sold.

FINAL ACCOUNTS (SIMPLE PROBLEM)

ILLUSTRATION : 1prepare Trading and Profit and Loss account and also Balance sheet

Particulars	Debit (Rs)	Credit (Rs)
Capital	-	35,000
Building	18,750	-
Machinery	9,250	-
Debtors	7,000	-
General expenses	800	-
Rent	3,710	-
Drawings	650	-
Electricity charges	190	-
Carriage inwards	850	-
Cash at bank	3,000	-
Return outwards	-	110
Salaries	1,110	-
Discount allowed	200	-
Stock (01.04.2008)	16,500	-
Bills payable	-	5,000
Sales	-	63,500
Purchases	46,850	-
Wages	2,500	-
Cash in hand	1800	-
Sundry creditors	-	10,000
Return inward	450	
	1,13,610	1,13,610

Closing stock was Rs 18,210

ILLUSTRATION : 2prepare the Trading and Profit & loss Account for that period and also Balance sheet as on that date.

Particulars	Debit (Rs)	Credit (Rs)

Stock as on 01.04.2008	750	-
Purchases	1,490	-
Return inward	40	-
Duty on imported goods	260	-
Carriage on purchases	140	-
Carriage on sales	200	-
Office salaries	240	-
Drawings	400	-
Rent	180	-
General expenses	150	-
Bank balance	300	-
Cash	100	-
Sundry debtors	1,000	-
Building	2,000	-
Machinery	1,000	-
Bills receivable	250	-
Depreciation	200	-
Horses & carts	150	-
Interest	90	-
Discount allowed	10	-
Capital	-	2,625
Return outward	-	45
Sales	-	3,810
Commission earned	-	200
Bills payable	-	1,500
Sundry creditors	-	770
	8,950	**8,950**

Adjustments :

1. Stock as on 31.03.2009 Rs 985
2. Outstanding rent Rs 30.

ILLUSTRATION : 3

Prepare a trading and profit and loss account for the year ending 31st March 2001 and a balance sheet as on that date from the following balances:

Capital	52,000	Sales	1,01,000
Purchase return	1,900	Opening stock	22,000
Furniture and fittings	5,500	Sundry creditors	
6,000			
Investments 1	16,700	Salaries	1800
Sales return	5200	Printing & stationery	240
Sundry debtors	31000	Purchases	72000
Rent	560	Carriage inwards	390
Bad debts	160	Postage and telegram	210
Travelling expenses	550	Cash at bank	3270
Wages	1300	Insurance	220

ADJUSTMENT :

1. Salaries outstanding Rs 150
2. The closing stock was Rs 18,500
3. Insurance was prepaid Rs 30

4. Charge 10 % depreciation on furniture.

QUESTION BANK

CHOOSE THE CORRECT ANSWER: - (1 MARKS)

1. Which of the following is correct?

A) Capital = Asset + Liabilities B) Capital = Asset - Liabilities

C) Asset = Liabilities – Capital

2. Opening stock is

A) Debited In Trading Account B) Credited In Trading Account

C) Credited In Profit And Loss Account

3. Balance sheet is a

A) Statement B) Account C) Ledger

4. Fixed asset have

A) Short life B) Long life C) No life

5. Cash in hand is an example of

A) Current asset B)Fixed asset C) Current liabilities

6. Capital is a

A) Income B) Asset C) Liability

7. Drawings must be deducted from

A) Net profit B) Capital C) Gross profit

8. Current liabilities are recorded in the balance sheet on

A) Not recorded B) Liability side C) Asset side

9. Net profit is added to

A) Gross profit B) Drawings C) Capital

10. Returns inwards are deducted from

A) Purchases B) Sales C) Returns outwards

11. The profit and loss account shows

A) Financial position of the concern B) Net profit or net loss C) Gross profit or gross loss

12. Rent outstanding is

A) A liability B) An asset C) An incomes

13. Closing stock is shown in

A) Profit and loss account B) Trading account and balance sheet C) None of the above

14. Opening stock is shown in

A) Balance sheet B) Profit and loss account C) Trading account

15. Gross profit is transferred to

A) Capital account B) Profit and loss account C) None of the above

16. Interest on capital is added to

A) Expenses A/C B) Income A/C C) Capital A/C

17. Interest on drawings is deducted to

A) Income A/C B) Capital A/C C) Expenses A/C

18. Outstanding interest on loan borrowed is to be added to

A) Asset A/C B) Income A/C C) Loan A/c

19. All the items given in the adjustment will appear at in the final accounts

A) Three places B) Two places C) One place

20. Net profit is transferred from profit and loss account to _______ account

A) Current asset B) Current liabilities C) Capital

21. Income received in advance from the concerned

A) Liability side B) Current asset C) Current liabilities

22. Depreciation deducted from the concerned in the balance sheet

A) Fixed asset B) Current asset C) Current liabilities

23. Provision for bad doubtful debts is deducted from

A) Sundry debtors B) Sundry Creditors C) Sales

24. Balance sheet shows of a business

A) Profit or loss B) Financial position C) Trading activities

25. C/D means

A) carry down B) Carriage forward C) Carried down

ANSWERS:-

1.B , 2. A , 3. A , 4. B , 5. A , 6. C , 7.B, 8. B, 9.C, 10.B, 11.B, 12.A, 13.B, 14.C, 15. B

16.C , 17. B, 18.C, 19.B, 20.C, 21.A, 22.A, 23.A, 24.B, 25. C, 5 MARKS

1. State the difference between trading account and profit and loss account.

2. Distinguish between trial balance and balance sheet.

10 MARKS

1. Draw a specimen of final accounts.

2. Draw a specimen of Profit and loss account.

3. Draw a specimen of Balance sheet.

4. Preparation of Trading, P&L account and balance sheet.

5. wrtite down the concept of prepaid expenses, outstanding expenses, accrued income, income received in advance, and goodwill.

6. Prepare a trading and profit and loss account for the year ending 31st March 2001 and a balance sheet as on that date from the following balances:

Capital		50,000	Sales	1,01,000
Purchase return		1,900	Opening stock	22,000
Furniture and fittings		5,500	Sundry creditors	
6,000				
Investments	1	16,700	Salaries	1800
Sales return		5200	Printing & stationery	240
Sundry debtors		31000	Purchases	72000
Rent		560	Carriage inwards	390
Bad debts		160	Postage and telegram	210
Travelling expenses		550	Cash at bank	1,270
Wages		1300	Insurance	220

ADJUSTMENT :

1. Salaries outstanding Rs 150
2. The closing stock was Rs 18,500
3. Insurance was prepaid Rs 30
4. Charge 10 % depreciation on furniture.

UNIT – IV

HIRE PURCHASE & INSTALLMENT SYSTEM

Meaning Of Hire Purchase System

Hire purchase system is a special system of purchase and sale. When goods are bought under the system, the purchaser pay the price in installments which may be monthly, yearly or any other period. The buyer acquires the possession of the goods immediately on signing the hire purchase agreement but becomes its owner only on paying the last installment.

In case the buyer defaults in the payment of any installment the seller will have a right to repossess the goods from the buyer and forfeit the amount already received treating hire charge. But if the buyer pays all the installments on the due dates the seller has no right to possess the goods from the buyer.

Definition: According to hire purchase act 1972 section 2 I “hire purchase is an agreement under which goods are let on hire and under which the hirer has an option to purchase them in accordance with the terms of agreement”.

Important terms in the hire purchase system

1**.Cash price**.
This is the retail price of the articles at which they can be purchased immediately for cash.
2. **Hire purchase price**
This is the total amount payable by the buyer in agreed installments for the goods purchased. This price includes cash price and interest.
3. **Interest**
This is the additional amount apart from the cash price payable by the buyer as compensation for post phoned payments.
4. **Hire or installments.**
This is the amount payable by the buyer periodically; the installment may be equal or different, depending on agreement.
5. **Down payment**
This is the advance payment payable by the buyer while signing the hire purchase agreement. It is also a part of the hire purchase price.
6. **Hirer**
The buyer of the goods on hire purchase basis
7. **Hire vendor or owner**
The seller of the goods on hire purchase basis.

Main Features Of Hire Purchase System

1) The hirer or buyer gets possession of the goods on the signing the hire purchase agreement and he has the right to use them.
2) The owner of the goods continue to be with the seller or hire vendor. The buyer gets ownership of the goods on payment of the last installment.
3) The hire has the duty to keep the goods in good condition and take reasonable precautions for their safety till the last installment is paid.
4) The hirer has the option to return the goods before the last installment is paid.
5) Each installment is treated as hire charges.
6) The hire vendor can repossess the goods if the buyer fails to pay any installment on the due date.

Meaning Of Installment System

It is a system of outright purchase with facility to pay the price in certain installment in future together with the interest at the agreed rate. Under the installment system, the title to goods passes from the seller to the buyer immediately on signing the contract.

Difference Between Hire Purchase System And Installment System.

Sl No	Basis	Hire Purchase System	Installment System
1	Nature of agreement	It is an agreement of hiring with option to buy	It is an agreement of sale
2	Transfer of ownership	Ownership is transferred on payment of final payment	Ownership is transferred on signing the agreement
3	Name of the parties	The buyer is called hirer and the seller as owner or vendor	The parties involved are called buyer and seller.
4	Relationship	The relationship of hirer and vendor is that of bailer and bailey	The relationship between the buyer and seller is that of a debtor and creditor till last installment is paid
5	Risk of loss	The hirer is not responsible for any loss of the goods if he has taken reasonable precautions	The buyer is responsible for loss of goods because he is the owner
6	Right of sale	The hirer cannot sell the goods till he get ownership	The buyer has the right to sell the goods even before the installment are paid
7	Repossession of goods	The hire vendor can repossess the goods if the installment is not paid	Seller cannot repossess the goods he can sue the buyer for dues
8	Termination of agreement	The hirer can terminate the agreement by returning the goods	The agreement cannot be terminated
9	Installment	Each installment includes hire charges and part payment of cash price.	Each installment includes interest and part payment of cash price
10	Governing	Hire purchase act 1972 governs the hire purchase agreement	Installment purchase is governed by the sale of goods act.

ACCOUNTING TREATING FOR HIRE PURCHASE SYSTEM:

The method of recording hire purchase transition in the books of the hire vendor depends on the value of the goods involved. The method of recording the transitions in the books of the hirer is the same irrespective of the value of the goods.

1. **Accounting treating of the value goods:**

High value goods like trucks, costly machinery, etc..Can be placed under this category.
Book of hire purchaser or hirer
There are two methods of recording the hire purchase transitions in hirer's books.

a. **Asset Accrual method**

The asset is deemed to be acquired gradually on the basis of cash price paid.

b. **Credit purchase with interest method :**In the credit purchase with interest method, the asset is deemed to be acquired as soon it is received into possession.

CALULATION OF INTEREST:

The hire purchase price is always greater than the cash price. It includes interest payable over and above the price of the goods to compensate the seller for the sacrifice he thereby undertakes. Interest is the charge for the facilities to pay the price for the goods by installments after they have been delivered. The rate of interest is generally higher then that is payable in respect of an advance or a loan since its also includes a charge to cover the risk that the hirer may fail ti pay any of the installment and in such events, the goods may fail to pay any of the installments and in such events, the goods may have to be taken back into possession in whatever condition they are at time. A separate charge on this account of the hire purchase sale. However, in accounting system the excess of total hire purchase price over the total cash price is treated as the payment for interest.

Interest included in each installment can be ascertained by making necessary calculation under the following circumstances:

II. *When the rate of interest, the cash price and the installment are given.*
III. *When the rate of interest is not given.*
IV. *When the total cash price is not given.*
V. *When the installment price is not given.*
VI. *When cash price is calculate by annuity methods.*

I. When the rate of interest, the cash price and the installment are given.

Under this method, the interest is to be calculated on the outstanding balance of the cash price at the stipulated rete. When interest component is deducted from installment, the balance represents the amount paid in reduction of cash price. This amount is deducted from the cash price to facilitate the calculation of interest for the next period. Since the installments are in round sums of money, the interest for the final year should be taken as the difference between the cash price outstanding at the end of that period and the amount of installments.

II. When total cash price and installments are given but rate of interest is not given:

When the rate of interest is not given, the interest included in each installment will be calculated on the basis of the hire purchase price outstanding in the beginning of each year. The following is the process of ascertaining interest included in various installments:

Method 1: *When the amount and period of installments are not uniform [Product method]*

Hire purchase price – cash price = total interest.

Hire purchase price – first installment = first balance.

First balance – second installment = Second balance.

Second balance – third installment = Third balance.

Same method can be used for further installments.

i). Hire purchase price × period of first installment = A

ii). First balance period × of second installment = B

iii). Second balance × period of third installmen = C

iv). Third balance × period of fourth installment = D

A, B, C and D have to be totaled and interest included in each installment is found as follows:

Interest included in I installment: $\text{Total Interest} \times \dfrac{A}{A + B + C + D}$

Interest included in II installment: $\text{Total Interest} \times \dfrac{B}{A + B + C + D}$

Interest included in III installment: $\text{Total Interest} \times \dfrac{C}{A + B + C + D}$

Interest included in IV installment: $\text{Total Interest} \times \dfrac{D}{A + B + C + D}$

Method 2:*When the amount and period of installments are uniform [Inverse progression method]*

Hire purchase price – cash price = Total Interest.

Assuming total interest is Rs. 800 and numbers of installments are four, interest included in each installment is calculated in the following manner:

Installments	***No. of outstanding installments***	***Ratio of Interest***	***Interest***
1st installment	4	4/10	800 × 4/10: Rs. 320
2nd installment	3	3/10	800 × 3/10: Rs. 240
3rd installment	2	2/10	800 × 2/10: Rs. 160
4th installment	1(TOTAL = 10)	1/10	800 × 1/10: Rs. 80

iii***). When rate of interest and installments are given but total cash price is not given:***

When the amount of each installment which includes interest is given and rate of interest is also given, cash price is fount out in the following manner:

a*). First of all find out cash price of the last installment.*

$$\text{Amount of last installment} \times \frac{\text{Rate of interest}}{100 + \text{Rate of interest}} = \text{Interest included in the last installment.}$$

This interest is deducted from last installment and cash price of the last installment is found out.

b). $$\left(\begin{array}{c}\text{Cash price of the last} \\ \text{Installment + amount} \\ \text{of prior installment}\end{array}\right) \times \frac{\text{Rate of interest}}{100 + \text{Rate of interest}} = \text{Interest of the prior installment}$$

When the interest is deducted from prior of the prior installment is found out.

c). The same process may be repeated for earlier installments.

iv). ***When rate of interest and total cash price are given but the installment price is not given:*** In this method is also, the interest is to be calculated on the outstanding balance of the cash price at the stipulated rate. Then cash price paid is deducted from the total cash price and interest is calculated for the next period falling between the dates of payment of first installment and second installment. This process is repeated till the payment of last installment. The installment price is calculated by adding interest with cash price of each installment.

v). Calculation of cash price by Annuity method:When in place of cash price, hire purchase price and annuity rate are given, the cash price is calculated by multiplying the amount of installment with the annuity factor given and adding down payment to the product. Then the interest is calculated.

ONE MARK QUESTIONS

1). Under which system, ownership is transferred on payment of final installment?

A. Installment system.B. Credit system.C. Hire purchase system.D. Cash system.

ANSWER: C

2. Under which system ownership is transferred on signing of the agreement?

A. Installment system.B. Credit system.C. Hire purchase system.

D. Cash system.

ANSWER: A

3. Under hire purchase system the buyer is called _________.

A. buyer.B. hirer.C. hire vendor.D. debtor.

ANSWER: B

4. Under hire purchase system the seller is called _________.

A. buyer.B. hirer.C. hire vendor.D. debtor.

ANSWER: C

5. Under hire purchase system the relationship of hirer and hire vendor is ______.

A. buyer and seller.B. bailor and bailee.C. pawner and pawnee.

D. debtor and creditor.

ANSWER: B

6. Under installment system the relationship between the buyer and seller is that of a _____

A. buyer and seller.B. bailor and bailee.C. pawner and pawnee.

D. debtor and creditor.

ANSWER: D

7. Under hire purchase system, the risk of loss is borne by ____________.

A. buyer.B. hirer.C. debtor.D. hire vendor.

ANSWER: D

8. Under installment system the risk of loss is borne by ________.

A. buyer.B. hirer.C. hire vendor.D. debtor.

ANSWER: A

9. Under hire purchase system who has the right of sell __________.

A. buyer.B. hirer.C. hire vendor.D. debtor.

ANSWER: C

10. Under hire purchase system, if installment is not paid the hire vendor has right to _____

A. sell the goods.B. repossession of goods.C. repair the goods.D. purchase the goods.

ANSWER: B

11. Under hire purchase system, the agreement can be _________.

A. renewed.B. registered.C. terminated.D. endorsed.

ANSWER: C

12. Hire purchase system is governed by ___________.

A. Hire Purchase Act 1972.B. Hire Purchase Act 1973.

C. Hire Purchase Act 1974.D. Hire Purchase Act 1975.

ANSWER: A

13. Installment system is governed by __________.

A. Hire Purchase Act.B. Sale of Goods Act.C. Installment Act.

D. Properties Registration Act.

ANSWER: B

14. Under hire purchase system, the retail price of the articles is called ________.

A. MRP.B. wholesale price.C. retail price.D. cash price.

ANSWER: C

15. Cash price plus interest is _________.

A. installment price.B. hire purchase price.C. maximum retail price.

D. retail price.

ANSWER: B

16. The advance amount under hire purchase system is called __________.

A. cash price.B. retail price.C. interest.D. down payment.

ANSWER: D

17. Under hire purchase system, each installment is treated as __________.

A. interest.B. cash price.C. hire charges.D. advance.

ANSWER: C

18. Under hire purchase system, interest is calculated on _______.

A. cash price.B. hire purchase price.C. MRP.D. outstanding balance.

ANSWER: D

19. If the hire purchaser fails to make payment of any installment, it is called _______.

A. default.B. repossession.C. sale.D. purchase.

ANSWER: A

20. If the hire vendor may take away all the goods on which there is default of installment it is called

A. repossession .B. partial repossession.C. complete repossession.D. purchase.

ANSWER: C

5 MARKS

1. Briefly explain the procedure of making entries in the books of hire purchase.
2. What are the steps involved in the preparation hire purchase trading a/c explain.
3. Write short note on (i) shop stock (ii) Hire purchase stock (iii) Down payment.
4. What are the various methods of calculation of interest under hire purchase system?
5. Distinguish between hire purchase system and installment purchase system.
6. Enumerate the methods of computing interest under the hire purchase system.

10 MARKS

1. Enumerate the all possible entries in the books of installment buyer and seller.
2. Explain in detail classification of business enterprises.
3. What are the main features of hire purchase system?
4. Difference between hire purchase system and installment purchase system.

UNIT – V

Single Entry System

A single entry system is a system of bookkeeping that considers only one aspect of all financial transactions, which means that transactions affect only one account. Under this system, value of only one account will increase or decrease according to the nature of the transaction taken into consideration. The accounting details are maintained only by preparing a cash book and personal accounts of debtors and creditors, and real and nominal accounts are not recognized under this system of bookkeeping. The profit ascertained under the single entry system is pretty inaccurate, as only one aspect of all the transactions is taken into account. Preferably, small businesses and shopkeepers adopt this method of bookkeeping, as there are no set rules to maintain the accounts, hence is comparatively much easier than the double-entry system. Accounting records maintained under this system are also known as incomplete records.

Double Entry System

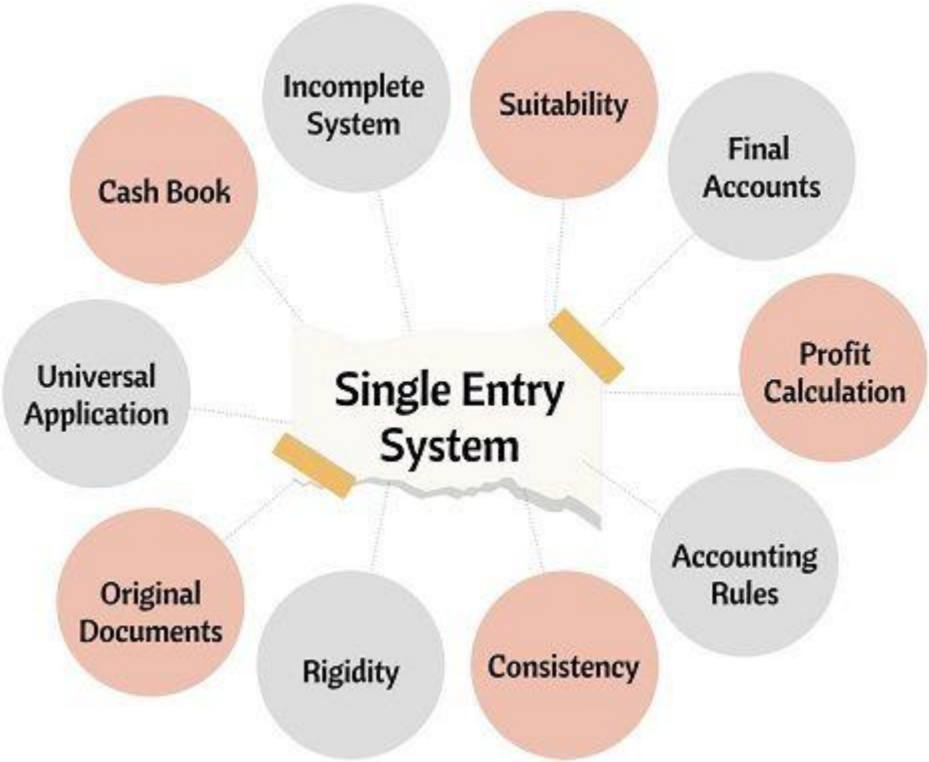
A double entry system of bookkeeping considers at least two aspects of all the financial transactions of a business unit. Under this system, at least two accounts are affected in opposite directions, i.e, one of them is debited and another one is credited with an equal amount. The three basic accounts- personal account, real account, and nominal account are all recognized under the double entry system, and hence, a profit ascertained is much more accurate and can reflect a real financial position of a business enterprise. Generally, professionals are hired to maintain accounts under this system, as a strict set of rules is to be followed. A trial balance can be prepared under this system of bookkeeping, which makes it possible to check the arithmetic accuracy of the accounting records as the debit side is always equal to the credit side under the double entry system. Under the double entry system, all the necessary accounts, like Journal, Ledger, Trial Balance, Financial Statement, and Balance Sheet are prepared to compute the profit and know about the financial position of any business unit.

Definition of Double Entry System

"The Double Entry System seeks to record every transaction in money or money's worth in its double aspect- The receipt of a benefit by one account and the surrender of alike benefit by another account, the former entry being to the debit of the account receiving and the latter to the credit of that account surrendering."

-William Pickles

Features of Single Entry System



1. **Incomplete System**: The records are incomplete as it completely ignores real and nominal accounts.
2. **Suitability**: It is suitable for *Small Vendors*, *Partnership Firms*, and *Startups*. Corporations do not accept this accounting method. As they prepare financial statements as per **accounting principles** and policies.
3. **Final Accounts**: Due to data insufficiency, we cannot prepare Trial Balance and other financial statements. At first, we convert the single entries into double-entry. After that, we prepare the final accounts with the available data.
4. **Profit Calculation**: The calculated profits are inaccurate as the system excludes some important financial transactions.
5. **Accounting Rules**: This system doesn't have a fixed set of rules and procedures like the Double-entry system. Also, it varies across businesses.
6. **Consistency**: It is inconsistent as there are no fixed rules for maintaining accounts.
7. **Rigidity**: It is less rigid in comparison to the Double Entry System.
8. **Original Documents**: For authentication, the businesses need original vouchers for making the entry.
9. **Universal Application**: This system is not applied universally because it provides incomplete information.
10. **Cash Book:** The cash book contains all cash and credit transactions altogether.

Uses of Single Entry System

- It is useful for small businesses, i.e. sole proprietors and partnership firms.
- Companies that aim to spend less on accounting may adopt this accounting system.
- Entrepreneurs with less knowledge of accounting principles and policies opt for this system.
- The calculation of profit/loss is easy and less complex.
- A business with fewer employees may opt for a single-entry system.

Advantages

The advantages of Bookkeeping using Incomplete Records are as follows:

1. **Flexible**: The system is flexible, so required alteration is possible according to convenience.
2. **Cash Transactions**: It is helpful for firms with more cash transactions. Maintaining a cash book is enough because it covers all significant business transactions.
3. **Simple Bookkeeping**: As we maintain a limited number of accounts, bookkeeping becomes simple and easy.
4. **Event Accounting**: It is helpful when accounting for events and small functions.
5. **Economical**: The system involves the maintenance of fewer accounts. Thus, saving time and money for entrepreneurs.
6. **Information Security**: We can maintain secrecy in this system as the owner prepares the accounts.

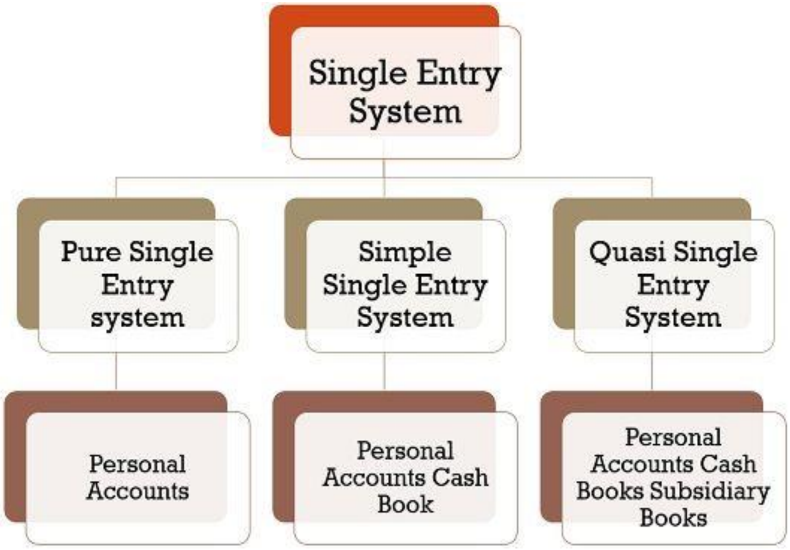
Disadvantages

Along with some advantages, this accounting system possesses the following disadvantages:

- **Rectification of Errors**: Finding and rectifying errors is complex as we pass a single entry for transactions.
- **Lacks Accuracy**: In this, the trial balance is not prepared to check the accuracy of the recorded transactions. Hence, the accounts are arithmetically incorrect.
- **Incomplete Records**: The ignorance of Nominal and Real accounts from books results in incomplete records.
- **Incorrect Profit/Loss**: The Profit or loss calculated at the end of the Year is incorrect. As many business transactions impacting capital is excluded in the books.
- **Faulty Financial Statements**: In this, we prepare the financial statements from incomplete records. Thus, showing the faulty and incorrect financial position of the business.
- **Unacceptable by Tax Authorities**: Tax authorities do not consider the statements prepared by the single-entry system. Because the computed income is less reliable and not considerable for taxation purposes. So, the firms are unable to enjoy the tax benefits.
- **Inaccurate Goodwill Valuation**: While scaling the business, the firms face difficulty in the accurate Goodwill valuation.
- **Difficulty in Comparative Analysis:** Since there are no fixed rules and policies, the inter and intra-industry comparisons become difficult.

Types

We can maintain Accounts from Incomplete Records in three types discussed below:



Pure Single Entry System
We maintain only Personal Accounts in this system. The single entries are passed only for Debtors and Creditors.

Simple Single Entry System
In this system, only two accounts are maintained, i.e. Personal Accounts and Cash Book.

Quasi-Single Entry System
Here, we maintain Personal accounts, Cash books and several subsidiary books. Subsidiary Books mainly include:

- Purchase Book
- Sales Book
- Purchase Return Book
- Sales Return Book

Methods of Profit Calculation

Every Entrepreneur is keen to find out the outcome of his business at the Year's end. The result may be a profit earned or loss born during the Year.

While preparing Accounts from Incomplete Records, we can determine Profits by way of:

- Net Worth Method
- Conversion to Double Entry Method

Net Worth Method

In this method, we find out the financial position by analysing the **Capital** or **Net Worth**.

Net worth is the owner's share in the assets after settling liabilities. We calculate Net Worth through a *Statement of Affairs* at the year's beginning and end.

This method discovers Profit and loss by analysing capital between two periods. As we calculate the variance between opening and closing capital post necessary adjustments.

After making adjustments in the capital if:-

Closing Capital > Opening Capital = Profit

Opening Capital > Closing Capital = Loss

We need to prepare two statements under this method mentioned below:

Statement of Profit and Loss

This statement shows the comparison of capitals (Opening and Closing) with adjustments. The result obtained is the profit or loss for the Year.

Format

Statement of Profit or loss
for the year ended______

Particulars	Amount
Capital at the end	xxxxx
Add: Drawings made during the year	xxxxx
Less: Additional Capital introduced during the year	(xxxxx)
Adjusted Capital at the end	xxxxxx
Less: Capital in the beginning	(xxxxx)
Profit/Loss for the year	**xxxxxxx**

Statement of Affairs

It is the compilation of the assets and liabilities of the business. The balancing figure resulting after deducting liabilities from the assets is the capital. *It seems similar to the Balance Sheet but differs from it in many aspects*.

Format

Statement of Affairs
as at_________

Liabilities	Amount	Assets	Amount
Bills Payable	xxxxx	Cash in Hand	xxxxx
Sundry Creditors	xxxxx	Cash at Bank	xxxxx
Outstanding Expenses	xxxxx	Sundry Debtors	xxxxx
Loan	xxxxx	Opening stock	xxxxx
Bank Overdraft	xxxxx	Plant and Machinery	xxxxx
Outstanding Expenses	xxxxx	Building	xxxxx
Income Received in Advance	xxxxx	Furniture	xxxxx
Capital	xxxxx	Bills Receivable	xxxxx
(Excess of assets -Liabilities)		Prepaid Expenses	xxxxx
		Accrued Incomes	xxxxx
	xxxxxxx		**xxxxxxx**

Following adjustments are to be made in the capital to find adjusted capital:

- **Capital Introduction**: We must reduce the extra capital invested from the closing capital.
- **Drawings**: The drawings made during the Year must be added back to the capital.

Steps involved in the Net Worth Method:

1. Opening Statement of Affairs (Opening Capital)
   At first, we calculate the opening capital for the accounting year. For this, we make this statement with the number of assets and liabilities at the beginning.
2. Closing Statement of Affairs (Closing Capital)
   Secondly, we prepare a statement of affairs to find out the closing capital. For this, we use the number of assets and liabilities at the end of the accounting year.
3. Adjustments in the Closing Capital
   We must make adjustments to the balancing figure obtained from the above statement. The adjustments include drawing and extra capital added during the Year.
4. Ascertainment of Profit and Loss
   In the fourth step, we prepare the Profit and Loss Statement. We determine it by comparing owners' capital at the start and end of the period.
5. Estimation of Net Profit
   The remaining adjustments are made after ascertaining the Year's profit or loss. For Instance, adjustment of Interest of Capital in the profit.

Conversion Method

This method determines profits by preparing financial statements as per accounting standards. So, we convert the incomplete accounts to a Double Entry System.

Following are the objectives of adopting this method:

- Accurate and fair financial position.
- To estimate the correct amount of profit.
- Airthematically correct financial statements.
- Effective decision-making and control.
- To get benefits of the Double Entry System.

The steps involved in the Conversion Method are as follows:

1. Preparation of Cash and Bank summary
2. To gain the missing information, we must find out the balances of the following accounts:
   - Total Debtors Account
   - Bills Receivable Account
   - Total Creditors Account
   - Bills Payable Account

   After this, we prepare the opening statement of affairs to compute opening capital.
   From the above information, prepare:
   - Trading Account
   - Income Statement
   - Balance Sheet

Example of Single Entry System

Cesear prepares his accounts as per the Single Entry System. His books display the following information:

Particulars	1st April 2006	31st March 2007
Furniture	100	100
Stock	1400	1900
Debtors	1050	1700
Cash	75	100
Creditors	875	950
Bills Receivable	-	150
Loan Given	-	250
Investment	-	500

He withdraws Rs. 750/- as drawings during the Year. Estimate his profit at the end of 31st March 2007.
Solution:

Opening Capital for the year

Opening Statement of Affairs
(as on 1st April 2006)

Liabilities	Amount	Assets	Amount
Creditors	875	Cash	75
Capital (Balancing Fig.)	1750	Debtors	1050
		Stock	1400
		Furniture	100
	2625		**2625**

Closing Capital for the year

Closing Statement of Affairs
(as of 31st March 2007)

Liabilities		Amount	Assets	Amount
Creditors		950	Cash	100
Capital (Balancing Fig.) :			Bills Receivable	150
Opening Capital	1750		Debtors	1700
Add: Net Profit	2750		Stock	1900
	4500		Furniture	100
Less: Drawings	(750)	3750	Investment	500
			Loan Given	250
		4700		**4700**

Profit or Loss for the year

Statement of Profit and Loss
(for the year ended 31st March)

Particulars	Amount
Capital at the end	3750
Add: Drawings made during the year	750
Less: Additional Capital introduced during the year	-
Adjusted Capital at the end	4500
Less: Capital in the beginning	1750
Profit/Loss for the year	**2750**

DIFFERENCE BETWEEN DOUBLE ENTRY AND SINGLE ENTRY STSTEM.

SL NO	BASIS OF DIFFERENC	DOUBLE ENTRY SYSTEM	SINGLE ENTRY SYSTEM
1	Recording transactions	Both aspects of all transaction are recorded	In some cases both aspects in some others a single aspect or no aspect is recorded.
2	Accounting rules	All personal, real and nominal accounts are opened	No accounting rules
3	Preparation of trial balance	Trial balance cab be prepared	Trial balance cab not be prepared
4	Ascertaining profit or loss	Accurate profit and loss can be found, through p & l	Profit or loss cannot be found normally in the absence of

		account	trading and profit and loss account
5	Revealing financial position	Reliable financial position can be found through balance sheet	Balance sheet cannot be prepared. So financial position is difficult to ascertain
6	Acceptability	Acceptable for income tax and other tax purposes for raising of bank loans etc	Not acceptable for taxation, claims, rising of loans.
7	Acceptable evidence	In case of disputes accounting records can be produced in courts of law	Not acceptable for taxation, claims, raising of loans
8	Utility	Suitable for any type of business of any size	It can be followed by small business men.
9	Internal check	Internal check is possible	Internal check is not possible

ONE MARK QUESTIONS

1)……………system of book keeping is the only scientific method to record farming transaction.

A. Single entry **B.Double entry** C.Balance sheet D.Adjustment A/c

2). In single entry system it's difficult to detect

A. Account **B. Fraud.** C. Profit. D. Gross profit

3). In double entry system:

A) Only one aspect of a transaction is recorded (B) **Both aspect of a transaction is recorded** C) No aspect of a transaction is recorded (D) None of these

2. In Single entry mostly:

A) **Personal aspects of transaction are recorded** (B) Nominal aspects of transaction are recorded C) Real aspects of transaction are recorded (D) All of the above

3. Statements of assets & liabilities prepared under single entry system is called:

A) Balance sheet (B) Profit & loss statement

C) **Statement of affairs** (D) Income Statement

4. Statements of assets & liabilities prepared under double entry system is called:

A) **Balance sheet** (B) Profit & loss statement

C) Statement of affairs (D) Income Statement

5. Normally single entry system is suitable for:

A) **Small scale business** (B) Large scale business

C) Both of them (D) None of them

6. The opening and closing balances of bills receivable can be calculated by preparing the:

A) Total debtors account **(B)** Total creditors account

C) Bills Receivable Account **(D**) Bills payable account

7.If sales Rs. 240,000, Purchases Rs.175,000 , Closing Stock Rs. 30,000, Percentage of gross profit on sale is 20%, then opening stock will be:

A) Rs. 45,000 **(B)** Rs. 50,000

C) 47,000 **(D)** Rs. 55,000

8. If sales Rs. 300,000, Purchases Rs.200,000 , Opening Stock Rs. 90,000, Percentage of gross profit on sale is 20%, then Closing stock will be:

A) Rs. 55,000 **(B) Rs. 50,000**

C) 45,000 **(D)** Rs. 60,000

9. If the credit sales Rs.80,000, cash received from debtors is Rs.15,000 and bad debts Rs.2,500 then the amount of the closing debtor will be:

A) Rs. 62,500 **(B)** Rs. 62,000

C) 65,000 **(D)** Rs. 60,000

10). **Statements of assets & liabilities prepared under double entry system is called:**

A) **Balance sheet** (B) Profit & loss statement

C) Statement of affairs (D) Income Statement

5 MARKS

1. Describe the single entry system with example.
2. Define double entry system in detail.
3. Explain the features of single entry system.
4. What is meant by conversion method.

10 MARKS

1. Difference between single entry system and double entry system.
2. Enumerate the statement of affairs methods.
3. Explain the merits and demerits of single entry system.