

ADVANCED ACCOUNTANCY

In the earlier eras, the businesses were carried out under barter system. Exchanging one goods for another and which didn't requires any system to record what happened in the business. But after the invention of money as a medium for business and all other requirements, it becomes absolutely essential to record the business transactions.

Book Keeping:

The process of simply recording the business transactions is called bookkeeping.

Accounting:

Accounting is called the language of the business. The enterprises communicate with the outside only through accounting informations. Therefore Accounting may be defined as the art of recording, classifying and summarizing in a significant manner and in terms of money, transactions and events which are, in part at least of a financial character and interpreting the results thereof.

Objectives of accounting:

The following are the prime objectives for which accounting is created

1. Proper records for the organization
2. Ascertain the net results of the business
3. Ascertain the financial position of the business
4. Communicate the results of the business to the interested parties.

BOOK KEEPING Vs ACCOUNTING

BOOK KEEPING	ACCOUNTING
It is in primary stage	It is in secondary stage
The purpose is to record the transaction	The purpose is to find out the net result of the business
It involves of recording and maintaining books of accounts	It involves recording, summarizing, analysis, interpret the results

The role of book keeper ends with recording the transactions	The role of accountant starts from where the book keeper finishes
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Accountancy:

The knowledge of how to make accounting is called accountancy.

Branches of Accounting:

Financial Accounting

Cost Accounting

Management Accounting

Terminology used in Accounting:

1. Transactions: it means what is happening between two parties in business. It may be buying, selling, getting loan, paying rent, etc. It may be cash transaction or credit transactions.

2. Capital: It is the amount invested by the proprietor in the business

3. Assets: It is properties of the business, it may be cash in hand, cash at bank, goods at hand, land, building, amount payable by others to us etc. Assets may be classified into the following

- Fixed Assets
- Current Assets
- Tangible Assets
- Intangible Assets
- Fictitious Assets.
- Contingent Assets.

4. Liabilities: It means the amount payable by the business to others. It also includes the amount payable to the owner (that is capital)

5. Drawings: This is amount withdrawn by the proprietor from the business for his personal use.

6. Debtors: This includes those people who are liable to pay to us.

7. Creditors: This includes those people to whom we are liable to pay.

8. Purchase: Those goods which are purchased for resale or for productions.
9. Purchase return or Return outward: If the purchased goods are not upto the conditions specified then that may be returned to the supplier which is called purchase return.
10. Sales If the purchased goods are sold as such as or sold after making certain modification that is called sales.
11. Sales return or Return inwards: If the goods sold are returned by the buyer to us, then such things is called sales return or return inwards.
12. Stock means the goods in which a firm deals. In case of trading concern it is those goods which meant for resale. In case of manufacturing concern, it includes raw material, work-in-progress and finished goods.

Valuation of stock:

Stock should always be valued either at cost price or at market price which one is the least. This is because, as per the realization concept profit can be recorded in the books only when it is realized. The valuation of can be done in the following manner:

- FIFO (First in first out) method
- LIFO (Last in first out) method
- Weighted Average cost method and
- Base stock method

Stock: If the goods purchased or produced are not fully sold and the remaining goods are called stock.

13. Voucher: The written document evidence for any transactions is called voucher.
14. Invoice: It is the paper prepared by the seller. While selling the goods he may incorporate the details about the goods sold, quantity, rate, Total amount payable, etc.

15. Capital expenditure: It is an expenditure, the benefit of which is not fully consumed or utilized in the one accounting period but spreads over several periods. Therefore, it is of non-recurring nature

16. Revenue expenditure: It is an expenditure, the benefits of which is consumed or utilized in the same accounting period or during short period of time. Therefore, it is of recurring nature

17. Deferred Revenue Expenditure Sometimes, expenditure which are of revenue in nature, whereas the benefit of which is available for more than one year, such expenditure is known as deferred revenue expenditure. In other words, a huge sum is spent as revenue expenditure (example advertisement, preliminary expenses, etc.), but which cannot be written off in that particular year itself. The unwritten portion of such an expenditure which is carried forward to the subsequent years is referred to as deferred revenue expenditure and is shown on the asset side of the balance sheet until it is written off completely.

18. Revenue: It means the amount generated or added to the capital by sale of goods, receiving rent or other income

19. Expenses: It is the amount spent in order to produce goods or create services purchase of raw material, payment of wages, electricity bills, etc.

20. Income: The difference between the revenue and expenses.

Accounting process:

The process of accounting or the steps which are followed in accounting are as under:

Recording

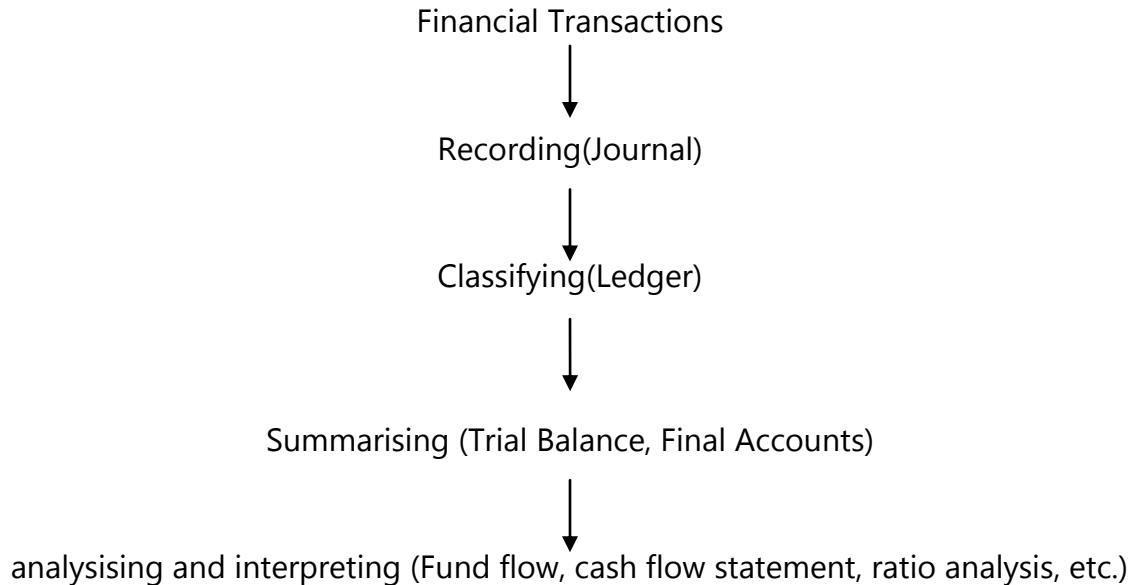
Classifying

Summarising

Analysing

Interpreting and

Communicating the results.



What are the financial transactions?

Transaction generally means an action or happening of an event. But in business, transactions mean any action which has some impact or effect or change in the financial position of the business. For example, paying salary, rent, electricity, purchase of machinery, goods, etc. which may decrease the financial position otherwise, suppose receiving rent, commission, sale of goods which may increase the financial position are called financial transactions.

How to record transactions in a business?

To record business/financial transactions in a book of accounts is done by passing journal entries. To pass journal entries, it is necessary to follow certain rules. They are called fundamental rules of accounting or golden rules of accounting. This process of accounting i.e. recording, classifying, Summarising, analysis and interpretation is evolved over a period of time as rules and standard based on various accounting principles, concept and convention.

Accounting principles, concept and convention

The following are the various accounting concepts and convention

1. Business Entity concept.
2. Cost concept
3. Money Measurement concept.
4. Going concern concept.
5. Dual aspect concept – Accounting equation (The assets and liabilities of a business concern shall always be equal.)

Accounting equation $\text{Assets} = \text{Liabilities}$

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

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

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

Assets mean the resources of the business which enable them to get cash or benefits in future.

Liabilities mean the responsibilities of the business which make them bound to pay cash to outsiders.

Traditionally we place the assets on the debit side and the liabilities on the credit side.

1. If a capital of a business is Rs.300000/- and liabilities are Rs.50000, then what would be the value of assets?
2. Mr. Sun started business with a capital of Rs.50000/- on 1/1/2010 and on 01/01/2011 his assets are Rs.70000/- and liabilities are 5000. What is his closing capital and explain the reason for increase or decrease.
3. Mrs. Gowri started a business on 01/03/2008 with a capital of Rs.250000/- and a loan of Rs.50000/- borrowed from Mr. Gowri. On 31st March 2009 her assets were Rs.325000/-. Find out her capital as on that date and the profit earned during the year.

4. Shri. Kumaran Started business on 01/04/2009 with a capital of Rs.250000/- and a loan from bank Rs.125000/-. During the year he introduced additional capital of Rs.125000/- and withdrawn Rs.75000/-. On 31/03/2010 his assets were Rs.600000/-. Find out his capital on 31/03/2010 and the profit made or loss incurred during the year.

6. Realisation concept.

7. Matching concept. (Revenue with expenses result will be income or loss)

8. Accounting period concept.

9. Materiality concept.

10. Consistency concept.

11. Conservatism concept.

12. Full disclosure concept.

Principle:

Apart from the concepts mentioned above, there are certain principles

1. Consistency: The systems and mechanism once adopted should be followed consistency.

2. Conservatism: According to this principle, you can show all anticipated loss but not all anticipated profit.

3. Materiality: According to this principle, you have to show all material evidences about the transactions

4. Disclosure: You have to show in the books of accounts all informations about the transactions.

JOURNAL

Journal is a book of original entry in which all transactions are recorded in a chronological order. An entry made in the journal is called journal entry and the process of entering or recording a transaction is called journalizing and transferring the journal entry to an account is called posting.

To record transactions in the books of accounts, it is necessary to follow the accounting rules. They are

Account	Debit	Credit.
Personal	The Receiver	The Giver
Real	What comes in	What goes out
Nominal	All expenses and losses	All Incomes and gains.

Account - It is a place where the transactions are classified and grouped into one head.

Subsidiary books

When the volume of business transactions are high, then it is not feasible to pass journal entry for every transactions separately. Related transactions are grouped and they are sub divided into different books of original entry. They are the following:

- 1] Purchases book – all credit purchases are recorded in this book
- 2] Purchase return book – the goods to the suppliers are recorded
- 3] Sales book – all credit sales are recorded in this book
- 4] Sales return book - the goods returned by the customers are recorded
- 5] Bills receivable book – all bills receivable by us are recorded.
- 6] Bills payable book – all bills which are payable by us are recorded.
- 7] cash book – it may be
 - A] single column cash book /simple cash book
 - B] Double column cash book (with discount column)
 - C] Triple column cash book (with discount & bank column)
 - D] Petty cash book
- 8] Journal proper: If a particular transactions which cannot be recorded in the above books which are recorded by passing journal entry which is termed as journal proper.

Specimen of purchase book

Date	Particulars	Invoice No	L.F. No	Amount
	Total of this book will be transferred to purchase account			

Except cash and bank, all other transactions affects only one side i.e. either debit or credit, hence such books are totaled and the balance transferred to concerned ledger account whereas in case of cash and bank, both debit and credit side are affected (either payment or receipt), therefore, in cash book only, the adjusted balance (i.e. debit and credit side) is taken to trial balance and no need to prepare the account separately.

LEDGER

After recording the transactions, it is necessary to classify them according to person, assets, expenses and income to get a clear picture about the transactions. This process is called classifying and summarizing and that is possible with the help of ledger. The account is in T format, the left hand portion is called debit side and right hand portion is called credit side. The transactions which are recorded already by passing journal entries are posted to the accounts based on the side in which it was recorded, this process is called **posting**. At the end of the accounting period, the accounts are balanced by taking the total of two side and the difference is carried forward to the next accounting period.

Specimen of ledger account

[Debit side] [Credit side]

Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount

After passing journal entry and preparing ledger account, a statement called trial balance is prepared to check the arithmetic accuracy of the transactions already recorded. As we follow double entry system, each transactions have two sides

one is debit and the other is credit, therefore, logically it is essential that the debit and credit must match, if not then it is because of some errors committed by us.

FINAL ACCOUNTS

Final accounts include trading account, profit and loss account and balance sheet. The purpose of preparing these accounts is to find out what is net results from the business (profit or loss) during the year and what is financial position of the business concern at the end of the year.

Trading account:

Trading means buying and selling. Trading account is prepared to find out what is profit or loss from the activity of trading. In this account, we record purchases, sales, stock and all expenses directly related to the purchase. The net results from the business may either gross profit or gross loss which will be transferred to the next account called profit and loss account.

TRADING ACCOUNT

Particulars	Amount	Particulars	Amount
To opening stock		By sales Less: SR /RI	
To purchase Less: PR/RO		By closing stock	
To direct expenses		By gross loss	
To Gross profit			
Total			

Direct expenses may include carriage inward, wages, fuel and power, manufacturing expenses. Coal, gas and water, motive power, Octroi, customs duty, import duty, consumable stores, salary of foremen, royalty for manufacturing goods, etc.

Profit and loss account:

To find out the net results from the business profit and loss account is prepared. In this account, all indirect expenditure and income are recorded and the net result (either net profit or loss) will be transferred to the capital account of the person who runs the business.

PROFIT AND LOSS ACCOUNT

Particulars	Amount	Particulars	Amount
To Gross loss		By Gross profit	
To Selling and distribution expenses		By Interest received	
To Management expenses		By Commission earned	
To Depreciation and Maintenance		By Discount received	
To Financial expenses		By Rent received	
To Extra ordinary expenses		By Miscellaneous income	
To Net profit		By Net loss	
Total			

1] Selling and distribution expenses may include advertisement, travelers salaries, expenses, commission, bad debts, godown rent, export expenses, carriage outwards, agents commission, bank charges, etc.

2] Management expenses include rent, rates and taxes, heating and lighting, office salary, printing and stationery, postage and telegrams , telephone charges, legal charges, audit fees, insurance, general expenses.

3] Financial expenses may include discount allowed, interest on capital, interest on loan, bills discount charges, etc.

4] Extra ordinary expenses may include loss of goods by fire, etc.

BALANCE SHEET

It is a statement prepared at the end of the accounting period to find out the financial position of the business i.e, the assets owned and liabilities of the business. In other words, this statements reflects on one side the sources of funds to the business and on the other side the application of such funds. Hence, it is mandatory that the assets and liabilities must be equal.

BALANCE SHEET

Liabilities	Amount	Assets	Amount
Fixed liabilities –capital		Intangible assets – goodwill, patents, copy right	
Long term liabilities – Bank loan, debentures		Fixed assets – land, building, furniture, motor car	
Current liabilities – bills payable, sundry creditors, bank overdraft		Current assets – sundry debtors, bills receivable, stock, investment, etc.	
Outstanding expenses		Liquid assets, cash, bank	
Income received in adv.		Outstanding income,	
		Expenses paid in adv.	
Total			

Objective type questions

1. Amount introduced into the business by the owner is called

A] Sales	B] purchases	C] Drawings	D] capital
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2. Goods drawn from the business for owner's personal use are called

A] Sales	B] purchases	C] Drawings	D] miscellaneous
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3. The concept that a business enterprise will not be closed down in the near future is known as

A] Going concern	B] Realisation	C] Periodicity	D] Business entity
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4. The cost concept is otherwise known as

A] Going concern	B] Realisation	C] Historical cost	D] Business entity
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5. A starts a business and invested Rs. 5,00,000 on 1st April 2008. On 31st March 2009, his assets were Rs. 6,50,000 and liabilities are Rs. 60,000. Find the amount of capital on 31-3-2009 and his profit.

A] Rs. 5,90,000 and Rs. 90,000	B] Rs. 5,00,000 and Rs. 1,50,000	C] Rs. 6,50,000 and Rs. 90,000	D] Rs.6,50,000 and Rs. 1,50,000
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4. Double entry system of book-keeping means

A] entry in two sets of books	B] entry for two aspects of transactions	C] entry at two places	D] entry on the two sides of the account
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5. Double entry principle means

A] writing each transactions twice	B] double entries for each transactions	C] having debit for every credit and credit for every debit	D] maintaining of double accounts for all business aspect
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6. The system of recording transactions based on dual aspect is called

A] double account system	B] double entry system	C] single entry system	D] Indian system of accounts
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7. Which of the following is true?

A] Capital +assets = liabilities	B] liabilities – capital = assets	C] assets- liabilities= capital	D] capital = assets +liabilities
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8. The prime function of accounting is to

A] record economic data	B] provide the information for action	C] classify and record business transactions	D] attain non-economic goals
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9. According to this concept, business enterprises and its owners are two separate independent entities

A] Going concern	B] Realisation	C] Periodicity	D] Business entity
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10. Quantitative transactions are not recorded in accounts due to

A] Cost concept	B] Realisation concept	C] Accrual concept	D] Money measurement concept
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11. According to money measurement concept, the following will be recorded in the books of account

A] Quality control in bus.	B] sales policy in the business	C] changes in the money value	D] cash balance of Rs.15000
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12. The cost concept envisages the recording of the following in the books of account

A] assets at price paid to acquire	B] Knowledge and skill built up in the business concept	C] Dispute between sales Manager and General Manager	D] Importance of shifting to a favourable location
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13. A major law suit filed against the company was not mentioned, even though the company's advocate believes that there is high probability of losing the case. Indicate the accounting principle that is violated.

A] conservatism	B] materiality	C] cost	D] full disclosure
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14. The cost of 10 box file costing R.25 each was charged to expenses at the time of purchase although they had a useful life for several years. This was done according to the principles of

A] cost	B] conservatism	C] materiality	D] full disclosure
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15. Secret reserves are in violation of the principle of

A] cost	B] conservatism	C] materiality	D] full disclosure
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16. Making provision for doubtful debts in anticipation of actual bad debts is based on

A] cost	B] conservatism	C] materiality	D] full disclosure
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17. The going concern concept is the basis for

A] stating the fixed assets at their realizable values	B] disclosing the market value of securities	C] disclosing the sales and other operating information in the income statement	D] None of the above
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18. The sequence of preparation of (1) Balance sheet (2) Trial Balance and (3) Income statement

A] 1,2,3	B] 1,3,2	C] 3,2,1	D] 2,3,1
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19. What is the order in which the accounting transactions and events are recorded in the books?

A] Journal, Ledger, Subsidiary books, B/sheet, & P and L	B] Ledger, Journal, Balance sheet, P and L A/c.	C] Journal, ledger, P and L A/c. and Balance sheet	D] P and L A/c. , Balance sheet, Ledger, Journal
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20. Revenue from sale of products is generally realised in the period in which

A] cash is collected	B] sales is made	C] products are manufactured	D] none of the above
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21. Purchase of machinery for cash

A] Decreases total assets	B] increase the total assets	C] decrease the total liabilities	D] total assets unchanged
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22. Ceiling fan bought for the office

A] assets	B] capital	C] liabilities	D] expense
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23. Loan taken from Bank

A] assets	B] capital	C] liabilities	D] expense
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24. Salary paid to staff

A] assets	B] capital	C] liabilities	D] expense
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25. Money due to business by Anand

A] assets	B] capital	C] liabilities	D] expense
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