ACCOUNTING FOR MANAGERS

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UNIT - 1

INTRODUCTION TO FINANCIAL ACCOUNTING

Introduction to Accounting: Accounting is understood as the Language of Business. However, a business may have a lot of aspects which may not be of financial nature. As such, a better way to understand accounting could be to call it The Language of Financial Decisions. Luca Paciolo, Mathematician Published a book De computicet scriptures in 1494 at venice in Italy.

Meaning of Accounting:

Thus, book-keeping is an art of recording the business transactions in the books of original entry and the ledges. Accountancy begins where Book-keeping ends. Accountancy means the compilation of accounts in such a way that one is in a position to know the state of affairs of the business. The work of an accountant is to analyze, interpret and review the accounts and draw conclusion with a view to guide the management in chalking out the future policy of the business.

Definition of Accounting:

American Institute of Certified Public Accountants (AICPA): "The art of recording, classifying and summarizing in a significant manner and in terms of money transactions and Management events, which are in part at least, of a financial character and interpreting the results thereof."

Smith and Ashburne: "Accounting is a means of measuring and reporting the results of economic activity

R.N. Anthony: "Accounting system is a means of collecting summarizing, analyzing and reporting in monetary terms, the information about the business activities."

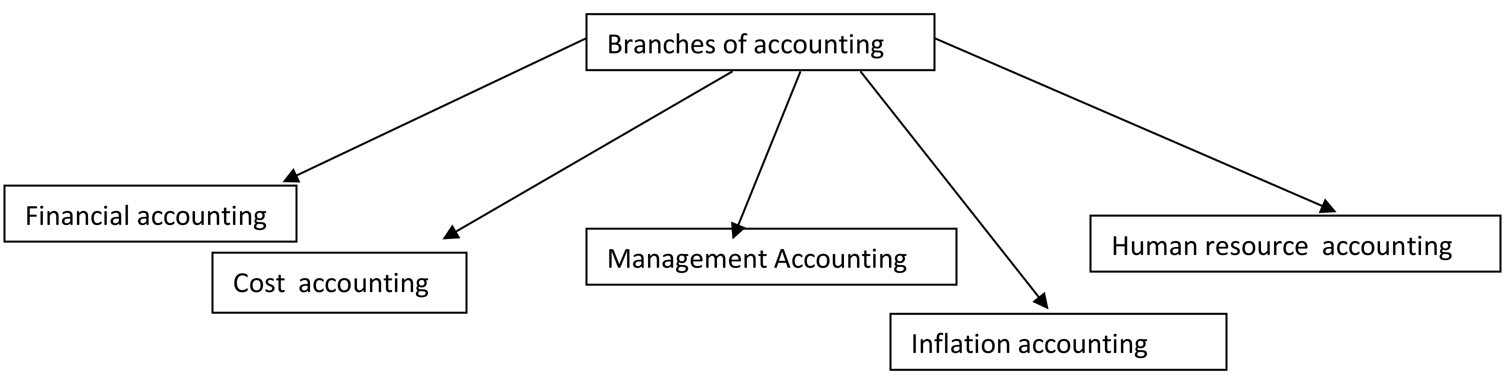
Thus, accounting is an art of identifying, recording, summarizing and interpreting business transactions of financial nature. Hence accounting is the **Language of Business**.

Objectives Of Accounting:

1. **To maintain records of Business:** one of the important objectives of accounting is the systematic maintenance of all monetary aspects of business transactions. This is known as book-keeping
2. **To calculate Profit or loss:** The profit earned or the loss suffered during a specific period (generally a year) can be calculated easily from the accounting books
3. **To ascertaining Financial Position:** by preparing the financial statements (trading and Profit &loss account and Balance sheet) the financial position of the company can be found out. From these statement it is possible to know the resource (assets) owned by the firm. These statements also provide information about obligation (liabilities) of business. Thus accounting aims at depicting the true and fair financial position of a concern.
4. **To communication financial information: A**ccounting is called language of business. It aims at communicating financial information to various interested parties (viz, managers, investors, government etc)

Branches of Accounting:

The important branches of accounting are:



1. **Financial Accounting:** The purpose of Accounting is to ascertain the financial results i.e. profit or loss in the operations during a specific period. It is also aimed at knowing the financial position, i.e. assets,

liabilities and equity position at the end of the period. It also provides other relevant information to the management as a basic for decision-making for planning and controlling the operations of the business.

2. **Cost Accounting:** The purpose of this branch of accounting is to ascertain the cost of a product / operation / project and the costs incurred for carrying out various activities. Cost Accounting is analyse the expenditure so as to ascertain the cost of various Products Manufactured by the firm and fix Prices. It also helps to controlling the costs and Providing necessary costing information to Management for decision Making.
3. **Management Accounting:** The purpose of Management Accounting is to assist the Management in taking rational Policy decision, Pricing Decision, Make or Buy decisions, Capital Expenditure decision etc. This branch of Accounting is Primarily concerned with Providing the necessary accounting information about finds, costs, Profits etc, to the Management data required for this purpose are drawn accounting and cost-accounting.
4. **Inflation Accounting:**It is concerned with the adjustment in the values of assets and of profit in light of changes in the price level. In a way it is concerned with the overcoming of limitations that arise in financial statements on account of the cost assumption (i.e. recording of the assets at their historical or original cost) and the assumption of stable monetary unit.
5. **Human Resource Accounting:** Human Resource Accounting means accounting of people as organisation resource. It means the measurement of the cost and value of people in organisation. It is a branch of accounting which seeks to report and emphasize the importance of human resources in a company's earning process and total assets. It is concerned with the process of identifying and measuring data about human resources and communicating this information to interested parties. In simple words, it is accounting for people as organizational resources.
6. **Social Responsibility Accounting: R**esponsibility Accounting represents a method of apprising the Performance of various Divisions of Organisation. It is system of accounting that recognises various responsibility centres and reflects the plans and actions of each of these centres by assisging Particular revenues and cost to those Plans.

ADVANTAGES OF ACCOUNTING

The role of accounting has changed from that of a mere record keeping during the 1st decade of 20th century of the present stage, which it is accepted as information system and decision making activity. The following are the advantages of accounting.

1. **Provides for systematic records:** Since all the financial transactions are recorded in the books, one need not rely on memory. Any information required is readily available from these records.
2. **Facilitates the preparation of financial statements:** Profit and loss accountant and balance sheet can be easily prepared with the help of the information in the records. This enables the trader to know the net result of business operations (i.e. profit / loss) during the accounting period and the financial position of the business at the end of the accounting period.
3. **Provides control over assets:** Book-keeping provides information regarding cash in had, cash at bank, stock of goods, accounts receivables from various parties and the amounts invested in various other assets. As the trader knows the values of the assets he will have control over them.
4. **Provides the required information:** Interested parties such as owners, lenders, creditors etc., get necessary information at frequent intervals.
5. **Comparative study:** One can compare the present performance of the organization with that of its past. This enables the managers to draw useful conclusion and make proper decisions.
6. **Less Scope for fraud or theft:** It is difficult to conceal fraud or theft etc., because of the balancing of the books of accounts periodically. As the work is divided among many persons, there will be check and counter check.
7. **Tax matters:** Properly maintained book-keeping records will help in the settlement of all tax matters with the tax authorities.
8. **Ascertaining Value of Business:** The accounting records will help in ascertaining the correct value of the business. This helps in the event of sale or purchase of a business.
9. **Documentary evidence:** Accounting records can also be used as an evidence in the court to substantiate the claim of the business. These records are based on documentary proof. Every entry is supported by authentic vouchers. As such, Courts accept these records as evidence.

10. **Helpful to management:** Accounting is useful to the management in various ways. It enables the management to assess the achievement of its performance. The weakness of the business can be identified and corrective measures can be applied to remove them with the helps accounting.

LIMITATIONS OF ACCOUNTING

The following are the limitations of accounting.

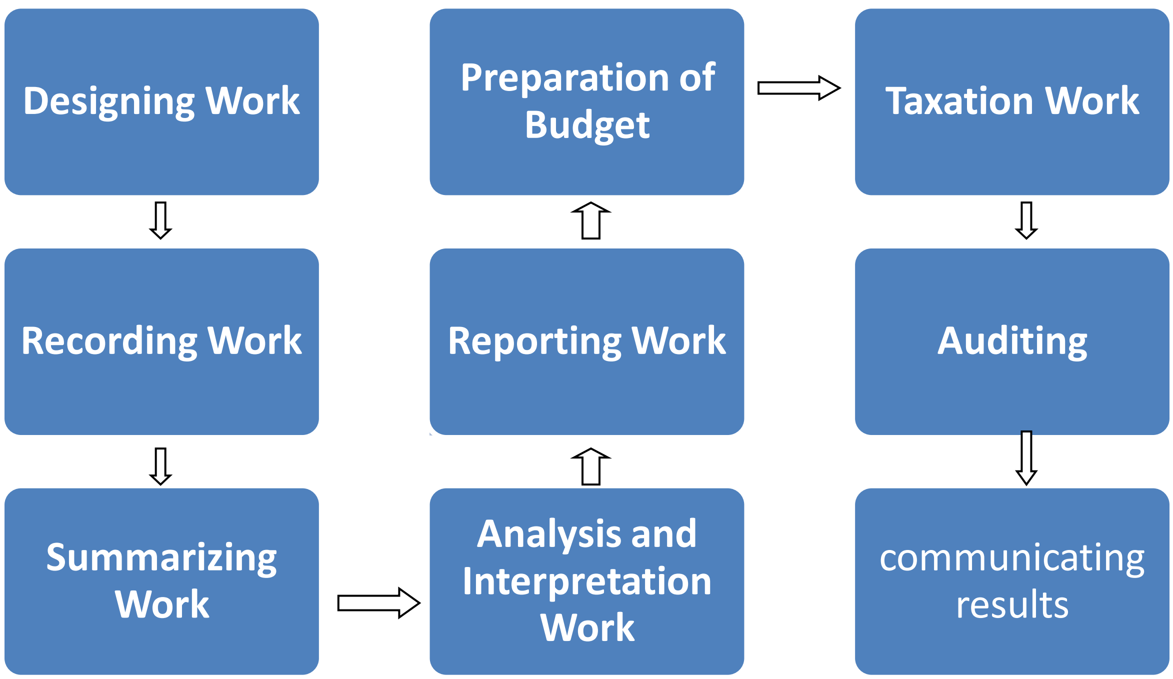
1. **Does not record all events:** Only the transactions of a financial character will be recorded under book-keeping. So it does not reveal a complete picture about the quality of human resources, location advantage, business contacts etc.
2. **Does not reflect current values:** The data available under book-keeping is historical in nature. So they do not reflect current values. For instance, we record the value of stock at cost price or market price, which ever is less. In case of, building, machinery etc., we adopt historical cost as the basis. In fact, the current values of buildings, plant and machinery may be much more than what is recorded in the balance sheet.
3. **Estimates based on Personal Judgment:** The estimate used for determining the values of various items may not be correct. For example, debtor is estimated in terms of collectability, inventories are based on marketability, and fixed assets are based on useful working life. These estimates are based on personal judgment and hence sometimes may not be correct.
4. **Inadequate information on costs and Profits:** Book-keeping only provides information about the overall profitability of the business. No information is given about the cost and profitability of different activities of products or divisions.

FUNCTIONS OF AN ACCOUNTANT

The job of an accountant involves the following types of accounting works

Process of accounting

1. **Designing Work:** It includes the designing of the accounting system, basis for identification and classification of financial transactions and events, forms, methods, procedures, etc.
2. **Recording Work:** The financial transactions are identified, classified and recorded in appropriate books of accounts according to principles. This is "Book Keeping". The recording of transactions tends to be mechanical and repetitive.



3. **Summarizing Work:** The recorded transactions are summarized into significant form according to generally accepted accounting principles. The work includes the preparation of profit and loss account, balance sheet. This phase is called 'preparation of final accounts'
4. **Analysis and Interpretation Work:** The financial statements are analyzed by using ratio analysis, break-even analysis, funds flow and cash flow analysis.

5. **Reporting Work:** The summarized statements along with analysis and interpretation are communicated to the interested parties or whoever has the right to receive them. For Ex. Share holders. In addition, the accou8nting departments have to prepare and send regular reports so as to assist the management in decision making. This is 'Reporting'.
6. **Preparation of Budget:** The management must be able to reasonably estimate the future requirements and opportunities. As an aid to this process, the accountant has to prepare budgets, like cash budget, capital budget, purchase budget, sales budget etc. this is 'Budgeting'.
7. **Taxation Work:** The accountant has to prepare various statements and returns pertaining to income-tax, sales-tax, excise or customs duties etc., and file the returns with the authorities concerned.
8. **Auditing:** It involves a critical review and verification of the books of accounts statements and reports with a view to verifying their accuracy. This is 'Auditing'

This is what the accountant or the accounting department does. A person may be placed in any part of Accounting Department or MIS (Management Information System) Department or in small organization, the same person may have to attend to all this work.

. **Explain about concepts and conventions in accounting?**

Explain about GAAP principles in accounting?

Ans) Accounting has been evolved over a period of several centuries. During this period, certain rules and conventions have been adopted. They serve as guidelines in identifying the events and transactions to be accounted for measuring, recording, summarizing and reporting them to the interested parties. These rules and conventions are termed as **Generally Accepted Accounting Principles.** These principles are also referred as standards, assumptions, concepts, conventions doctrines, etc. Thus, the accounting concepts are the fundamental ideas or basic assumptions underlying the theory and practice of financial accounting. They are the broad working rules for all accounting activities developed and accepted by the accounting profession.

Basic accounting concepts may be classified into two broad categories.

1. Concept to be observed at the time of recording transactions.(Recording Stage).
2. Concept to be observed at the time of preparing the financial accounts (Reporting Stage)

BASIC ACCOUNTING CONCEPTS

Accounting is a system evolved to achieve a set of objectives. In order to achieve the goals, we need a set of rules or guidelines. These guidelines are termed here as "BASIC ACCOUNTINGONCEPTS". The term concept means an idea or thought. Basic accounting concepts are the fundamental ideas or basic assumptions underlying the theory and profit of FINANCIAL ACCOUNTING. These concepts help in bringing about uniformity in the practice of accounting. In accountancy following concepts are quite popular. In simple remember of word MCMC BRAD PG.

Accounting Concepts	Accounting Conventions
1. Money Measurement concept	.full Disclosure
2. Cost Concept	consistency
3. Matching Concept	Materiality
4. Consistency or Evidence concept	Conservatism
5. Business entity Concept	
6. Realisation	
7. Accrual Concept	
8. Dual Aspect concept	
9. Periodical Concept	
10. Going concern concept.	

1. **Money Measurement Concept**: While recording the business transactions we don't record them in terms of Kilograms , metres , quintals , litres etc. We record them in a common Denominations so as see that they become homogeneous and Meaning. In other words In this concept "Only those transactions are recorded in accounting which can be expressed in terms of money, those transactions which can not be expressed in terms of money are not recorded in t he books of accounting".
2. **Cost Concept**: Usually all the transactions will be recorded at cost in the books, at the end of every year the accountant shows that reduced value of the asset , after providing for depreciation .
    1. This approach is preferred because it is difficult and time consuming to ascertain the Market value
3. ***Matching*** **concept:** According to this concept "The expenses incurred during an accounting period should matched with the revenues recognised in that period. For example if revenue is recognised on all goods sold during period, cost of these goods sold should also be charged to that period.

4. **Consistency:** it is concept as well as convention. The methods or principle followed in the preparation of various accounts should be followed in the tear to come.
5. **Business Entity Concept:** The concept implies that the business is distinct from the persons who own it. If the owner takes any goods or cash from the business the drawing accounting is debited and cash or goods or purchase is credited. Personal information should not recorded in business transactions. This concept also helps to develop the theory of Assets= liabilities +capital.
6. **Realisation Concept or Historical concept:** The Accountants shows only those transactions which have actually taken Place and not those which may take place in the books
   - **A**ll the transactions in accounting are to be recorded in the books in chronological order. This means the preparation of a historical record for all transactions. . Hence, this concept is called Historical record concept.
7. **Accrual concept:** The accrual system is a method where by revenue and expenses are identified with specific period of time like a month, half year or a year, It is called Objective evidence concept.
8. **Dual Aspect Concept :** This concept through light on the point that each transactions has two fold affect the receiving of the benefit and giving benefit. The receiving aspect is termed as debit, where as the giving aspect as credit.
9. **Periodical or Accounting Period concept:** Accounting period is the period followed by a business concern for maintaining accounts to know profit or loss . usually one year will be the accounting period starting from 1 st April and ending 31st March (financial year) or 1 st January to December 31 st (calendar year).the profit or loss for such period is ascertained while measuring the profit, income or expenses of that period only are to be considered
10. **Going concern concept : it** is assumed that the business that the business will continue for a long time with this assumptions fixed assets are recorded in the books at their original cost.

ACCOUNTING CONVENTIONS

Accounting is based on some customs or usages. Naturally accountants here to adopt that usage or custom.

They are termed as convert conventions in accounting. The following are some of the important accounting conventions.

1. **full disclosure**: according to this convention accounting reports should disclose fully and fairly the information. They purport to represent. They should be prepared honestly and sufficiently disclose information which is if material interest to proprietors, present and potential creditors and investors. The companies ACT, 1956 makes it compulsory to provide all the information in the prescribed form.

2. ***Materiality*:** Under this convention the trader records important factor about the commercial activities. In the form of financial statements if any unimportant information is to be given for the sake of clarity it will be given as footnotes.

3. **Consistency:** It means that accounting method adopted should not be changed from year to year. It means that there should be consistent in the methods or principles followed. Or else the results of a year Cannot be conveniently compared with that of another.

4. ***Conservatism*:** This convention warns the trader not to take unrealized income in to account. That is why the practice of valuing stock at cost or market price, which ever is lower is in vague. This is the policy of "playing safe"; it takes in to consideration all prospective losses but leaves all prospective profits

Explain about users of accounts

INTRODUCTION:

The main object of any Business is to make profit. Every trader generally starts business for the purpose of earning profit. While establishing Business, he brings his own capital, borrows money from relatives, friends, outsiders or financial institutions, then purchases machinery, plant, furniture, raw materials and other assets. He starts buying and selling of goods, paying for salaries, rent and other expenses, depositing and withdrawing cash from Bank. Like this he undertakes innumerable transactions in Business.

The number of Business transactions in an organization depends up on the size of the organization. In small organizations the transactions generally will be in thousands and in big organizations they may be in lacks. As such it is humanly impossible to remember all these transactions. Further it may not be possible to find out the final result of the Business with out recording and analyzing these transactions.

Accounting came in practice as an aid to human memory by maintaining a systematic record of Business transactions

USERS OF ACCOUNTING INFORMATION :

Different categories of users need different kinds of information for making decisions. The users of accounting can be divided in two board groups

(1). Internal users and

(2). External users.

1 Internal Users:

Managers: These are the persons who manage the business, i.e. management at he top, middle and lower levels. Their requirements of information are different because they make different types of decisions.

Accounting reports are important to managers for evaluating the results of their decisions. In additions to external financial statements, managers need detailed internal reports either branch division or department or product-wise. Accounting reports for managers are prepared much more frequently than external reports.

Accounting information also helps the managers in appraising the performance of subordinates. As such Accounting is termed as " the eyes and ears of management."

2 External Users:

1. Investors: Those who are interested in buying the shares of company are naturally interested in the financial statements to know how safe the investment already made is and how safe the proposed investments will be.

2. Creditors: Lenders are interested to know whether their load, principal and interest, will be paid when due. Suppliers and other creditors are also interested to know the ability of the firm to pay their dues in time. **3. Workers:** In our country, workers are entitled to payment of bonus which depends on the size of profit earned. Hence, they would like to be satisfied that he bonus being paid to them is correct. This knowledge also helps them in conducting negotiations for wage.

4. Customers: They are also concerned with the stability and profitability of the enterprise. They may be interested in knowing the financial strength of the company to rent it for further decisions relating to purchase of goods.

5. Government: Governments all over the world are using financial statements for compiling statistics concerning business which, in turn, helps in compiling national accounts. The financial statements are useful for tax authorities for calculating taxes.

6. Public : The public at large interested in the functioning of the enterprises because it may make a substantial contribution to the local economy in many ways including the number of people employed and their patronage to local suppliers.

7. Researchers: The financial statements, being a mirror of business conditions, are of great interest to scholars undertaking research in accounting theory as well as business affairs and practices.

Difference between book-keeping and accounting

According to G.A. Lee the accounting system has two stages.

1. The making of routine records in the prescribed from and according to set rules of all events with affect the financial state of the organization; and
2. The summarization from time to time of the information contained in the records, its presentation in a significant form to interested parties and its interpretation as an aid to decision making by these parties.

First stage is called Book-Keeping and the second one is Accounting.

Book – Keeping: Book – Keeping involves the chronological recording of financial transactions in a set of books in a systematic manner.

Accounting: Accounting is concerned with the maintenance of accounts giving stress to the design of the system of records, the preparation of reports based on the recorded date and the interpretation of the reports.

Distinction between Book – Keeping and Accountancy

Thus, the terms, book-keeping and accounting are very closely related, through there is a subtle difference as mentioned below.

Different Point	Book-Keeping	Accounting
1. Scope	It is concerned with recording and classifying the business transactions	It is concerned with recording , classifying, analysing and interpreting financial data
2. Stage	Book-keeping is primary stage in accounting. It is the base for accounting	Apart from the primary stage it includes and interpretation
3. Nature of Job	It is routine and clerical in nature	It is analytical nature
4. Knowledge required	It is requires basic knowledge of principles of journalising and posting	It requires through knowledge of accounting principles, procedure and practices
5. Skill required	Analytical skill is not required for book-keeping	It requires analytical skill
6. users	Only the internal users use book-keeping	On the hand , Accounting has both internal and external users
7. final results	In Bok-keeping it is not possible to know the final results of business every year	Accounting gives the net results of the business every year

Accounting standards

ACCOUNTING STANDARDS ISSUED BY ASB

AS-1 **Disclosure of Accounting policies**

AS-**2 Valuation of Invento**ries

AS-3 Changes in Financial Position or Cash flow statement

AS-4 Contingencies and Events Occurring after the Balance Sheet Date

AS-5 Prior period and Extraordinary Items and changes in Accounting policies

AS-6 Depreciation Accounting

AS-7 Accounting for Construction Contracts

AS-8 Accounting for Research and Development

AS-9 Revenue Recognition

AS-10 Accounting for Fixed Assets

AS-11 Accounting for Changes in Foreign Exchange Rate

AS-12 Accounting for Government Grants

AS-13 Accounting for Investments

AS-14 Accounting for Amalgamations

AS-15 Accounting for Retirement Benefits in the Financial Statements of Employers/Employees

AS-16 Borrowing costs

AS-17-Segment Reporting

AS-18 Related party disclosures

AS-19 Leases

AS-20- Earnings per share

AS-21 Consolidated Financial statements

AS-22 Accounting for taxation on income

AS-23 Accounting for investments in associates

AS-24 Discontinuing Operations

AS-25 Interim financial Reporting

AS -26 Intangible Assets

AS-27 Financial Reporting of interim in joint ventures

AS-28- Impairment of Assets

AS-29 Provisions, contingent liabilities and contingent Assets

AS-30 Financial Instruments- Recognition and measurement

AS-31 Financial instrument-presentation

AS-32 Financial instrument – Disclosure

UNIT-2

Explain the types of accounts and state the rules for debit and credit?

CLASSIFICATION OF BUSINESS TRANSACTIONS

All business transactions are classified into two categories: personal and impersonal.

1. Those relating to persons(personal)
2. Those relating to property (impersonal)
3. Those relating to income &expenses(impersonal)

Thus, three classes of accounts are maintained for recording all business transactions. They are:

1. Personal accounts: A Natural personal account b.Artificial personal 3..representative.

2. Real accounts

3. Nominal account.

1. *Personal Accounts*: Accounts which are transactions with persons are called "Personal Accounts"

A separate account is kept on the name of each person for recording the benefits received from, or given to the person in the course of dealings with him.

E.g.: Krishna's A/C, Gopal's A/C, , ObulReddy& Sons A/C, Raju A/C , Rani A/C

Artifical Personal Account- HMT Ltd. A/C, SBI A/C, Nagarjuna Finance Ltd.A/C etc.

Representative Personal Account- Outstanding expenses

2. *Real Accounts*: The accounts relating to properties or assets are known as "Real Accounts" .Every business needs assets such as machinery, furniture etc, for running its activities .A separate account is maintained for each asset owned by the business.

E.g.: cash A/C, furniture A/C, building A/C, machinery A/C etc.

3.*NominalAccounts:Accounts* relating to expenses, losses, incomes and gains are known as "Nominal Accounts". A separate account is maintained for each item of expenses, losses, income or gain.

E.g.: Salaries A/C, stationery A/C, wages A/C, postage A/C, commission A/C, interest A/C, purchases A/C, rent A/C, discount A/C, commission received A/C, interest received A/C, rent received A/C, discount received A/C.

Before recording a transaction, it is necessary to find out which of the accounts is to be debited and which is to be credited. The following three different rules have been laid down for the three classes of accounts….

1. *Personal Accounts*: The account of the person receiving benefit (receiver) is to be debited and the account of the person giving the benefit (given) is to be credited.

Rule: "Debit----The Receiver
Credit---The Giver"

2.*Real Accounts*: When an asset is coming into the business, account of that asset is to be debited .When an asset is going out of the business, the account of that asset is to be credited.

Rule: "Debit----What comes in?
Credit---What goes out?"

3. *Nominal Accounts*: When an expense is incurred or loss encountered, the account representing the expense or loss is to be debited. When any income is earned or gain made, the account representing the income of gain is to be credited.

Rule: "Debit----All expenses and losses
Credit---All incomes and gains"

What is journalizing? Explain about journal?

The first step in accounting therefore is the record of all the transactions in the books of original entry viz., Journal and then posting into ledges.

JOURNAL: The word Journal is derived from the Latin word 'journ' which means a day. Therefore, journal means a 'day Book' in day-to-day business transactions are recorded in chronological order.

Journalising:

Journal is treated as the book of original entry or first entry or prime entry. All the business transactions are recorded in this book before they are posted in the ledges. The journal is a complete and chronological (in order of dates) record of business transactions. It is recorded in a systematic manner. The process of recording a transaction in the journal is called "JOURNALISING". The entries made in the book are called "Journal Entries".

The Performa of Journal is given below.

Date	Particulars	L.F. no	Debit RS.	Credit RS.
Year Month ,date	Debited account Dr Credited account (Narration)		xxxx	 xxxx

Date: this column represent date of the particular transaction.

Particulars: it represent particulars of the transaction. In each transaction there must be two accounts one is debit account and other is credited account. Debited account must be entered from the near to date column and put Dr in ending of that line .Credited account is enter by giving some space to the date column.

Narration: It will give brief information about a transaction.

L.F.NO: it means a ledger folio number ,it will give information about the particular account is entered on whitch page on the ledger.

Explain about ledger? What are the rules that we follow while preparing the ledgers?

LEDGER:

All the transactions in a journal are recorded in a chronological order. After a certain period, if we want to know whether a partiular account is showing a debit or credit balance it becomes very difficult. So, the ledger is designed to accommodate the various accounts maintained the trader. It contains the final or permanent record of all the transactions in duly classified form. “A ledger is a book which contains various accounts.” The process of transferring entries from journal to ledger is called “POSTING”.

Posting is the process of entering in the ledger the entries given in the journal. Posting into ledger is done periodically, may be weekly or fortnightly as per the convenience of the business. The following are the guidelines for posting transactions in the ledger.

1. After the completion of Journal entries only posting is to be made in the ledger.
2. For each item in the Journal a separate account is to be opened. Further, for each new item a new account is to be opened.
3. Depending upon the number of transactions space for each account is to be determined in the ledger.
4. For each account there must be a name. This should be written in the top of the table. At the end of the name, the word "Account" is to be added.
5. The debit side of the Journal entry is to be posted on the debit side of the account, by starting with "TO".
6. The credit side of the Journal entry is to be posted on the debit side of the account, by starting with "BY".

Performa for ledger: ***LEDGER BOOK***

account*name*

Date	Particulars	Lfno	Amount	Date	Particulars	Lfno	amount

examples:

Sales account

Date	Particulars	Lfno	Amount	Date	Particulars	Lfno	amount

Cash account

Date	Particulars	Lfno	Amount	Date	Particulars	Lfno	amount

Finally, a ledger may be defined as a summary statement of all the transactions relating to a person , asset, expense or income which have taken place during a given period of time. The up-to-date state of any account can be easily known by referring to the ledger.

Difference between Journal and Ledger

Difference Point	Journal	Ledger
1. Entry	Journal is the book of first or original entry	The ledger is the book of secondary entry
2. Nature of work	Transactions in the journal will be recorded immediately	Depending upon his convenience the trader records the transactions in the ledger
3. Maintained	Journal will be maintained on chronological order I.e recording of transactions on the date basis	Posting the journal entries only main aim here
4. Individual or institutional	The transactions relating to all individual or institutional may appear in different pages of journal	All transactions relating to a specific account will be posted on the same page or pages
5. Reveals	Journal may not reveal whether one customer is a debtor or creditor	Ledger will reveal whether one person is a debtor or creditor to business
6.importance	When once the transactions are posted into ledger, the journal looses its importance	It will never loose its importance as it is the main book of accounting which relied upon permanently
7.preparation of final Accounts	In the preparation of final account is not useful	In the preparation of final accounts ledger is a must
8 Tax authority	The tax authorities generally may not depend on journal	In the finalisation of income tax to be paid, the tax authorities depend on ledger

Types of Subsidiary Books

Subsidiary books are divided into eight types . they are given below

1. **Purchase Book**: This Book records all credit purchases only. Purchase of goods for cash and purchase of assets for cash credit will not be recorded in this book
2. **Sales Book**: This book is used to record credit sales only. Goods sold for cash and sale of assets for cash will not be recorded in this book.
3. **Purchase Returns Book**: this book is used to record the particulars of goods returned to supplier
4. **Sale returns Book**: This book records the particulars of goods returned by the customer
5. **Bills Receivable Book**: This book is used to record all the bills and promissory notes received
6. **Bills payable Book**: This is used record all the bill or promissory notes accepted
7. **Cash Book**: All cash transactions, receipts and payments are recorded in this book. Cash includes cheques, money orders etc. do not record credit purchases and sales in the book. Cash book prepare single column cash book, two column cash book with discount , three column cah book with discount, bank column. Petty cash book.
8. **Journal Proper**: This is used to record all the transactions that cannot be recorded in any of the above 7 b mentioned subsidiary books. Here record bad debts, depreciation and all provisions

Advantages of Subsidiary Books

1. **Division of work:** As there are a number of subsidiary books, the work of recording business transactions business transactions may given to a number of employees without any duplication of the same work
2. **Increase in efficiency of staff:** Due to division of labour each employee will specialise in the work allotted to him. Naturally, he will become efficient in that part of the accounting work.
3. **Time saving:** As the recording is done simultaneously in a number of books the work will be completed quickly and independently.
4. **Ledger postings are made easier :** Posting from the subsidiary books are made at convenient intervals depending upon the nature of the business
5. **Readymade information:** Since a number of books are used from recording different types of transactions the information's relating to any class of transactions is available without any searching or delay.
6. **Minimisation of frauds:** Checking the transactions for mistakes and errors can be done easily. Checking help in tracing the errors and thus minimises the frauds.
7. **Saving in stationery cost:** The use of subsidiary books results in economical and limited use of stationery materials
8. **Helps in decision making:** Since the transactions of a similar nature are recorded at one place, the management can have the benefit of the using them in planning and decision making

TRIAL BALANCE

TRAIL BALANCE

The first step in the preparation of final accounts is the preparation of trail balance. In the double entry system of book keeping, there will be credit for every debit and there will not be any debit without credit. When this principle is followed in writing journal entries, the total amount of all debits is equal to the total amount all credits.

A trail balance is a statement of debit and credit balances. It is prepared on a particular date with the object of checking the accuracy of the books of accounts. It indicates that all the transactions for a particular period have been duly entered in the book, properly posted and balanced. The trail balance doesn't include stock in hand at the end of the period. All adjustments required to be done at the end of the period including closing stock are generally given under the trail balance.

DEFINITIONS: *SPICER AND POGLAR :*A trail balance is a list of all the balances standing on the ledger accounts and cash book of a concern at any given date.

J.R.BATLIBOI:

A trail balance is a statement of debit and credit balances extracted from the ledger with a view to test the arithmetical accuracy of the books.

Thus a trail balance is a list of balances of the ledger accounts' and cash book of a business concern at any given date.

PROFORMA FOR TRAIL BALANCE:

Trail balance for MR…………………………………… as on …………

NO	NAME OF ACCOUNT (PARTICULARS)	DEBIT AMOUNT (RS.)	CREDIT AMOUNT (RS.)

Specimen of trial balance

1	Capital	Credit	Loan
2	Opening stock	Debit	Asset
3	Purchases	Debit	Expense
4	Sales	Credit	Gain
5	Returns inwards	Debit	Loss

6	Returns outwards	Debit	Gain
7	Wages	Debit	Expense
8	Freight	Debit	Expense
9	Transport expenses	Debit	Expense
10	Royalties on production	Debit	Expense
11	Gas, fuel	Debit	Expense
12	Discount received	Credit	Revenue
13	Discount allowed	Debit	Loss
14	Bas debts	Debit	Loss
15	Bad debts reserve	Credit	Gain
16	Commission received	Credit	Revenue
17	Repairs	Debit	Expense
18	Rent	Debit	Expense
19	Salaries	Debit	Expense
20	Loan Taken	Credit	Loan
21	Interest received	Credit	Revenue
22	Interest paid	Debit	Expense
23	Insurance	Debit	Expense
24	Carriage outwards	Debit	Expense
25	Advertisements	Debit	Expense
26	Petty expenses	Debit	Expense
27	Trade expenses	Debit	Expense
28	Petty receipts	Credit	Revenue
29	Income tax	Debit	Drawings
30	Office expenses	Debit	Expense
31	Customs duty	Debit	Expense
32	Sales tax	Debit	Expense
33	Provision for discount on debtors	Credit	Liability
34	Provision for discount on creditors	Debit	Asset
35	Debtors	Debit	Asset
36	Creditors	Credit	Liability
37	Goodwill	Debit	Asset
38	Plant, machinery	Debit	Asset
39	Land, buildings	Debit	Asset
40	Furniture, fittings	Debit	Asset
41	Investments	Debit	Asset
42	Cash in hand	Debit	Asset

43	Cash at bank	Debit	Asset
44	Reserve fund	Credit	Liability
45	Loan advances	Debit	Asset
46	Horse, carts	Debit	Asset
47	Excise duty	Debit	Expense
48	General reserve	Credit	Liability
49	Provision for depreciation	Credit	Liability
50	Bills receivable	Debit	Asset
51	Bills payable	Credit	Liability
52	Depreciation	Debit	Loss
53	Bank overdraft	Credit	Liability
54	Outstanding salaries	Credit	Liability
55	Prepaid insurance	Debit	Asset
56	Bad debt reserve	Credit	Revenue
57	Patents & Trademarks	Debit	Asset
58	Motor vehicle	Debit	Asset
59	Outstanding rent	Credit	Revenue

FINAL ACCOUNTS

In every business, the business man is interested in knowing whether the business has resulted in profit or loss and what the financial position of the business is at a given time. In brief, he wants to know (i)The profitability of the business and (ii) The soundness of the business.

The trader can ascertain this by preparing the final accounts. The final accounts are prepared from the trial balance. Hence the trial balance is said to be the link between the ledger accounts and the final accounts. The final accounts of a firm can be divided into two stages. The first stage is preparing the trading and profit and loss account and the second stage is preparing the balance sheet.

TRADING ACCOUNT

The first step in the preparation of final account is the preparation of trading account. The main purpose of preparing the trading account is to ascertain gross profit or gross loss as a result of buying and selling the goods.

Trading account of MR……………………. for the year ended ………………

Particulars	Amount	Particulars	Amount
To opening stock	Xxxx	By sales xxxx	
To purchases xxxx		Less: returns xxx	Xxxx
Less: returns xx	Xxxx	By closing stock	Xxxx
To carriage inwards	Xxxx		
To wages	Xxxx		
To freight	Xxxx		
To customs duty, octroi	Xxxx		
To gas, fuel, coal, Water	Xxxx		
To factory expenses	Xxxx		
To other man. Expenses	Xxxx		
To productive expenses	Xxxx		
To gross profit c/d	Xxxx		
			Xxxx
	Xxxx		

PROFIT AND LOSS ACCOUNT

The business man is always interested in knowing his net income or net profit.Net profit represents the excess of gross profit plus the other revenue incomes over administrative, sales, Financial and other expenses. The debit side of profit and loss account shows the expenses and the credit side the incomes. If the total of the credit side is more, it will be the net profit. And if the debit side is more, it will be net loss

PROFIT AND LOSS A/C OF MR……………………FOR THE YEAR ENDED…………

PARTICULARS	AMOUNT	PARTICULARS	AMOUNT
TO office salaries	Xxxxxx	By gross profit b/d	Xxxxx
TO rent,rates,taxes	Xxxxx	Interest received	Xxxxx
TO Printing and stationery	Xxxxx	Discount received	Xxxx
TO Legal charges		Commission received	Xxxxx
Audit fee	Xxxx	Income from investments	
TO Insurance	Xxxx		
TO General expenses	Xxxx	Dividend on shares	Xxxx
TO Advertisements	Xxxxx	Miscellaneous investments	Xxxx
TO Bad debts	Xxxx		
TO Carriage outwards	Xxxx	Rent received	xxxx
TO Repairs	Xxxx		
TO Depreciation	Xxxxx		
TO interest paid	Xxxxx		
TO Interest on capital	Xxxxx		
TO Interest on loans	Xxxx		
TO Discount allowed	Xxxxx		
TO Commission	Xxxxx		
TO Net profit-------→ (transferred to capital a/c)	Xxxxx		
	xxxxxx		Xxxxxx

BALANCE SHEET

The second point of final accounts is the preparation of balance sheet. It is prepared often in the trading and profit, loss accounts have been compiled and closed. A balance sheet may be considered as a statement of the financial position of the concern at a given date.

DEFINITION: A balance sheet is an item wise list of assets, liabilities and proprietorship of a business at a certain state.

<u>J.R.botliboi</u>: A balance sheet is a statement with a view to measure exact financial position of a business at a particular date.

Thus, Balance sheet is defined as a statement which sets out the assets and liabilities of a business firm and which serves to as certain the financial position of the same on any particular date. On the left-hand side of this statement, the liabilities and the capital are shown. On the right-hand side all the assets are shown. Therefore, the two sides of the balance sheet should be equal. Otherwise, there is an error somewhere

BALANC SHEET OF ……………………………AS ON …………

Liabilities and capital	Amount	Assets	Amount
Creditors	Xxxx	Cash in hand	Xxxx
Bills payable	Xxxx	Cash at bank	Xxxx
Bank overdraft	Xxxx	Bills receivable	Xxxx
Loans	Xxxx	Debtors	Xxxx
Mortgage	Xxxx	Closing stock	Xxxx
Reserve fund	Xxxx	Investments	Xxxx
Capital xxxxxx		Furniture and fittings	Xxxx
<u>Add</u>:		Plats&machinery	
Net Profit xxxx		Land & buildings	Xxxx
-------		Patents, tm ,copyrights	Xxxx
xxxxxxx		Goodwill	Xxxx
		Prepaid expenses	
		Outstanding incomes	Xxxx
<u>Less</u>:			Xxxx
Drawings xxxx	Xxxx		Xxxx
---------	XXXX		XXXX

<u>Advantages</u>: The following are the advantages of final balance .

1. It helps in checking the arithmetical accuracy of books of accounts.
2. It helps in the preparation of financial statements.
3. It helps in detecting errors.
4. It serves as an instrument for carrying out the job of rectification of entries.
5. It is possible to find out the balances of various accounts at one place.

Explain How The adjustments affect the accounts?

FINAL ACCOUNTS -- ADJUSTMENTS

We know that business is a going concern. It has to be carried on indefinitely. At the end of every accounting year. The trader prepares the trading and profit and loss account and balance sheet. While preparing these financial statements, sometimes the trader may come across certain problems .The expenses of the current year may be still payable or the expenses of the next year have been prepaid during the current year. In the same way, the income of the current year still receivable and the income of the next year have been received during the current year. Without these adjustments, the profit figures arrived at or the financial position of the concern may not be correct. As such these adjustments are to be made while preparing the final accounts.

The adjustments to be made to final accounts will be given under the Trial Balance. While making the adjustment in the final accounts, the student should remember that "every adjustment is to be made in the final accounts twice i.e. once in trading, profit and loss account and later in balance sheet generally". The following are some of the important adjustments to be made at the time of preparing of final accounts:-

1. ***CLOSING STOCK***:-

(i)*If closing stock is given in Trail Balance*: It should be shown only in the balance sheet "Assets Side".

(ii)*If closing stock is given as adjustment*:

1. First, it should be posted at the credit side of "Trading Account".
2. Next, shown at the asset side of the "Balance Sheet".

2.***OUTSTANDING EXPENSES*** :-

(i)*If outstanding expenses given in Trail Balance*: It should be only on the liability side of Balance Sheet.

(ii)*If outstanding expenses given as adjustment* :

1. First, it should be added to the concerned expense at the debit side of profit and loss account or Trading Account.
2. Next, it should be added at the liabilities side of the Balance Sheet.

3.***PREAPID EXPENSES*** **:-**

(i)*If prepaid expenses given in Trial Balance*: It should be shown only in assets side of the Balance Sheet.

(ii)*If prepaid expense given as adjustment* :

1. First, it should be deducted from the concerned expenses at the debit side of profit and loss account or Trading Account.
2. Next, it should be shown at the assets side of the Balance Sheet.

4.***INCOME EARNED BUT NOT RECEIVED [OR] OUTSTANDING INCOME [OR] ACCURED INCOME*** **:-**

(i)*If incomes given in Trial Balance*: It should be shown only on the assets side of the Balance Sheet.

(ii)*If incomes outstanding given as adjustment*:

1. First, it should be added to the concerned income at the credit side of profit and loss account.
2. Next, it should be shown at the assets side of the Balance sheet.

5. ***INCOME RECEIVED IN ADVANCE: UNEARNED INCOME***:-

(i)*If unearned incomes given in Trail Balance* : It should be shown only on the liabilities side of the Balance Sheet.

(ii)*If unearned income given as adjustment* :

1. First, it should be deducted from the concerned income in the credit side of the profit and loss account.
2. Secondly, it should be shown in the liabilities side of the Balance Sheet.

6.***DEPRECIATION*:-**

(i)*If Depreciation given in Trail Balance*: It should be shown only on the debit side of the profit and loss account.

(ii)*If Depreciation given as adjustment*

1. First, it should be shown on the debit side of the profit and loss account.
2. Secondly, it should be deduced from the concerned asset in the Balance sheet assets side.

7.***INTEREST ON LOAN [OR] CAPITAL***:-

(i)*If interest on loan (or) capital given in Trail balance*:It should be shown only on debit side of the profit and loss account.

(ii)*If interest on loan (or)capital given as adjustment* :

1. First, it should be shown on debit side of the profit and loss account.
2. Secondly, it should added to the loan or capital on the liabilities side of the Balance Sheet.

8.***BAD DEBTS***:-

(i)*If bad debts given in Trail balance* :It should be shown on the debit side of the profit and loss account.

(ii)*If bad debts given as adjustment*:

1. First, it should be shown on the debit side of the profit and loss account.
2. Secondly, it should be deducted from debtors in the assets side of the Balance Sheet.

9.***INTEREST ON DRAWINGS*** :-

(i)*If interest on drawings given in Trail balance*: It should be shown on the credit side of the profit and loss account.

(ii)*If interest on drawings given as adjustments* :

1. First, it should be shown on the credit side of the profit and loss account.
2. Secondly, it should be deducted from capital on liabilities side of the Balance Sheet.

10.*INTEREST ON INVESTMENTS* :-

(i)*If interest on the investments given in Trail balance* :It should be shown on the credit side of the profit and loss account.

(ii)*If interest on investments given as adjustments* :

1. First, it should be shown on the credit side of the profit and loss account.
2. Secondly, it should be added to the investments on assets side of the Balance Sheet.