GCA S2 02

Computer Based Accounting and Financial Management

SEMESTER - II

BACHELOR OF COMPUTER APPLICATION

Block 1

KRISHNA KANTA HANDIQUI STATE OPEN UNIVERSITY

PDF created with pdfFactory Pro trial version www.pdffactory.com

Subject Experts

Professor Nayan Barua, Gauhati University
Professor H. C. Gautam, Gauhati University
Dr. S. K. Mahapatra, Gauhati University

Course Co-ordinators : Dr. Devajeet Goswami, Dipankar Malakar, Commerce, KKHSOU

SLM Preparation Team

UNITS	CONTRIBUTORS
1, 4, 5	Dr. Devajeet Goswami, KKHSOU
2 & 3	Sri B. B. Dam, Rtd. Professor, Gauhati Commerce College

Editorial Team

Content : Professor H. C. Gautam, Gauhati University
Dr. Devajeet Goswami, KKHSOU

Structure, Format & Graphics : Devajeet Goswami, Dipankar Malakar, KKHSOU

January, 2018

This Self Learning Material (SLM) of the Krishna Kanta Handiqui State Open University is made available under a Creative Commons Attribution-Non Commercial-Share Alike 4.0 License (international): http://creativecommons.org/licenses/by-nc-sa/4.0/

Printed and published by Registrar on behalf of the Krishna Kanta Handiqui State Open University.

Headquarters : Patgaon, Rani Gate, Guwahati - 781017
City Office : Housefed Complex, Dispur, Guwahati-781 006; Web: www.kkhsou.in

The University acknowledges with thanks the financial support provided by the **Distance Education Bureau**, **UGC** for the preparation of this study material.

PDF created with pdfFactory Pro trial version www.pdffactory.com

COURSE INTRODUCTION

In this course we will discuss the fundamentals of book-keeping. This includes meaning, objects and need of book-keeping; meaning of Assets, Liabilities, Capital, Drawings, Income, Expanse, Profit, Loss; meaning of transactions, vouchers and their preparation and meaning of Account and its format. We will also discuss meaning and need of double entry system of book-keeping, various types of transactions and their recording in journal, preparation of Cask Book and Trial Balance etc.

While going through a unit, you will notice some along-side boxes, which have been included to help you know some of the difficult, unseen terms. Again, we have included some relevant concepts in ‘‘LET US KNOW’’ along with the text. And, at the end of each section, you will get “CHECK YOUR PROGRESS” questions. These have been designed to self-check your progress of study. It will be better if you solve the problems put in these boxes immediately after you go through the sections of the units and then match your answers with “ANSWERS TO CHECK YOUR PPROGRESS” given at the end of each unit.

PDF created with pdfFactory Pro trial version www.pdffactory.com

BLOCK INTRODUCTION

Block 1 comprises of five units. In unit 1 we will concentrate on the basics of book- keeping and accounting. We will discuss the importance of accounting as a source of information, characteristics of accounting information etc. The second unit will focus on the concepts and conventions and Generally Accepted Accounting Principles and their application in recording and presentation of accounting information. In Unit 3 the concept of Accounting Standard, the need and advantages and accounting standards setting procedure in India will be explained. In Unit 4 we will discuss the meaning of account, debit, credit, double- entry system, classification of accounts etc. Unit 5 will concentrate on journal, subsidiary books, ledger posting, balancing an account etc.

The units of Block 1 are given below-

Unit 1: Introduction to Accounting

Unit 2: Generally Accepted Accounting Principles

Unit 3: Accounting Standards

Unit 4: Accounting Process-I

Unit 5: Accounting Process-II

PDF created with pdfFactory Pro trial version www.pdffactory.com

BACHELOR OF COMPUTER APPLICATION

Computer Based Accounting and Financial Management

CONTENTS

UNIT 1: Introduction to Accounting **Pages: 7-21**

Meaning of Book-Keeping; Meaning and Objectives of Accounting; Functions of Accounting; Accounting as a Source of Information; Characteristics of Accounting Information; Basic Terms Used in Accounting

UNIT 2: Generally Accepted Accounting Principles **Pages: 22-37**

Meaning of Accounting Principles, Concepts, Conventions and Postulates; Meaning and Features of Generally Accepted Accounting Principles (GAAP); Structure of GAAP

UNIT 3: Accounting Standards **Pages: 38-45**

Meaning and Needs of Accounting Standards; Objectives of Accounting Standards; Advantages of Accounting Standards; Authorities for Setting Accounting Standards in India

UNIT 4: Accounting Process-I **Pages: 46-64**

Meaning of Account; Meaning of Debit and Credit; System of Book-Keeping; Double-Entry System; Classification of Accounts; Rules for Debit and Credit

UNIT 5: Accounting Process-II **Pages: 65-99**

Meaning of Books of Account; Meaning of Journal; Journalising_Subsidiary Books of Account; Meaning of Ledger; Meaning of Ledger Posting; Rules Regarding Posting; Balancing of an Account

PDF created with pdfFactory Pro trial version www.pdffactory.com

PDF created with pdfFactory Pro trial version www.pdffactory.com

UNIT 1: INTRODUCTION TO ACCOUNTING

UNIT STRUCTURE

1.1 Learning Objectives

1.2 Introduction

1.3 Meaning of Book-Keeping

1.4 Meaning and Objectives of Accounting

1.5 Functions of Accounting

1.6 Accounting as a Source of Information

1.7 Characteristics of Accounting Information

1.8 Basic Terms Used in Accounting

1.9 Let Us Sum Up

1.10 Further Reading

1.11 Answers to Check Your Progress

1.12 Model Questions

1.1 LEARNING OBJECTIVES

After going through this unit, you will be able to:

- explain the meaning of book-keeping
- describe the meaning and objectives of accounting
- explain the functions of accounting
- discuss the importance of accounting as a source of information
- explain the characteristics of accounting information
- discuss some terms used in accounting.

1.2 INTRODUCTION

In business, it is very important to keep the records of all the monetary events. It will help the owner of the business to ascertain the profit or loss of the business. Therefore, a systematic procedure is required to be followed in keeping the records of the monetary events.

In this unit we will discuss this aspect of recording. Our topics of discussion will be the meaning of book-keeping and accounting, objectives

PDF created with pdfFactory Pro trial version www.pdffactory.com

of accounting, functions of accounting etc. The business uses accounting as a source of information in taking business decisions. So, it must possess certain characteristics and all these will be discussed in this unit.

This unit will help you in gaining knowledge on the basics of accounting and its importance in a business. You will also come to know some basic terms used in accounting.

1.3 MEANING OF BOOK-KEEPING

A business is started with a motive to earn profit. But at the same time there is a risk that it may face loss. Therefore, it is very important to keep track of the various transactions of the business. The owner is keen to know the amount of profit or loss suffered; the assets that the business possesses or the liabilities that the business has to discharge etc. All these information can be obtained only through the accounting records. It makes it essential to record the transactions of the business. The system of keeping records of monetary transactions in business is known as book- keeping. On the basis of these records, certain reports will be prepared which will provide information as required by the owner or other ***stakeholders***.



Stakeholders: A person or group or organisation having interest in a business like, creditors, suppliers, customers, employers, directors, shareholders and the society as a whole.

R. N. Carter defined book-keeping as, “Book-keeping is the science and art of correctly recording in books of account all those business transactions that result in the transfer of money or money’s worth.”

Therefore, the various aspects associated with book-keeping can be stated as under–

- A process of recording business transactions on a day to day basis;
- The business transactions must be expressed in terms of money;
- These transactions are recorded in a set of books, known as books of account;
- It provides the basis for generating summarized reports of business affairs during a particular period of time.

PDF created with pdfFactory Pro trial version www.pdffactory.com



CHECK YOUR PROGRESS

Q.1: What is book-keeping?

.....

.....

.....

1.4 MEANING AND OBJECTIVES OF ACCOUNTING

In this section we will discuss about accounting. In recording business transactions, accounting is a step next to book-keeping. We have already discussed book-keeping in the previous section.

Accounting has been defined by The American Institute of Certified Public Accountants 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 financial character and interpreting the results thereof."

Thus, accounting is a system of interpreting the results of the business transactions that has been recorded, classified and summarized. It communicates the financial condition of the business to the various interested groups like, owners, creditors, tax authorities etc.

Objectives of Accounting: As accounting deals with business transactions, the objectives of accounting may be stated as under–

- To keep the records of the transactions systematically;
- To evaluate the performance of the business periodically;
- To ascertain the financial position of the business;
- To help the management in taking business decisions;
- To provide information about the business as required by the different outside groups like, financiers, tax authorities, debenture holders etc.
- To control the use of resources and business activities etc.

PDF created with pdfFactory Pro trial version www.pdffactory.com



CHECK YOUR PROGRESS

Q.2: What is accounting?

.....

.....

.....

.....

Q.3: State any three objectives of accounting.

.....

.....

.....

1.5 FUNCTIONS OF ACCOUNTING

On the basis of the above discussion, the functions of accounting may be stated as under–

- **Record Keeping:** The primary function of accounting is to keep records of the business transactions and then classify and summarized these transactions. It starts with recording the transactions in the primary book, known as journal book, and then transactions are posted to the secondary book, known as ledger book. On the basis of the ledger book, another statement is prepared, known as Trial Balance. At the end of the accounting period, on the basis of the information of trial balance, final accounts are prepared.
- **Decision-Making:** Accounting aids decision- making function of the management. Accounting provides varied information like, profit earned or loss suffered; assets and liabilities of business; cash and bank balances etc. All these information are supplied by accounting to enable the management in making business decisions.
- **Meeting Legal Requirement:** The business organisations are required to furnish various financial reports to the government

PDF created with pdfFactory Pro trial version www.pdffactory.com

agencies. These reports can be generated only when business transactions are recorded systematically. Thus, accounting helps the business firms in meeting the legal requirements.

- **Communicating Information:** Another function of accounting is to communicate the financial results of the business to the various groups. Theses groups may be the financial institutions, creditors, shareholders, prospective investors etc. On the basis of the financial information provided by accounting, these groups take their decisions like, providing financial assistance, ascertaining profitability, purchase and sale of shares etc.

1.6 ACCOUNTING AS A SOURCE OF INFORMATION

Till now we have discussed that accounting is a system to record business transactions and we came to know that it communicates the results of business activities through various reports to the various interested groups. Thus, accounting can be regarded as a source of information. This source can be used to meet the informational requirement of both internal and external users.

Internal users refer to the shareholders, management consisting of the Board of Directors and the employees of the business organization. The external users are investors, creditors, financial institutions, government and the general public. The types of information required by these groups are varied. The following table summarises the informational need of the groups–

External Users	Information required to take decision on the–
Shareholders	purchase, sale and holding of shares
	future profitability and prospects of the business etc.
Management	cash position of the business
	purchase of raw-materials
	profit earned
	dividend to be declared and reserves to be made etc.
Employees	profitability and stability of the business for job security

PDF created with pdfFactory Pro trial version www.pdffactory.com

External Users	
Investors	amount of money to be invested or not to be invested in the business
Banks	Amount of loan to be provided and the ability to repay the loan along with interest
Creditors	ability of the business to return their money
Government	tax liability
General Public	company's policies to discharge social responsibility etc.



ACTIVITY 1.1

Discuss the importance of accounting as a source of information.

.....

.....

.....

1.7 CHARACTERISTICS OF ACCOUNTING INFORMATION

You are aware that accounting records are considered as source of information to communicate business information. Accounting information must satisfy the informational need of different users. Hence, accounting information must possess certain characteristics to be able to satisfy the need of different user groups. The characteristics of accounting information may be discussed as under–

- **Relevance:** The accounting must provide relevant information to the users to enable them to make sound decisions. The information must be communicated timely so that users can make best use of it.
- **Reliable:** Accounting must assure the users that they can rely on the information in their decision- making. The information must be verifiable and free from errors and bias.

PDF created with pdfFactory Pro trial version www.pdffactory.com

- **Comparability:** The accounting information must be prepared and presented in such a manner that it helps in comparing the accounting results of the organization over different periods of time and with other business organisations engaged in similar business.
- **Consistency:** To represent the true and fair view of the financial position of the organization, the accounting methods must be followed consistently. But it does not mean that the organization can not change the accounting method. The organization can adopt the new method if it is acceptable and preferable. The management must state the reasons for adopting the new method and the effect of such change.
- **Understandability:** Assuming that the users have a minimum level of knowledge of accounting, business and economic activities, the accounting information must be presented in such a way that users can understand the information.



CHECK YOUR PROGRESS

Q.4: Discuss any three characteristics of accounting information.

.....

.....

.....

.....

.....

.....

1.8 BASIC TERMS USED IN ACCOUNTING

In this section we will discuss some terms which are commonly used in accounting. You will find these terms in various books of accounts. By going through these terms, you will be able to understand their importance in accounting. Let us begin with 'capital'.

a) Capital: In general, capital means the amount of money that a businessman invests in the business. But it not only includes money

PDF created with pdfFactory Pro trial version www.pdffactory.com

but also other assets or properties, for example, furniture, machinery etc. These are used in the business to run the business. The money brought in by the businessman will not be withdrawn from the business unless the business is closed down. Likewise, the other assets, which are brought in the business as capital will not be sold in the short- run. Let us assume that you are going to start a business by investing Rs. 50,000 in cash. You have also brought furniture amounting to Rs. 10,000 and a car costing Rs. 40,000. Now, your capital will be Rs. 1,00,000 (Cash Rs. 50,000 + Furniture Rs. 10,000 + Car Rs. 40,000 = Rs. 1,00,000.) and with these you will start your business. You will not withdraw this amount or sell the assets till you decide to close down the business. If in future, you decide to close down the business, first of all you have to meet the liabilities of outsiders, for example, bank loan, creditors for merchandise etc., which you may obtain during the course of the business. After meeting all such liabilities, the residual amount will be your capital. This can be explained with the help of the following equation–

Capital = Total Assets – Total Outside Liabilities

Capital can be classified as–

- **Fixed Capital:** Fixed capital represents investment in those assets which are required to continue the business. These are not sold during the usual course of business and will be used in the business for a longer period of time.
- **Working Capital:** It represents the investment made in those assets which are circulating in nature and their amount increases or decreases during the usual course of the business.

b) Assets: Assets means the resources owned by a business firm. These are used in usual course of the business to support functions of the business firm. The assets are purchased with the motive of using it in the operation of the business but not to sell it immediately. Where some assets are tangible like, cash, furniture, machinery etc., some other assets are intangible like, goodwill. Some assets

PDF created with pdfFactory Pro trial version www.pdffactory.com

represents legal rights like, copyrights, trade mark etc. while some may be claim against others like, bills receivable.

Assets can be classified as–

- **Fixed Assets:** It represents those assets which are used in the business for a long period of time covering more than one ***accounting period***. Fixed assets support the production process of the organization. These are not sold during their useful life. Due to continuous use in the business, their usability got reduced in terms of capacity and monetary value. This reduction in value is known as depreciation.
- **Current Assets:** Current assets are those assets which can easily be converted into cash within one accounting period or are consumed during the normal business operation. Examples of current assets are cash, inventory, debtors, prepaid insurance etc.



Accounting Period: The time frame for which accounts are prepared by a firm. For management purpose, the time frame may be one month, a quarter, half-year or the like. For tax purposes or the like, it normally covers twelve months.

c) **Liability:** Liability means the debts or obligations of the business that it has to meet within a definite time frame. Examples are– bank loan, creditors, bills payable etc.

Liabilities can be classified as–

- **Fixed Liabilities:** These are the long-term liabilities and are not required to be repaid within one accounting period. Example: long- term bank loan, debenture etc.
- **Current Liabilities:** These are the short- term liabilities required to be repaid within one accounting period. Example: trade creditors, bills payable etc.

d) **Expense:** Expense means the cost incurred by an organization to earn revenue. It may be in the form of actual cash payments (e.g. salaries) or decrease in the value of an asset (e.g. depreciation).

Expenses can be classified as–

- **Revenue Expense:** When the benefit of an expense is consumed by a business organisation during an accounting period, it is called revenue or operating expense. For example, payment of salaries, interest, travelling expenses etc.

PDF created with pdfFactory Pro trial version www.pdffactory.com

- **Capital Expense:** The expenses, whose benefits extend beyond one accounting period, are called capital expense. For example, purchase of a machine, furniture etc.

e) **Revenue:** Revenue means the amount received by a business firm from its regular business activities before deducting any expense during a particular period of time. As it is generated from the regular business activities, like sales, rent, interest etc., it is also known as operating revenue. A business organization records revenue when it is earned and it is immaterial whether cash is received or not.

f) **Profit:** Profit is the excess of total revenue over total expenses. It is reflected by–
   - Increase in the value of assets;
   - Increase in owners' equity;
   - Decrease in liabilities.

g) **Loss:** Loss may be defined in different ways-
   - the excess of expense over revenue;
   - decrease in the value of an asset;
   - cost that fails to earn revenue.

h) **Depreciation:** Depreciation means reduction in the value of an asset. The asset depreciates because of wear and tear, obsolescence etc. It is a non- cash expense charged against the profit of the company.

i) **Debtor:** A debtor is a person or an entity who owes money to someone. For example, if a customer has purchased goods from you without paying cash but undertakes to pay the money at a certain date in the future, that customer is a debtor for you.It means you have sold goods to the customer on credit. The customer is liable to pay money to you and you have a claim against him. On the agreed date, you will realize cash from him.

j) **Creditor:**A creditor is a person or an entity that has sold goods to a customer but has not received cash for the goods sold. The creditor has a claim against the customer and can realize the money on the

PDF created with pdfFactory Pro trial version www.pdffactory.com

agreed future date. The customer owes money to the creditor and is liable to pay the money. In the above example, where the customer has purchased goods from you without paying cash, the customer is a debtor and you are the creditor.

k) **Transaction:** Transaction means any business event that has influenced the monetary position of the business and the pattern of assets, liabilities and capital. This influence is reflected in the financial statements of the business firm as every transaction is recorded in journal, posted to ledger and then trial balance and final accounts are prepared. For example, purchase of fixed asset for cash, results in increase in the value of fixed assets and decrease in cash. Similarly, goods purchased on credit, results in increase in stock and liability.

l) **Entity:** Entity refers to a business organization or an economic unit. It uses the various economic and non- economic resources, to undertake economic activities. The entities undertake these activities with the economic motive of earning profit.

m) **Bad Debt:** Business organisation makes credit sales to some customers and the customers will make payment in the future. Some of these customers may not be able to return the money. As a result, the business organisation will not be able to collect the debts. These uncollectable debts are known as bad debts. In preparing financial statement, viz, profit and loss account and balance sheet, bad debt is considered as an expense.

n) **Reserve for Doubtful Debt:** It is a provision created by a business organisation to compensate the loss arising from bad debts.

o) **Overdraft:** It is an arrangement with the bank under which the current accountholder can withdraw more money than the balance in the account. It is a loan facility provided by the bank and the customer can withdraw more money up to a certain balance, known as overdraft limit. The bank charge interest on the daily overdraft balance.

p) **Prepaid Expenses:** These are future related expenses. The services from such expenses will be received in future. Initially

PDF created with pdfFactory Pro trial version www.pdffactory.com

prepaid expense is treated as asset and appears in the balance sheet. The services to be received from such expenses spread over the different accounting periods. The expired portion is treated as expense of the particular accounting period.

q) **Outstanding Expenses:** The expenses which are incurred in a particular accounting period but not paid during that particular accounting period are known as outstanding expenses. For example, salaries, rents etc. of a particular month are paid in the next month. Assuming that the accounting period of an organisation starts from 1st April, 2014 and ends on 31st March, 2015. The salary to be paid to the employees of the organisation for the month of March, 2014 will be paid in the month of April, 2015, which is also the beginning of the next accounting period. The salaries of the previous accounting period have to be brought into account in that period. These expenses are known as outstanding expenses.

r) **Bills Payable:** These are the documents indicating the amount owed to other on account of purchase of goods or availing services on credit. For example, credit purchase of goods by a retailer, monthly electricity bill etc. These are short- term liability and recorded as current liability in the 'liability' side of balance sheet. The bills are required to be paid on maturity i.e. the date of payment mentioned on the bill.

s) **Bills Receivable:** These documents indicate the amount to be received from the parties on account of credit sale of goods. The bills receivable becomes due on the date of maturity i.e. the date of payment mentioned on the bill. These are short-term asset recorded as current asset in the 'assets' side of balance sheet.



CHECK YOUR PROGRESS

Q.5: Define the following terms–

a) Assets: .....

.....

.....

PDF created with pdfFactory Pro trial version www.pdffactory.com

b) Expense: .....

.....

.....

c) Liability: .....

.....

.....



1.9 LET US SUM UP

In this unit we have discussed the following aspects–

- Book-keeping is a system of recording business transactions which are expressed in terms of money.
- The transactions are recorded in a set of books.
- Accounting is a system of interpreting the results of the business transactions that has been recorded, classified and summarized.
- Accounting communicates the financial condition of the business to the various interested groups like, owners, creditors, tax authorities etc.
- The various objectives of accounting are–
  - Ø To keep the records of the transactions systematically;
  - Ø To evaluate the performance of the business periodically;
  - Ø To ascertain the financial position of the business;
  - Ø To help the management in taking business decisions;
  - Ø To provide information about the business as required by the different outside groups like, financiers, tax authorities, debenture holders etc.
  - Ø To control the use of resources and business activities etc.
- The functions of accounting are– record keeping, decision- making, meeting legal requirement etc.
- The accounting is used as a source of information to meet the needs of different groups of users like, creditors, financial institutions, shareholders, management etc.

PDF created with pdfFactory Pro trial version www.pdffactory.com

- The characteristics of accounting information are– relevance, reliable, comparability etc.
- Some basic terms used in accounting are– fixed assets, liabilities, expenses, profit, outstanding expenses, bills payable etc.



1.10 FURTHER READING

1) Bhattacharya, Ashis; *Financial Accounting*; New Delhi: Prentice Hall of India Pvt. Ltd.
2) Maheshwari, S. N.; *Financial Accounting*; New Delhi: Vikash Publishing House Pvt. Ltd.
3) Dam, B. B. & Theory and Gautam, H. C.; *Practice of Financial Accounting*; Guwahati: Capital Publishing Company.
4) Gupta, R. L. & Radhaswamy, M.; *Accountancy*; New Delhi: Sultan Chand & Sons.



1.11 ANSWERS TO CHECK YOUR PROGRESS

Ans. to Q. No. 1: Book-keeping is the system of recording business transactions. These transactions are recorded systematically on a day to day basis in a set of books of accounting.

Ans. to Q. No. 2: Accounting is a system of interpreting the results of the business transactions which has been recorded, classified and summarized. Accounting communicates the financial information of the business to various parties.

Ans. to Q. No. 3: a) To keep the records of the transactions systematically;
b) To evaluate the performance of the business periodically;
c) To ascertain the financial position of the business.

Ans. to Q. No. 4: Relevance: The accounting information must provide relevant information of the business organisationto the users. This will help the users make decisions.

PDF created with pdfFactory Pro trial version www.pdffactory.com

Reliable: Accounting information must be reliable so that users can rely on the information in their decision-making. Therefore, the accounting information must be free from errors and bias.

Comparability: The accounting information must help the organization in comparing its results over different periods of time. It will also help in comparing the results with the competitors.

Ans. to Q. No. 5: a) Asset means the resources owned by a business firm which are used in usual course of the business. The assets are purchased with the motive of using it in the operation of the business and not to sell it immediately. Examples are cash, furniture, machinery etc.

b) Expense means the cost incurred by an organization to earn revenue. It may be in the form of actual cash payments or decrease in the value of an asset (e.g. depreciation). Expenses can be classified as revenue and capital expenses.

c) Liability means the debts or obligations of the business that it has to meet within a definite time frame. Examples are bank loan, creditors, bills payable etc. Liabilities can be classified as Fixed and Current liabilities.



1.12 MODEL QUESTIONS

Q.1: What is book-keeping?

Q.2: What are the functions of accounting?

Q.3: What are the characteristics of accounting?

*** ***** ***

PDF created with pdfFactory Pro trial version www.pdffactory.com

UNIT 2: GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

UNIT STRUCTURE

2.1 Learning Objectives

2.2 Introduction

2.3 Meaning of Accounting Principles, Concepts, Conventions and Postulates

2.4 Meaning and Features of Generally Accepted Accounting Principles (GAAP)

2.5 Structure of GAAP

2.6 Let Us Sum Up

2.7 Further Reading

2.8 Answers to Check Your Progress

2.9 Model Questions

2.1 LEARNING OBJECTIVES

After going through this unit, you will be able to:

- define the accounting principles, concepts, conventions and postulates
- discuss the different accounting principles, concepts and conventions
- explain the meaning and features of Generally Accepted Accounting Principles
- discuss the structure of Generally Accepted Accounting Principles.

2.2 INTRODUCTION

'Accounting' in business is considered as a system that provides information about the transactions that have taken place and the financial condition of the business. This system starts with recording of business transactions and ends with interpreting the results thereof. Accounting is defined by the Committee on Terminology of the American Institute of

PDF created with pdfFactory Pro trial version www.pdffactory.com

Accountants (later on known as American Institute of Certified Public Accountants, AICPA) as,

"Accounting is 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." (Accounting Terminology Bulletin No. 1). Recording, classifying and summarizing are done on some basic premise which are called accounting principles. In this unit, we will discuss the meaning of accounting principles, concepts, conventions as well as the different accounting principles, like business entity concept, going concern concept etc. We will also deal with the Generally Accepted Accounting Principles, its structure and the use of these principles in recording and presenting accounting statements.

2.3 MEANING OF ACCOUNTING PRINCIPLES, CONCEPTS, CONVENTIONS AND POSTULATES

- **Accounting Principles:** Accounting principles are the principles applied in the preparation of the accounts. These are general decision rules, derived from both the objectives and the theoretical concept of accounting. These principles are the bases which govern the development of accounting technique. Accounting technique means the specific rules derived from accounting principles which are applied while recording transactions.
- **Accounting Concepts:** Accounting Concepts are the accepted notion applied in the field of accounting. A concept finds its place in a belief about the desirability of a method or procedure. Such methods or procedures are the general norms applied by the business entities while recording the transactions and preparing the financial statements.
- **Accounting Convention:** Accounting Convention is an established usage or custom followed in recording and presenting financial data.
- **Postulates:** Postulates are derived from the economic and political environment and from the modes of thought and customs of all segments of business community.

PDF created with pdfFactory Pro trial version www.pdffactory.com



CHECK YOUR PROGRESS

Q.1: Define accounting principles. (In three lines)

.....

.....

.....

2.4 MEANING AND FEATURES OF GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP)

GAAP are the buildings blocks of the accounting language. Whole accounting framework is built on GAAP. To understand and use accounting information, the users should know this conceptual framework beforehand. Generally Accepted Accounting Principles (GAAP) are guides to the accounting profession in the choice of accounting techniques and the preparation of financial statements. These principles have been developed gradually through practice. Experience, reason, custom, usage and practical necessity have contributed significantly in the evolution of GAAP.

GAAP incorporate the consensus at a particular time as to which economic resources and obligations should be recorded as assets and liabilities in financial accounting, which changes in assets and liabilities should be recorded, when these changes should be recorded, how the assets and liabilities and changes in them should be measured, what information should be disclosed and how it should be disclosed, and which financial statement should be prepared. GAAP thus help to bring about uniformity in the reporting of financial events of the entities across the industry.

As of now, we have discussed the meaning of Generally Accepted Accounting Principles. Now, we will discuss the basic features of these accounting principles–

a) Accounting principles are not rigid. A considerable amount of flexibility is expected in the application of these principles.

b) Such principles are man-made and are the result of evolutionary process in accounting.

PDF created with pdfFactory Pro trial version www.pdffactory.com

c) Like the principles of natural sciences, accounting principles may not be universally true and cannot be verified by observation.

d) The acceptance of accounting principles may vary from time to time and from country to country.

e) Accounting principles are influenced by the social environment, political environment, economic environment etc. These are the main reasons behind variation in the application of accounting principles from country to country and even in the same country.



LET US KNOW

Accounting information means the financial information provided in the Trading Account, Profit & loss Account, Balance Sheet and other reports of a business organization. Trading Account, Profit & loss Account, Balance Sheet are the basic financial statements. Trading Account and Profit & Loss Account are together called Revenue Statement or Income Statement and the Balance Sheet is known as Position Statement. Reports include directors' report and auditor's report (in case of limited companies). These statements and reports are published in the form of Annual Reports of companies. The basic financial statements provide accounting information on five elements. These five elements are: a) assets, b) liabilities, c) equities (capital), d) incomes and gains and e) expenses and losses. Assets, liabilities and capital are elements of Balance Sheet and incomes & gains and expenses & losses are elements of revenue statement. Information regarding these elements of financial statements is called Accounting Information.

The information disclosed in financial statements is very useful to a number of parties. These are: a) Owners, b) Managers, c) Creditors, d) Bankers and lenders, e) Government and regulatory agency, f) Employees, g) Prospective and existing investors, h) Consumers, i) Researchers, j) Trade association and chambers of commerce.

PDF created with pdfFactory Pro trial version www.pdffactory.com

2.5 STRUCTURE OF GAAP

The structure of GAAP refers to the forms of elements of GAAP. Traditionally, these are known by various names, viz., assumptions, principles, concepts, conventions, etc. Based on the recent development in the theory base of accounting, the traditional structure of GAAP has been modified as under:

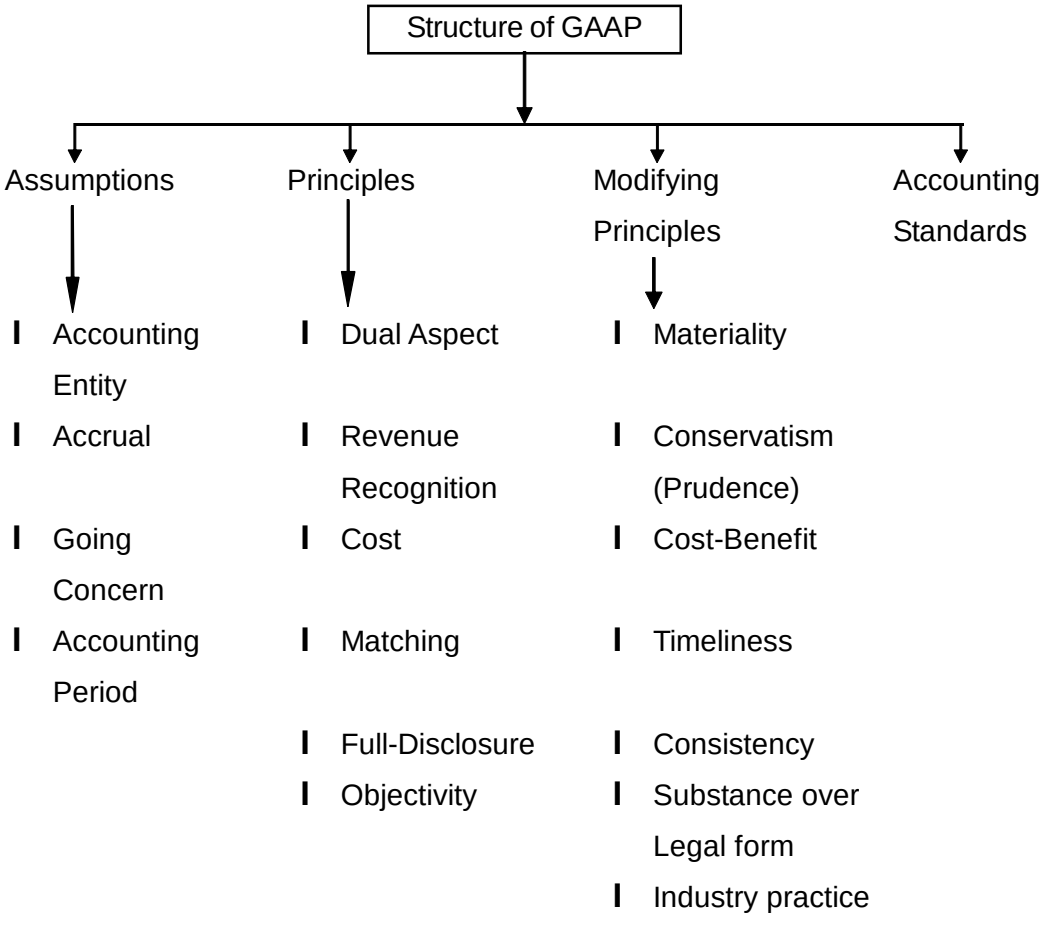


Fig. 2.1: Structure of GAAP

- **Modifying Principles:** Due to difficulties faced in the application of certain accounting principles in certain situations these are modified in the application stage. These are referred to as modifying principles.
- **Accounting Standards:** Accounting Standards are the established and accepted models which aim at providing excellent, adequate and unbiased treatment of accounting transaction/information and

PDF created with pdfFactory Pro trial version www.pdffactory.com

reporting the same in the financial statements to facilitate their users in forming rational and judicious decision.

Accounting assumptions and accounting principles are traditionally termed as accounting concepts and the modifying principles are considered as accounting conventions.

There has been an effort to distinguish between accounting concepts and accounting conventions. Although theoretically concepts and conventions are different terms, but when applied to accounting practice, no distinguishing features between these two are found. They are interdependent and the demarcation line between the two is very narrow.

It should be keep in mind that principles, concepts, conventions, postulates etc. are all included in Generally Accepted Accounting Principles (GAAP) that are followed in recording business transactions, preparing accounts and presenting them before the users of accounting information.

Now, we will discuss the various assumptions and principles of GAAP.

- **Business Entity or Accounting Entity:** This assumes that the business is separate from its owners or other businesses. Revenues and expenses should be kept separately from personal expenses of the owner.

The term 'entity' means 'something that exists independently'. Hence 'business entity' means existence of a business unit independently. When a customer purchases goods, he purchases them from a business firm and not from an individual, family or household. This means a business firm has its separate entity.

The use of the word 'Separate' is used to separate the business unit from owner. A business firm is formed by the owner who invests money (Capital) to earn profit. His objective is to earn profit from the business. So, he must keep accounts of the business separately, to enable himself to ascertain profit. He must not mix the transactions of household affairs to that of business affairs. To calculate the

PDF created with pdfFactory Pro trial version www.pdffactory.com

profit of the business, accounts of the business must be kept distinctly separate from the household or other personal transactions of the owner. Every transaction is analysed from the point of view of the business and not from the point of view of the persons who own them. This is called Separate Business Entity or Accounting Entity Concept.

- **Accrual Assumption:** In business, all transactions are not cash transactions. Accrual is the accounting process of recognising non-cash events and circumstances as they occur. Accrual assumption is used to facilitate measurement of cash and non-cash incomes and expenses of a period. Income and expenses are accounted in the period to which these are related. In accrual system of accounting, revenue is recognised as follows:

  In case of sale:

  i) When cash is received, or
  ii) When an obligation is received from the buyer for the payment within a certain future period, or
  iii) When the consideration is received in settlement in any form other than cash, which can be expressed in definite money value.

  In case of purchase:

  i) When cash is paid, or
  ii) When an obligation is given to the seller to pay the amount within a certain future period, or
  iii) When a consideration other than cash is given in settlement of the due.

  Thus, in accrual system, income or expenses of a period are accounted in the period to which the income or expense is related applying the Matching Principle irrespective of the fact that whether cash is received or paid or the payment is deferred. The objective of accrual system is to determine the operating result (profit/Loss) in an accurate manner. As a result of this assumption, outstanding items of expenses and incomes are taken into consideration while

PDF created with pdfFactory Pro trial version www.pdffactory.com

preparing financial statements. Expenditure incurred in the year 2007-2008 is accounted in that year if the full benefit of this expenditure is received in the year 2007-08. Salary of March 2008 paid in April 2008 is accounted in the year 2007-08 under accrual system. This is because the service of the employee was received and used in the month of March to the tune of the amount of salary.

- **Going Concern Assumption:** This assumption assumes that the business will be in operation indefinitely. This validates the methods of asset capitalization, depreciation, and amortization. This assumption is not applicable only when liquidation is certain.

  An existing and running business firm is called going-concern. This assumption is an important assumption on the basis of which transactions are recorded in the books of accounts. While recording business transactions in the books of accounts of an existing and running business firm, it is not assumed that the business will be closed down shortly. Rather it is assumed that the business will be carried on indefinitely. A business entity possesses assets and owes liabilities which are shown in the balance sheet. These assets and liabilities are carried to the next financial (or accounting) year. If it is assumed that the business will be closed down the next day or in the near future, than the assets would not have been shown at the cost price, but at saleable or realisable market value. But since the 'going concern' assumption is applied in recording transactions and preparing financial statements, so the accountant does not take into account the market price or realisable price.

  'Going concern' assumption simply states that in the foreseeable future the business will not be liquidated or closed down. This assumption is not applied for the firm which goes into liquidation or is put to sale. Accounts are carried forward to the following year on the presumption that the business will be carried out in the years to come. This is called *'Going Concern'* assumption. For this reason there is no justification to value the assets to be carried forward in realisable value or market value.

PDF created with pdfFactory Pro trial version www.pdffactory.com

- **Money Measurement:** It is assumed that a stable currency is going to be the unit of record. The FASB accepts the nominal value of the US Dollar as the monetary unit of record unadjusted for inflation. In India, Rupee is accepted as the monetary unit of record without adjusting for inflation. Purchases, sales, plant, furniture, capital, bank loan, salaries, expenses all are recorded in the books of account in money value. Recording of transactions does not mean recording of qualitative or quantitative feature of these elements. Monetary value of purchases and sales are recorded and not the quantities. Assets and liabilities are shown at their respective money values. This is known as 'money measurement' concept.
- **Accounting Period:** It implies that the economic activities of an enterprise can be divided into artificial time periods. Accounting period means the period for which the accounts are prepared. This refers to the period of time at the end of which books of accounts of business entity are to be closed and financial statements are to be prepared. The going concern assumption tells that a business firm has an indefinite life or very long life. If this is the case then the result of business operation can be known only after the end of the life of business, i.e., when the business is liquidated. But to take decisions on various aspect concerning the business operation and its financial matter, information on periodic basis is required. To facilitate supply of accounting information, the life span of the entity is divided into shorter and convenient period known as accounting period. This assumption has also received legal sanction from the Indian income tax laws under which the books of accounts are required to be closed by a business entity on 31st March, every year.
- **Dual-Aspect:** Dual Aspect is another important concept applied in recording and presenting accounting information. This concept is the very foundation of double-entry system of book-keeping. According to this concept, every business transaction has double effect, i.e., it has two sides – Debit and Credit.

PDF created with pdfFactory Pro trial version www.pdffactory.com

This relationship between the elements of financial statements: assets, capital, liabilities, income and expenses is called Accounting Equation which is a result of ‘‘Dual ‘Aspect’ ’’ of all business transactions. Thus dual aspect of transaction means, if one side of the equation is affected by a transaction, the other side of the equation is also equally affected. For example, if a loan of Rs. 2,00,000 is taken, then liability and cash (asset) will increase by Rs. 2,00,000 each.

- **The Revenue Recognition Principle:** This principle requires business firms to record when revenue is– 1) realized or realizable and 2) earned, not when cash is received. This way of accounting is called accrual basis of accounting as described above. The revenue recognition principle helps in ascertaining the amount and time of recognising the revenues from the ordinary business activities. This principle is also known as **Revenue Realisation Principle**. In simple words, revenue recognition principle tells us the procedure of determining the income and expense for incorporation in profit and loss account (Revenue statement).
- **Matching Principle:** Expenses have to be matched with revenues as long as it is reasonable to do so. Expenses are recognized not when the work is performed, or when a product is produced, but when the work or the product actually makes its contribution to revenue. Only if no connection with revenue can be established, may cost be charged as expenses to the current period (e.g. office salaries and other administrative expenses). This principle allows greater evaluation of actual profitability and performance (shows how much was spent to earn revenue). Depreciation and Cost of Goods Sold are good examples of application of this principle.
- **The Cost Principle:** The Cost principle provides a relatively objective foundation for accounting. Cost principle in accounting states that all accounting entries shall be made at cost as and when the transaction takes place. Cost is the amount of money paid or payable for goods and assets acquired or services received.

PDF created with pdfFactory Pro trial version www.pdffactory.com

- **The Objectivity Principle:** The Objectivity Principle states that accounting should be definite, verifiable, reliable and free from manipulation and personal bias of the persons engaged in the process of recording and presenting accounting data. For this reason, accounting must be carried out on an objective and factual basis. Every entry in the books of account must be based on documentary evidence i.e. source documents viz., vouchers and receipts. Historical cost recorded in the books is on the basis of original documents, which contain the information about the transaction. Where no voucher/ receipt is available as in the case of provision for doubtful debt, a certificate from the competent authority of the business firm must be obtained.
- **The Principle of Full Disclosure:** Amount and kinds of information disclosed should be decided based on trade-off analysis as a larger amount of information costs more to prepare and use. Information disclosed should be enough to make a judgment while keeping costs reasonable. Information is presented in the main body of financial statements, in the notes or as supplementary information. Accounting information is required for decision making purpose by various users. Therefore, to be useful as the basis of decision-making process, there should be full disclosure in the financial statements of all significant information. Full Disclosure Principle specifies that there should be complete and understandable reporting relating to the economic affairs of the entity.
- **Cost-Benefit:** The benefit of providing the financial information should also be weighed against the cost of providing it. This modifying principle states that the cost of applying a particular principle should not exceed the benefits derived from it. This does not mean that effort should be taken to save cost by providing lesser information. It stresses that undue heavy expenses must not be incurred in supplying information which are not relevant. Cost benefit principle is generally applied to the supply of supplementary information, viz., human resource, value added

PDF created with pdfFactory Pro trial version www.pdffactory.com

statement, inflation adjusted account etc. Because of the application of this principle, companies are allowed to provide abridged financial statements to the shareholders instead of detailed statements.

- **Materiality:** The significance of an item should be considered when it is reported. An item is considered significant when it would affect the decision of a rational individual. The term materiality refers to the relative importance of an item. What is material for one firm may be immaterial for another firm. Again, material in one context may be immaterial in another context. Purchase of a calculator for office use may be accounted for as an asset by a small retail business and as an office expense by a large business. A difference of Rs. 1,000 in provision for doubtful debts is not material but the difference of Rs.1,000 in cash is a serious one.

  Accounting Standard 1, states that financial statements should disclose all "material" items, i.e., the items, the knowledge of which might influence the decisions of the users of the financial statements. Thus materiality is an important guide for the accountants in deciding what should be disclosed in financial statements. It is essentially a matter of personal judgement and can be modified to the best interest of the firm and the users of financial statements.

- **Consistency:** The principle of 'consistency' requires that the accounting policies, which are followed from period to period, should not be changed. If it is assumed that the entity is a 'going concern', the accounting principles, methods, etc., must be consistently followed while recording and preparing financial statements. Users of accounting information draw their conclusions by comparing the financial statements of the current year with that of the previous year. If the accounting policies, techniques and methods applied are changed from year to year, the operating and financial results disclosed through financial statements, will suffer from lack of consistency.

- **Conservatism (Prudence):** When choosing between two solutions, the one that will be least likely to overstate assets and income should

PDF created with pdfFactory Pro trial version www.pdffactory.com

be picked up. The term conservatism implies that all probable or anticipated losses should be provided for and all anticipated or unrealized gains should be ignored and the profit should not be overstated. In other words, accountants should preferably report the highest values of liabilities and expenses, and the lowest values of assets and revenues.

- **Timeliness:** Information is useful for a decision maker if it is relevant and reliable. Information becomes useful, relevant and reliable if it is made available in time. The principle of timeliness states that information should be disclosed timely.
- **Substance over Legal Form:** According to this modifying principle, the transactions and events recorded in the books of accounts and presented in the financial statements should be governed by the 'substance of such transactions and not by the legality of such transactions'. In certain cases, the transactions recorded may not represent the true legal position. Therefore, under 'substance over legal form' principle, substance of the transaction gets preference over legal position.
- **Industry Practice:** Accounting procedures should follow industry practices. Industries have to work under various situations. Some situation may be unique to only one industry. Therefore, sometimes practice prevailing in a particular industry is given precedence over generally accepted accounting principles.



CHECK YOUR PROGRESS

Q.2: Explain the meaning of Generally Accepted Accounting Principles. (In three lines)

.....

.....

.....

.....

.....

PDF created with pdfFactory Pro trial version www.pdffactory.com

Q.3: State whether following statements are True or False:

i) According to going concern concept, the business will be in operation indefinitely.

ii) According to business entity concept business is not separate from its owners or other businesses.

iii) Accounting period is the period for which the accounts are prepared

iv) Cost principle states that all accounting entries shall be made at cost as and when the transaction takes place.



2.6 LET US SUM UP

In this unit we have discussed the following–

- Accounting principles govern the development of accounting techniques.
- Accounting principles, concepts, conventions and postulates are applied in the preparation of accounts.
- Generally Accepted Accounting Principles (GAAP) provides guidelines in the choice of accounting techniques and the preparation of financial statements.
- These principles have been developed gradually through practice. Experience, reason, custom, usage and practical necessity have contributed significantly in the evolution of GAAP.
- GAAP consists of various assumptions, principles, modifying principles and accounting standards.
- GAAP plays an important role in the preparation of financial statements, like trading account, profit and loss account and balance sheet.
- GAAP helps in reducing alternative accounting procedures/ methods.
- GAAP helps in disclosing accounting information.

PDF created with pdfFactory Pro trial version www.pdffactory.com



2.7 FURTHER READING

1) Bhattacharya, Ashis; *Financial Accounting*; New Delhi: Prentice Hall of India Pvt. Ltd.
2) Maheshwari, S. N.; *Financial Accounting*; New Delhi: Vikash Publishing House Pvt. Ltd.
3) Dam, B. B. & Theory and Gautam, H. C.; *Practice of Financial Accounting*; Guwahati: Capital Publishing Company.
4) Gupta, R. L. & Radhaswamy, M.; *Accountancy*; New Delhi: Sultan Chand & Sons.



2.8 ANSWERS TO CHECK YOUR PROGRESS

Ans. to Q. No. 1: Accounting principles are the principles applied in the preparation of the accounts. They help in the development of accounting technique. They are derived from the objectives and the theoretical concept of accounting.

Ans. to Q. No. 2: Generally Accepted Accounting Principles are the guide to the accounting profession in the choice of accounting techniques and the preparation of financial statements. GAAP brings uniformity in the reporting of financial events of the entities across the industry. The main elements of GAAP are as under:

a) Assumptions
b) Principles
c) Modifying Principles, and
d) Accounting Standards.

Ans. to Q. No. 3: i) True, ii) False, iii) True, iv) True

PDF created with pdfFactory Pro trial version www.pdffactory.com



2.9 MODEL QUESTIONS

Q.1: State the accounting principle involved in each of the following situation:

a) Cash Sale Rs. 400 and credit sale Rs. 5,000

b) Inventory valued at cost.

c) Bad debt provided Rs. 600.

d) It is assumed that the business will last for unforeseeable future.

e) The assets are recorded in books at the acquisition cost.

f) Total insurance paid is Rs. 1200 out of which Rs. 500 is prepaid.

g) The cash withdrawn by the owner to meet personal expenses

Q.2: Give a short explanation of the features of Accounting Principles.

Q.3: Explain the term 'Accounting Concept'.

Q.4: What is meant by Generally Accepted Accounting Principles? Explain its needs and importance.

Q.5: Write short notes on the following:

i) Business Entity Concept

ii) Going-Concern Concept

iii) Matching Concept

*** ***** ***

PDF created with pdfFactory Pro trial version www.pdffactory.com

UNIT 3: ACCOUNTING STANDARDS

UNIT STRUCTURE

3.1 Learning Objectives

3.2 Introduction

3.3 Meaning and Needs of Accounting Standards

3.4 Objectives of Accounting Standards

3.5 Advantages of Accounting Standards

3.6 Authorities for Setting Accounting Standards in India

3.7 Let Us Sum Up

3.8 Further Reading

3.9 Answers to Check Your Progress

3.10 Model Questions

3.1 LEARNING OBJECTIVES

After going through this unit, you will be able to:

- define the meaning and importance of accounting standards
- explain the objectives and advantages of accounting standards
- describe the authorities for setting accounting standards.

3.2 INTRODUCTION

In the preceding unit (Unit-2), we have discussed the accounting principles applied in the framing of accounting information. These principles are generally applied in accounting. Some accountants may not follow these when most of the accounting professionals in general do not welcome variations in the application of accounting principles. This is because such a situation creates confusion in preparing the accounts. In the same way, the users of financial statements do not like variation in the application of accounting principles by the preparers of financial statements because it creates problem in their decision making process. Hence, there is always an effort from both sides to minimise these variations in the application of accounting principles. The accounting bodies and associations world over

PDF created with pdfFactory Pro trial version www.pdffactory.com

are continuously engaged in the effort to provide the best acceptable accounting principles. They have conducted research studies, made pronouncements from time to time on the basis of the findings of such research to evolve and improve the principles of accounting, known as 'Accounting Standards'. In the practical application these are generally accepted by all the accounting professionals and that is why these are included in 'Generally Accepted Accounting Principles'

3.3 MEANING AND NEEDS OF ACCOUNTING STANDARDS

Accounting Standards are the established and accepted models which aims at providing excellent, adequate and unbiased treatment of accounting transaction/information and reporting the same in the financial statements to facilitate their users in forming rational and judicious decision.

According to T. P. Ghosh "Accounting standards are the policy document issued by the recognised expert accountancy body relating to various aspects of measurement, treatment and disclosure of accounting transactions and events.'' Accounting standards provide the prescription for treating accounting events and disclosing the same in an all-accepted, unbiased and fair manner. These relate to accounting rules and procedures applied in measurement, valuation, reporting and disclosure of financial information.

The accounting standard is a standardised practice of accounting which aims to reduce the several alternative practices. 'Accounting standards relate to the codification of generally accepted accounting principles. These are stated to be the norms of accounting policies and practices by way of codes and guidelines to direct as to how the items which go to make the financial statements should be dealt with in accounts and presented in the annual reports'. (ICSI)

Accounting standards must be developed for the development of accounting as a business language. The central idea of accounting standards is to harmonise the diverse accounting policies and practices

PDF created with pdfFactory Pro trial version www.pdffactory.com

followed by business enterprises. Endeavour in this regard is needed at national as well as international level. Thought on standardization of accounting events and disclosure of the same in the financial statements was developed when the limitations of conventional GAAP were felt. Availability of alternative treatment of the event/transaction and reporting the same in any manner the accountant or the manager likes, have made the financial statements less useful to the decision makers since they can not make inter-firm comparison. This has reduced the investors' confidence on the audited accounts and thus has damaged the dignity of accounting profession.

Needs of Accounting Standards: Accounting Standards are primarily required for harmonizing the accounting practices. In this connection the statement provided by David Solomons (1983) is mentionable. He has identified the following reasons for setting accounting standards:

- The corporations cannot be granted absolute freedom of choice regarding what to report and how to report on market principles. For, this might cause damage to the interest of the investors and creditors.
- Comparability of financial information generated and disclosed by several enterprises will become easier through the adoption of a uniform accounting standard. The value of information would be enhanced if this can be compared from entity to entity.
- The third argument says that an accounting standard appeals to the limited capacity of receivers of information to interpret and use it for their economic decision making purpose. The accounting standards recognise the principle of equity in information dissemination.
- Moreover, in view of the globalization and internationalization of business, it has become a necessity to adopt globally acceptable treatment of accounting issues and their reporting methods.

PDF created with pdfFactory Pro trial version www.pdffactory.com



CHECK YOUR PROGRESS

Q.1: Define the concept of accounting standard.

.....

.....

.....

.....

Q.2: Mention any three needs of accounting standards.

i) .....

ii) .....

iii) .....

3.4 OBJECTIVES OF ACCOUNTING STANDARDS

Objectives of Accounting Standards are given below:

- The most important objective of Accounting Standards is to bring uniformity in financial reporting and to ensure consistency and comparability of data contained in the financial statements.
- Another objective of Accounting Standards is to use accounting standards as a tool to enhance corporate governance and responsibility.
- Accounting standards have been formulated to ensure fairness, probity, consistency and transparency in business operation and accounting practices.
- Another objective of Accounting Standards is to develop accounting as a language of business.

3.5 ADVANTAGES OF ACCOUNTING STANDARDS

Accounting Standards provide the accountants those accounting policies which are most suitable in a given situation. The utility of accounting standards may be stated as follows:

- Accounting Standards improve the reliability and credibility of financial statements.

PDF created with pdfFactory Pro trial version www.pdffactory.com

- Accounting Standards ensure the consistency and comparability of Financial Statements.
- Accounting Standards help in resolving conflict of financial interests among various groups.
- Accounting Standards reduce the chances of manipulations and frauds.
- Accounting Standards are aid to Auditors. In case of companies, it is the duty of the auditors to ensure that the accounting standards have been followed in the preparation of financial statements. In case of deviations, it is also their duty to make adequate disclosure in their reports so that the users of such statements may be aware of such deviations. Such disclosure by the auditors helps them to avoid penal actions which may be taken against them under the company law.



CHECK YOUR PROGRESS

Q.3: Mention two objectives of Accounting Standards.

i) .....

ii) .....

Q.4: Mention two advantages of Accounting Standards.

i) .....

ii) .....

3.6 AUTHORITIES FOR SETTING ACCOUNTING STANDARDS IN INDIA

In India there are three authorities that can set and issue Accounting Standards under their respective legislative powers. These authorities are:

- The Council of the Institute of Chartered Accountants of India,
- The Central Government under the Income Tax Act, 1961; and
- The Central Government under the Companies Act, 1956.

PDF created with pdfFactory Pro trial version www.pdffactory.com

The Central Government, under Section 145(2) of the Income Tax Act, 1961, is authorised to notify, from time to time, the accounting standards to be followed by any class of assessees or any class of income.

The Central Government has constituted a 12-member NATIONAL ADVISORY COMMITTEE ON ACCOUNTING STANDARDS under Section 210A (1) of the Companies Act, 1956. Though no accounting standard has been laid down till now under this Act, but it is provided in section 210 of the Act, that the standard of accounting specified by the ICAI shall be deemed to be the Accounting Standards prescribed by the Central Government under this section.

Since the financial audit is performed by qualified chartered accountants in India, therefore, practically the task of setting, issuing and enforcing the implementation of accounting standards have been performed by the ICAI. Therefore the procedure followed by the ICAI in this regard is described hereunder.

The Institute of Chartered Accountants of India (ICAI) was established in the year 1949 under an Act of Parliament mainly to perform the following two basic activities: (a) Conducting Chartered Accountancy examination and preparing CAs to perform accounting and auditing function; and (b) Formulating accounting standards as well as auditing standards and guidelines. The ICAI is a full-fledged member of the International Federation of Accountants (IFAC) and is an associate member of the International Accounting Standard Committee since April 1974. Recognizing the need to harmonize the diverse accounting practices prevalent in India and also to integrate them with the international accounting practices, the Accounting Standards Board (ASB) was constituted on 21st April 1977 by the ICAI. The Accounting Standards Board gives adequate representation to the related and interested groups of bodies, viz., Industry and Commerce, Company Law, Central Board of Direct Taxes, Comptroller and Auditor General of India, Banks, Public Enterprises and practising auditors.

PDF created with pdfFactory Pro trial version www.pdffactory.com



3.7 LET US SUM UP

In this unit we have discussed the following aspects–

- Accounting standards are the established rules which are used in the preparation of financial statements.
- Accounting standards brings uniformity in financial reporting
- Accounting standards makes the comparison of financial statements easy
- Accounting standards are the aids to the auditors.
- The Institute of Chartered Accountants of India (ICAI) was established to conduct Chartered Accountancy examination and preparing CAs to perform accounting and auditing function; and to formulating accounting as well as auditing standards and guidelines.



3.8 FURTHER READING

1) Bhattacharya, Ashis; *Financial Accounting*; New Delhi: Prentice Hall of India Pvt. Ltd.
2) Maheshwari, S. N.; *Financial Accounting*; New Delhi: Vikash Publishing House Pvt. Ltd.
3) Dam, B. B. & Theory and Gautam, H. C.; *Practice of Financial Accounting*; Guwahati: Capital Publishing Company.
4) Gupta, R. L. & Radhaswamy, M.; *Accountancy*; New Delhi: Sultan Chand & Sons.



3.9 ANSWERS TO CHECK YOUR PROGRESS

Ans. to Q. No. 1: ‘‘Accounting standards are the policy document issued by the recognised expert accountancy body relating to various aspects of measurement, treatment and disclosure of accounting transactions and events.’’

PDF created with pdfFactory Pro trial version www.pdffactory.com

Ans. to Q. No. 2: i) Precise and prudent information

ii) Comparability

iii) Global acceptability of accounting information.

Ans. to Q. No. 3: i) To bring uniformity in financial reporting and to ensure consistency and comparability of data contained in the financial statements.

ii) To use accounting standards as a tool to enhance corporate governance and responsibility.

Ans. to Q. No. 4: i) Accounting Standards improve the reliability and credibility of financial statements.

ii) Accounting Standards help in resolving conflict of financial interests among various groups.



3.10 MODEL QUESTIONS

Q.1: What is accounting standard?

Q.2: What are the needs of accounting standard?

Q.3: What are its benefits of accounting standard?

*** ***** ***

PDF created with pdfFactory Pro trial version www.pdffactory.com

UNIT 4 : ACCOUNTING PROCESS-I

UNIT STRUCTURE

4.1 Learning Objectives

4.2 Introduction

4.3 Meaning of Account

4.4 Meaning of Debit and Credit

4.5 System of Book-Keeping

4.6 Double-Entry System

4.7 Classification of Accounts

4.8 Rules for Debit and Credit

4.9 Let Us Sum Up

4.10 Further Reading

4.11 Answers to Check Your Progress

4.12 Model Questions

4.1 LEARNING OBJECTIVES

After going through this unit, you will be able to:

- explain the meaning of account
- explain the meaning of Debit and Credit
- define the Double Entry System Book-keeping
- apply the Double Entry System of Book-keeping in recording business transactions
- describe the advantages of Double Entry System of Book- keeping.

4.2 INTRODUCTION

In the first unit, we have discussed the meaning and objectives of accounting. Then we have discussed the functions of accounting. In this unit, we are going to discuss about account, the different classes of accounts, the double entry system and the rules of debit and credit.

PDF created with pdfFactory Pro trial version www.pdffactory.com

4.3 MEANING OF ACCOUNT

An account is a summary record of transactions of similar nature for a certain period. Summary record of transactions relating to a particular person is account of that person for the period concerned; summary record of transactions relating to a particular asset is account of that asset for the period concerned and so on. A businessman should classify and summarise all the business transactions of similar nature under respective groups. Each such group or head is known as an 'Account' or 'Account heads'. For example, all dealings with 'Laxmi' will be recorded under the heading 'Account of Laxmi'. Account is abbreviated a 'A/C' or 'a/c'.

Definition of Account: The term 'Account' has been defined by different authorities. One of the most important definitions of account has been given by R. N. Carter.

According to R. N. Carter, 'An account is a ledger record, in summarised form, of all the transactions that have taken place with the particular person and the value specified'. It is a device to record transactions of one single type of item. It may be better explained with the help of its format.

Format of Account: An account is generally prepared in "T" shape having two sides, left hand and right hand side. A specimen form of an account is given below.

Salary Account ('T' Shape)

Dr. Cr.

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

All accounts are divided into two sides. The left hand side of the account is called 'debit side'. It is indicated by 'Dr.' (abbreviation for debit)

PDF created with pdfFactory Pro trial version www.pdffactory.com

on the top corner of the left hand side. Right hand side of the account is called 'credit side'. It is indicated by 'Cr.' (abbreviation for credit) on the top corner of the right hand side of the account. The name of the account is written at the top in the centre. The word 'Account' or its abbreviation A/c is added to the name of the account. For example, Building A/c, Furniture A/c, Salary A/c, etc. In case of account of a natural person the word Account (A/c) should not be used after the 'account head'. For example, the account of Laxmi is written as Laxmi and not as Laxmi A/c. It may be written as account of Laxmi. The term 'J. F' means 'Journal Folio', i.e., the concerned folio (page) number in the Journal.

There is another type of format used generally by the businessman to record transactions. This format is called 'horizontal format'.

This is shown below.

Salary Account (Horizontal Type)

Date	Particulars	J.F.	Dr. Amount Rs.	Cr. Amount Rs.	Balance Amount Rs. Dr Cr	Remark

4.4 MEANING OF DEBIT AND CREDIT

Debit and Credit are two important terms used in Book-keeping and Accountancy. These two terms form the very basis of recording transactions in the books of account.

Meaning of Debit: Left hand side of the account is called debit side. Hence, to debit an account means to record the transaction on the left hand side of the account. It is abbreviated as 'Dr.' The word 'debit originated from the Latin word 'Debitum' and it means what is due.

PDF created with pdfFactory Pro trial version www.pdffactory.com

Meaning of Credit: Right hand side of the account is called Credit side. Hence, to credit an account means to record the transaction on the right hand side of the account. It is abbreviated as 'Cr.' The word 'Credit' originated from the Latin word 'Credre' which means trust or belief.



CHECK YOUR PROGRESS

Q.1: Explain the meaning of 'Account'.

.....

.....

.....

4.5 SYSTEM OF BOOK-KEEPING

System of book-keeping refers to the principles and procedure followed for recording of transactions in the books of account. From this point of view, system of book-keeping may be divided into the following:

a) **Double entry system:** The double entry system was first evolved by Fra luca Pacioli, who was a Franciscan Monk of Italy. This system recognises the fact that there are two fold aspects in every business transaction. In order to have a complete record of all the transactions, two-fold aspects of every transactions are recorded in the books of accounts. This system is recognised by the Tax Authorities.

b) **Single entry system:** The single entry system is another method of recording business transactions. Under this system, two-fold aspects of every transaction are not recorded. Only the records of accounts relating to cash, debtors and creditors are maintained. As two-fold aspects of every transaction are not recorded under this system, it fall short of principle of double entry.

PDF created with pdfFactory Pro trial version www.pdffactory.com



CHECK YOUR PROGRESS

Q.2: Explain the meaning of Debit and Credit.

.....

.....

.....

4.6 DOUBLE-ENTRY SYSTEM

The **Double-entry system** of accounting is based on Dual Aspect concept. According to this concept, every financial transaction involves two fold aspects – (a) receiving of a benefit (b) giving of a benefit. For example, if a business has acquired an asset, it must have given up some other asset such as cash. Thus a giver necessarily implies a receiver and a receiver necessarily implies a giver.

Thus, double entry system states that each transaction has two fold aspects and the effects of these two fold aspects are opposite in nature. If one aspect, called account, receives a benefit; there must be another aspect or an account to impart that benefit. *The system of book-keeping under which both the aspects of every transaction is recorded in the books of account is known as 'Double-entry system of Book-Keeping'*. Under this system, every transaction is recorded in an accounting format having two sides namely left hand side and right hand side. For a transaction, the account which receives the benefit is called a debtor and it is recorded on the left hand side of the format which, in book-keeping, is known as debit side. At the same time, the other account of the transaction, which imparts the benefit is known as a creditor and is recorded on the right hand side of the accounting format which, in book-keeping, is known as credit side. That is why this system is known as Double entry system. Under this system of book keeping for each transaction the debit amount must be equal to the credit amount.

Double entry system was first propounded in 1940, in Genoa, in Italy, and was used by Stewards for rendering accounts in the state, but it

PDF created with pdfFactory Pro trial version www.pdffactory.com

was developed in proper form in Venice at the end of 15th century by Fra Luca Pacioli, a Franciscan monk of Italy. He is considered as the father of modern accountancy. His treatise in Italian, '*De computic at scriptures*' dealt with the use of Memorial(memorandum book) Journal, and Quadirno (ledger). This book became very popular in a short period of time due to its special characteristics. The book was translated into English by Huge old Castle in 1944. Later on, many changes were incorporated in the system and finally a complete book named as 'English system of book-keeping' was written on this system by Edward Jones in 1785.

Practical Application of the Principle of Double Entry: All business transactions involve the transfer of value in the form of money, goods or services from one party to another. So, it involves two parties. One party gives some benefit while another party receives the benefit of an equivalent value. For the purpose of recording, the transactions are analysed further to ascertain the two aspects affected by each transaction. Most important point to be kept in mind at this stage is that for the purpose of recording, a transaction is required to be analysed from the point of view of the party in whose books of accounts the record is to be made. This analysis is required in order to ascertain the accounts affected by the transaction. For example, Mr. A paid Rs. 500 to Mr. B. Most important point to be considered is– in which books of account the recording is to be made? If the recording is to be made in the books of 'A', from his point of view, we find that Cash has gone out and 'B' has received the same. Therefore, the two fold aspects are cash and 'B'. Since an account is maintained for each type of asset and the person to receive the benefit is 'B', the accounts affected are cash account and the account of B. Under double entry system, recording will be made both in cash account and in the account of B.

Thus, every transaction has two aspects, viz.

i) The receiving of value on the one hand and

ii) The giving of the same value on the other hand.

Both the receiving and giving aspects take place between the 'two account heads' of each party involved in the transactions.

PDF created with pdfFactory Pro trial version www.pdffactory.com

Features of Double Entry System:

i) Transaction takes place only if there are two parties– one party receiving the benefit and the other party giving or imparting the benefit.

ii) Each party is affected (by the transaction) in opposite direction but with the same amount.

iii) Changes are recognised from the point of view of the party in whose books recording is being done.

iv) Changes are recorded in two related accounts in the books of the party in whose books recording is being done.

Advantages of Double Entry System: Double entry system has a good number of advantages. They are—

i) Scientific System: Double entry system is a scientific system of recording business transactions as compared to other systems.

ii) Complete Record: Under this system, two aspects of every transaction are recorded in their concerned accounts. Thus, it makes a complete record of business transactions because records of both the aspects are made.

iii) Check Arithmetical Accuracy: Since, two aspects of each transaction are recorded in two accounts in opposite direction with equal amount, there will be an equal amount of debit and credit. Thus, the total debits and total of credits at any point of time will be equal and this is proved by preparing a Trial Balance. If the Trial Balance agrees, it proves that the books of accounts are arithmetically correct.

iv) Ascertainment of the Result of Business Activities: Under this system, as the accounts of revenue and expenses are maintained, a trading and profit and loss account can be prepared and gross profit/gross loss and net profit/net loss can be ascertained.

v) Ascertainment of Financial Position: Under this system, as the accounts of assets, liabilities and capital are also maintained, a balance sheet can be prepared in order to ascertain the financial position of the business on a given date.

PDF created with pdfFactory Pro trial version www.pdffactory.com

Disadvantages of Double Entry System: In fact, there are no disadvantages of double entry system of book-keeping. However, considering the size of the organisation using the system, the following may be regarded as disadvantages of double entry system.

I) **Requirement of Expert Knowledge:** The maintenance of books of accounts under this system requires the book-keeper to have expert knowledge. Hence, it cannot be maintained by a layman. Now a day, accounting is a profession and is being practised by qualified accountants.

II) **Lengthy and Cumbersome Process:** The process of recording, classifying, analysis and interpreting the accounts is cumbersome and tedious.

III) **Expensive:** The system requires an organisation to maintain a large number of books of accounts. Accounts department is also required to be staffed by qualified and trained persons requiring the payment of high salaries. So, it is an expensive system.

IV) **Unsuitable for Small Organisation:** As it is expensive and requires the services of qualified persons, it may not be suitable and economical for small organisations to maintain books of account under this system.

4.7 CLASSIFICATION OF ACCOUNTS

For the purpose of recording transactions, classification of accounts (i.e., account heads) are necessary. There are two approaches for classification of accounts. These are:

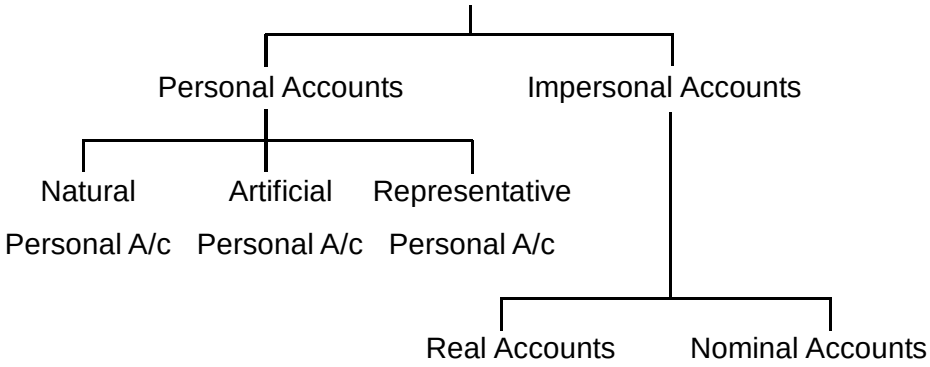
1) English Approach or Traditional Approach and
2) American Approach or Modern Approach

These are discussed below:

PDF created with pdfFactory Pro trial version www.pdffactory.com

A) English Approach or Traditional Approach:

English/Traditional Classification of Accounts



The above classification is explained below:

a) Personal Accounts: Account heads relating to persons, firms, companies, etc. are classified into the following categories.

i) Accounts of Natural Persons: Account heads that records the transactions of individual human beings fall into the category of natural persons, for example, accounts of Hem, Vikash, Suresh, Jayanata, Raju etc.

ii) Accounts of Artificial Persons: Accounts recording the transactions concerning a firm, company, institution, association, organisation etc. fall into this category. For example, Guwahati College A/c, Oil India Ltd. A/c, State Bank of India A/c, N.F Railway A/c, Guwahati Club A/c, etc.

iii) Representative Personal Accounts: Representative personal accounts are the accounts which represent a certain person or a group of persons although the name of the concerned person or persons are not mentioned in the account head. Such type of account head occurs in cases of outstanding expenses, prepaid expenses, income receivable and income received in advance. For example, outstanding Salary, Salary Prepaid, Unexpired Insurance or Insurance paid in advance, Commission Received in Advance etc.

Note: when any 'Prefix or Suffix' is used before/after any nominal account head, such account is classified as Representative Personal Account under Traditional approach.

PDF created with pdfFactory Pro trial version www.pdffactory.com

b) Real Accounts: The 'account heads' recording transactions relating to tangible things (which can be seen, touched or physically exchanged) such as goods, cash, land, building, machinery, etc. are classified as real accounts.

It may be mentioned here that there are some items which do not have a physical shape and which cannot be seen or touched but it can be bought and sold. For example, goodwill, patents, trademarks, copyrights, etc. also fall within the category of real accounts.

c) Nominal Accounts: The accounts recording transactions relating to losses, expenses, incomes and gains are classified as nominal accounts. For example, Salaries, Wages, Rent paid, Discount Allowed, Discount Received, Commission Received, Interest Paid, Interest Received etc.

B) American Approach or Modern Approach: According to the American approach or Modern approach, accounts are classified into five categories as under.

a) Assets Account: The meaning of asset is property. Assets account are the accounts of properties such as land, building, plant, machinery, stock, patents, cash in hand, cash at bank, investments, inventory, etc. held by an entity. This category also includes the accounts of debtors.

b) Liabilities Account: Liability means obligation to pay. Liabilities accounts are the accounts pertaining to the obligation of the entity to lenders, creditors for goods, creditors for assets, creditors for expenses, etc.

c) Capital Account: Capital is the amount with which the business is started. It is the account of the owner who invests money in the business as capital.

d) Revenue Accounts: Revenue accounts are the accounts of incomes and gains. For example, sales, discount received, interest received, commission received etc.

e) Expense Accounts: Expense accounts are the accounts of expenses incurred and losses suffered by an entity. For examples,

PDF created with pdfFactory Pro trial version www.pdffactory.com

purchases, wages paid, depreciation, rent paid, rates and taxes, etc. However, in case of sole proprietorship or partnership form of business, another account called 'Drawings Account' is also maintained in order to record the transactions relating to withdrawals of cash or goods made by the proprietor or partners for their personal use.

4.8 RULES FOR DEBIT AND CREDIT

A) Under English Approach or Traditional Approach *the rules for debit and credit* are as under:

i) In Case of Personal Accounts:

Debit the Receiver of the benefit

Credit the Giver of the benefit

ii) In Case of Real Account:

Debit What comes in.

Credit What goes out.

iii) In the Case of Nominal Accounts:

Debit Expenses and Losses.

Credit Gains and Incomes.

B) Under American or Modern Approach *the rules for Debit and Credit* are as under:

a) Assets Account:

i) When there is an increase in the value of Asset, it is 'Debited'

ii) When there is a decrease in the value of Asset, it is 'Credited'

b) Liabilities Account:

i) When there is an increase in the amount of Liability, it is 'Credited'

ii) When there is a decrease in the amount of Liability, it is 'Debited'

c) Capital Account:

i) When there is an increase in the amount of Capital, it is 'Credited'

ii) When there is a decrease in the amount of Capital, it is 'Debited'

PDF created with pdfFactory Pro trial version www.pdffactory.com

d) Revenue Account:

i) When there is an increase in Revenue, it is 'Credited'

ii) When there is a decrease in Revenue, it is 'Debited'

e) Expense Account:

i) When there is an increase in the Expense, it is 'Debited'

ii) When there is a decrease in Expense, it is 'Credited'

f) Withdrawal/Drawings Account:

i) When any withdrawal or drawings is made by the proprietor/ partner, it is 'Debited'

ii) When any interest is charged on withdrawal or drawings made by the proprietor/ partner, it is 'Debited'

iii) When the balance of the drawings is closed by transfer to Capital account, drawings account is 'Credited'.

The rules for 'Debit' and 'Credit' as applicable under Modern approach is summarised below.

Sl. No.	Type of Account	To be debited When	To be Credited When
a)	Assets Account	Increase	Decrease
b)	Liabilities Account	Decrease	Increase
c)	Capital Account	Decrease	Increase
d)	Revenue Account	Decrease	Increase
e)	Expense Account	Increase	Decrease
f)	Drawings Account	Increase	Decrease

Illustration: Give five examples of each of Assets Account, Liabilities Account, Revenue Account and Expense Account

a) Asset Account

i) Building Account

ii) Investment Account

iii) Furniture Account

PDF created with pdfFactory Pro trial version www.pdffactory.com

iv) Machinery Account

v) Cash Account

b) Liability Account:

i) Creditors Account

ii) Loan from Madhu Account

iii) Capital Account

iv) Bank (Loan) Account

v) Rent payable Account

c) Revenue Account:

i) Sales Account

ii) Returns inward Account (Sales decreases)

iii) Discount Received Account

iv) Interest received – Revenue Account

v) Rent of premises sub-let – Revenue Account

d) Expense Account:

i) Purchase Account

ii) Carriage inward Account

iii) Carriage outwards Account

iv) Discount Allowed Account

v) Interest paid Account



CHECK YOUR PROGRESS

Q.3: Explain the meaning of Double-entry system of Book-Keeping.

.....

.....

.....

Let us have some more Practice:

Identify the following accounts:

(i) Cash in hand (ii) Furniture (iii) Investment (iv) Building (v) Machinery (vi) Trademark (vii) Land (viii) Cash at Bank (ix) Leasehold property (x) Goodwill (xi) Closing Stock (closing inventory) (xii) Debtors

PDF created with pdfFactory Pro trial version www.pdffactory.com

(xiii) Creditors (xiv) Loan to Ram (xv) Loan from Madhu (xvi) Capital (xvii) Bank (Loan) (xviii) Assam Co. Ltd. a supplier (xix) Brun Kumar (a customer to whom, goods were sold on credit) (xx) Withdrawal by the proprietor for personal use (xxi) Copyright.

Solution:

i) Cash in hand– Assets Account
ii) Furniture– Asset Account
iii) Investment– Assets Account
iv) Building– Asset Account
v) Machinery– Asset Account
vi) Trademark– Asset Account
vii) Land– Asset Account
viii) Cash in Bank– Asset Account
ix) Leasehold property– Asset Account
x) Goodwill– Asset Account
xi) Closing Stock (closing inventory)– Asset Account
xii) Debtors– Asset Account
xiii) Creditors– Liability Account
xiv) Loan to Ram– Asset Account
xv) Loan from Madhu– Liability Account
xvi) Capital A/c– Liability Account
xvii) Bank (Loan)– Liability Account
xviii) Assam Co. Ltd., a supplier– Liability Account
xix) Brun Kumar (a customer to whom goods sold on credit)– Assets Accounts
xx) Withdrawal by the proprietor for personal use– Drawing Account
xxi) Copyright– Assets Account.

Illustration: Classify the following accounts:

(i) Sales (ii) Purchase (iii) Returns outward (iv) Returns inward (v) Carriage inward (vi) Carriage outward (vii) Discount Allowed (viii) Interest received (ix) Discount Received (x) Interest paid (xi) Rent paid (xii) Rent Payable (xiii) Rent paid in advance (xiv) Rent of premises sub-let (xv) Bad Debt (xvi) Import duty (xvii) Salary paid (xviii) Outstanding Salary (xix) Salary

PDF created with pdfFactory Pro trial version www.pdffactory.com

paid in advance (xx) Insurance premium (xxi) Prepaid Insurance (xxii) Depreciation (xxiii) Commission paid (xxiv) Commission Received (xxv) Commission Received in Advance (xxvi) Royalty Paid (xxvii) Dividend Received

Solution:

i) Sales– Revenue Account
ii) Purchase– Expense Account
iii) Returns Outward– Expense Account (purchase decreases)
iv) Returns inward– Revenue Account (Sales decreases)
v) Carriage inward– Expense Account
vi) Carriage outwards– Expense Account
vii) Discount Allowed– Expense Account
viii) Interest received– Revenue Account
ix) Discount Received– Revenue Account
x) Interest paid– Expense Account
xi) Rent Paid– Expense Account
xii) Rent payable– Liability Account
xiii) Rent paid in advance– Assets Account
xiv) Rent of premises sub-let– Revenue Account
xv) Bad debt– Expense Account
xvi) Import duty– Expense Account
xvii) Salary paid– Expense Account
xviii) Outstanding salary– Liability Account
xix) Salary paid in advance– Assets Account
xx) Insurance premium– Expense Account
xxi) Prepaid insurance– Assets Account
xxii) Depreciation– Expense Account
xxiii) Commission paid– Expense Account
xxiv) Commission received– Revenue Account
xxv) Commission received in advance– Liability Account
xxvi) Royalty paid– Expense Account
xxvii) Dividend received– Revenue Account

PDF created with pdfFactory Pro trial version www.pdffactory.com

Illustration: State on which side of the account, the following will be recorded. State also the nature of the accounts.

1) When there is an increase in the account because of a transaction:
   (a) Rent Received (b) Salaried Paid (c) Motor Vehicle Account (d) Proprietor's Account (e) Ramesh Account (Debtor) (f) Jayanta Account (creditor) and (g) Salary Outstanding Account
2) When there is a decrease in the account because of a transaction:
   (a) Insurance Premium Paid (b) Proprietor's Account (c) Commission Received (d) Furniture Account (e) Rent Outstanding Account (f) Ratan Account (creditor) and (g) Dinesh Account (Debtor)

Solution: Table showing the account to be Debited/ Credited–

Account Head	Class of Account	Debit/Credit
I) Increase the Balance of Account		
a) Rent Received	Revenue	Credit
b) Salary paid	Expense	Debit
c) Motor Vehicle A/c	Assets	Debit
d) Proprietor A/c	Capital	Credit
e) Jayanta (creditor)	Liability	Credit
f) Ramesh (Debtor)	Assets	Debit
g) Salary outstanding A/c	Liability	Credit
II) Decrease the Balance of Account		
a) Insurance Premium Paid	Expense	Credit
b) Proprietor Account	Drawings	Debit
c) Commission Received A/c	Revenue	Debit
d) Furniture A/c	Assets	Credit
e) Rent Outstanding A/c	Liability	Debit
f) Ratan (creditor)	Liability	Debit
g) Dinesh (debtor)	Assets	Credit

Illustration: Ascertain the account to be Debited/Credited with reasons:

i) Started business with capital of Rs. 30,000

ii) Purchased machinery on credit from Hari Bora for Rs. 35,000

PDF created with pdfFactory Pro trial version www.pdffactory.com

iii) Purchased goods for cash Rs. 12,000

iv) Sold goods to Ratan Rs. 15,000

v) Paid rent for the month of January '08 Rs. 500

vi) Received commission Rs. 2,000

Solution:

Statement showing the Account heads to be Debited/Credited

Sl. No.	Transaction	Aspects/ Accounts involved	Debit/ Credit	Reasons
i)	Started business with capital of Rs. 30,000	Cash Capital	Debit Credit	Assets increases Capital Increases (liability)
ii)	Purchased machinery on credit from Hari Bora for Rs. 35,000/-	Machinery Hari Bora	Debit Credit	Assets increases Libility Increases
iii)	Purchased goods for cash Rs. 12,000/-	Purchases Cash	Debit Credit	Expenses increases Assets Decreases
iv)	Sold goods to Ratan Rs. 15,000/-	Ratan Sales	Debit Credit	Assets increases Revenue Increases
v)	Paid rent for the month of July, 04 Rs. 500/-	Rent Cash	Debit Credit	Expenses increases Assets Decreases
vi)	Received commission Rs. 2,000/-	Cash Commission Received	Debit Credit	Assets increases Revenue Increases

PDF created with pdfFactory Pro trial version www.pdffactory.com



4.9 LET US SUM UP

In this unit we have discussed the following points–

- Account is a summarised record of transactions relating to person, property, expense or gain.
- The terms 'Debit' and 'Credit' and their rules.
- Two approaches regarding classification of accounts.
- According to English approach the accounts are classified into three types– Personal, Real, Nominal.
- According to American approach the accounts are classified into five types– Assets, Liabilities, Capital, Revenue and Expense.
- Two system of Book-keeping: Single Entry and Double Entry systems.
- Application of Double Entry principles in recording business transactions.



4.10 FURTHER READING

1) Bhattacharya, Ashis; *Financial Accounting*; New Delhi: Prentice Hall of India Pvt. Ltd.
2) Maheshwari, S. N.; *Financial Accounting*; New Delhi: Vikash Publishing House Pvt. Ltd.
3) Dam, B. B. & Theory and Gautam, H. C.; *Practice of Financial Accounting*; Guwahati: Capital Publishing Company.
4) Gupta, R. L. & Radhaswamy, M.; *Accountancy*; New Delhi: Sultan Chand & Sons.



4.11 ANSWERS TO CHECK YOUR PROGRESS

Ans. to Q. No. 1: An account is a summary record of transactions of items of similar nature for a certain period.

PDF created with pdfFactory Pro trial version www.pdffactory.com

Ans. to Q. No. 2: To debit an account means to record the transaction on the left hand side of the account. To credit an account means recording the transaction on the right hand side of the account.

Ans. to Q. No. 3: The system of book-keeping under which both the aspects of every transaction is recorded in the books of account is known as 'Double-entry system of Book-Keeping'.



4.12 MODEL QUESTIONS

Q.1: Explain the meaning of Double Entry System and describe its advantages.

Q.2: What do you mean by an account? What are the different types of account?

Q.3: What are the rules regarding debit and credit?

Q.4: Classify the following items:

Cash– Rs. 5,000

Machinery– Rs. 50,000

Loan Taken from Bank– Rs. 1, 00,000

Creditors– Rs. 10,000

Purchase of goods– Rs. 15,000

Sale of goods– Rs. 1, 00,000

Salaries paid– Rs. 10,000

X Co.– Rs. 10,000

*** ***** ***

PDF created with pdfFactory Pro trial version www.pdffactory.com

UNIT 5: ACCOUNTING PROCESS-II

UNIT STRUCTURE

5.1 Learning Objectives

5.2 Introduction

5.3 Meaning of Books of Account

5.4 Meaning of Journal

5.5 Journalising

5.6 Subsidiary Books of Accounts

5.7 Meaning of Ledger

5.8 Meaning of Ledger Posting

5.9 Rules Regarding Posting

5.10 Balancing of an Account

5.11 Illustrations

5.12 Let Us Sum Up

5.13 Further Reading

5.14 Answers to Check Your Progress

5.15 Model Questions

5.1 LEARNING OBJECTIVES

After going through this unit, you will be able to:

- explain the meaning of Books of Account
- explain the meaning of 'Journal'
- discuss the process of recording transactions in journal book
- discuss the various subsidiary books.
- explain the meaning and importance of ledger
- differentiate between journal and ledger
- explain the meaning of ledger posting
- discuss the rules of ledger posting
- prepare ledger accounts.

PDF created with pdfFactory Pro trial version www.pdffactory.com

5.2 INTRODUCTION

In the earlier unit, we have discussed about account and the rules of debit and credit. We have discussed the double entry system of book-keeping. In this unit, we are going to discuss the steps of recording business transactions in journal. In journal book, transactions are recorded first by following the rules of double entry system. In the process of accounting, after entering the transactions in journal, the next step is to transfer these entries to another book of account. This book is known as ledger book. In this unit we will discuss about this book.

This unit will help you in gaining an understanding of journal book and the process of recording the transactions in journal besides the different subsidiary books that are important for a business organisation. Our discussion will also cover meaning of ledger, its importance in record keeping, the process of transferring the journal entries to ledger book etc. You will also come to know the steps of entering the transactions in ledger book and how the ledger accounts are balanced.

5.3 MEANING OF BOOKS OF ACCOUNTS

The book, which contains accounts, is known as the Books of Accounts. In other words, it means the khata or books in which the businessman keeps the records of business transactions. Recording of transactions in books of account is a process of entering the transactions in the proper books of accounts in a systematic manner. It means putting into black and white the transaction that takes place in course of business activities.

Normally transactions are recorded in two sets of books step by step. Transactions are first recorded in **Journal,** which is also known as **'book of original entry'** or '**Primary Book'**. In the next step, transactions are recorded in Ledger, which is also known as **'book of final entry'** or '**Secondary Book'**. These Books of accounts are specially printed and ruled books where the accounts of a firm can be written up.

PDF created with pdfFactory Pro trial version www.pdffactory.com

5.4 MEANING OF JOURNAL

The word 'Journal' has been derived from the French word 'JOUR' means daily records. Journal is a book of original entry in which transactions are recorded as and when they occur in chronological order (in order of date) from the source documents. Recording in journal is made showing the accounts to be debited and credited in a systematic manner. Thus, the journal provides a date-wise record of all the transactions with details of the accounts and amounts debited and credited for each transaction with a short explanation, which is known as narration.

Firms having limited number of transactions record those in journal and from there, post these to the concerned ledger accounts. Firms having large number of transactions, maintain some special purpose journals such as, Purchase Book, Sales Books, Returns books, Bills Book, Cash Book, Journal proper etc.

Format of Journal: The following is the format of Journal.

Format of Journal

Date	Particulars	L.F.	Amount	
			Debit Rs.	Credit Rs.
(i)	(ii)	(iii)	(iv)	(v)

The format of Journal is sub-divided into five columns. These five columns are (i) Date (ii) Particulars (iii) Ledger Folio (L/F) (iv) Debit amount and (v) Credit amount.

Ledger Folio (L.F): Journal is the original record of the business transactions. All entries from the journal are posted in the ledger accounts. **The page number or folio number of the ledger** account where the posting has been made from the journal is recorded in the L.F column of the Journal. Each entry in the journal must be explained in brief. This brief explanation of the entry is called **Narration.** Thus, Narration gives a brief explanation of the transaction for which the entry has been passed is given. It enables

PDF created with pdfFactory Pro trial version www.pdffactory.com

the persons going through the journal entry to have an idea about the transaction.



CHECK YOUR PROGRESS

Q.1: What is journal?

.....

.....

.....

5.5 JOURNALISING

Journalising is the process of recording the aspects of the transactions in Journal. In other words, recording of entries in the 'journal' is known as journalising.

Process of Journalising: The process of journalising means the steps to be followed for ascertaining the account heads to be debited/ credited for a particular transaction. There are three steps involved in the process of journalising a transaction.

Step 1: Identification of accounts or 'account heads' affected by the transaction.

Step 2: Classification of accounts or account heads.

Step 3: Application of Rules for Debit and Credit

Types of Journal Entries: Entries recorded in the journal may be of two types.

a) Simple Journal Entry and

b) Compound Journal Entry

Simple Journal Entry: When a transaction affects only one aspect/ account in the debit and one aspect/account in the credit, it is known as simple journal entry.

Compound Journal Entry: When a transaction affects more than two accounts at a time– one or more accounts being debited/ one or more accounts being credited, such entry is known as compound journal entry.

PDF created with pdfFactory Pro trial version www.pdffactory.com



CHECK YOUR PROGRESS

Q.2: Discuss the steps of journalising.

.....

.....

.....

Let us journalise the transactions relating to receipts and payments in cash or by cheque, transactions relating to goods, then transactions relating to purchase and sale of assets, incomes and expenses and finally transactions between the business and the proprietor.

Transactions relating to receipts and payments in cash or by cheque: A business organization settles its accounts with the parties by receiving or making payments either in cash or by cheques. The recording of such transactions may be illustrated as under:

Example 1:

2008

July 1: Cash received from Ramesh Rs. 5,000.

July 2: Received from Sita Rs. 1,000 in cash and Rs. 10,000 by cheque.

Solution:

Date	Particulars	L.F.	Debit (Rs.)	Credit (Rs.)
2008 July 1	Cash A/c Dr. To Ramesh (Being cash received)		5,000	5,000
July 2	Cash A/c Dr. Bank Dr. To Sita (Being the amount received in cash and by cheque)		1,000 10,000	11,000

PDF created with pdfFactory Pro trial version www.pdffactory.com

Transactions Relating to Goods: The transactions relating to goods are: purchase and sale of goods for cash or on credit and the return of goods.

Example 2:

2008

Aug. 1: Purchased goods for Rs. 4,000

Aug. 2: Purchased goods for Rs. 3,000

Aug. 3: Purchased goods on credit from Rani for Rs. 2,000

Aug. 4: Goods sold for Rs. 5,000

Aug. 5: Goods sold for Rs. 10,000

Aug. 6: Goods sold to Jadu for Rs. 1,000 on credit

Aug. 7: Goods returned to Rani Rs. 1,000

Aug. 8: Goods returned by Jadu Rs. 500

Date	Particulars	L.F.	Debit (Rs.)	Credit (Rs.)
2008 Aug. 1:	Purchase A/c Dr. To Cash A/c (Being goods purchased)		4,000	 4,000
Aug. 2:	Purchase A/c Dr. To Cash A/c (Being goods purchased)		3,000	 3,000
Aug. 3:	Purchase A/c Dr. To Rani (Being goods purchased on credit)		2,000	 2,000
Aug. 4:	Cash A/c Dr. To Sales A/c (Being goods sold)		5,000	 5,000
Aug. 5:	Cash A/c Dr. To Sales A/c (Being goods sold)		10,000	 10,000
Aug. 6:	Jadu Dr. To Sales A/c (Being goods sold on credit)		1,000	 1,000

PDF created with pdfFactory Pro trial version www.pdffactory.com

Aug. 7:	Rani Dr. To Returnd Outward A/c (Being goods returned to Rani)		1,000	1,000
Aug. 8:	Returns Inward A/c Dr. To Jadu (Being goods returned by Jadu)		500	500

The transactions have been recorded by following the steps of journalizing. Transactions of August 1 and 2 are cash transactions. In case of transaction of Aug. 3, the name of the party is recorded because it is a credit transaction. The transaction of August 4 is a cash sale transaction. The transaction of Aug. 6 is a credit sale transaction and therefore, the name of the party has been recorded. In case of transaction of Aug. 7 "Returns Outward A/c" records the goods returned to the party from whom they were purchased on credit. In case of transaction of Aug. 8 "Return Inward A/c" records the goods returned by the party to whom they were sold on credit.

Transactions relating to purchase and sale of assets of the business: These transactions can be discussed with the help of the following example:

Example 3:

2008

Aug. 9: Purchased a plot of land for Rs. 1,00,000

Aug. 10: Purchased furniture on credit from MM Company for Rs. 50,000

Aug. 11: Old computer sold for Rs. 5,000

Date	Particulars	L.F.	Debit (Rs.)	Credit (Rs.)
2008 Aug. 9:	Land A/C Dr. To Cash A/C (Being a plot of land purchased)		1,00,000	1,00,000

PDF created with pdfFactory Pro trial version www.pdffactory.com

Aug.10:	Furniture A/c Dr. To MM Co. (Being furniture purchased on credit)		50,000	50,000
Aug. 11:	Cash A/c Dr. To Computer A/c (Being old computer sold)		5,000	5,000

In recording the transactions of Aug. 9 and Aug. 10 the assets have been debited by applying the rule of real account i.e. Debit– what comes in. The asset has been credited in recording the transaction of Aug. 11 as the asset is sold out i.e. Credit– what goes out.

Transactions relating to expenses and incomes: The expenses of business may relate to payment of salaries, rent, advertisement expenses, printing and stationery expenses etc. Business may earn income by way of commission, interest on investment etc. The following example will help you in recording such transactions:

Example 4:

2008

Aug. 12: Rent paid Rs. 5,000

Aug. 13: Advertisement expenses paid Rs. 4,000

Aug. 14: Interest on investment received Rs. 1,000.

Aug. 15: Commission received Rs. 500

Solution:

Date	Particulars	L.F.	Debit (Rs.)	Credit (Rs.)
2008 Aug. 12:	Rent A/c Dr. To Cash A/c (Being rent paid)		5,000	5,000
Aug.13:	Advertisement A/c Dr. To Cash A/c (Being advertisement expenses paid)		4,000	4,000

PDF created with pdfFactory Pro trial version www.pdffactory.com

Aug.14:	Cash A/c Dr. To Interest Receivable A/c (Being interest on investment received)		1,000	1,000
Aug.15:	Cash A/c Dr. To Commission Receivable A/c (Being commission received)		500	500

In the above transactions, the expenses have been debited and incomes have been credited by applying the rule of nominal account.

Transactions between the proprietor and the business: The transactions that take place between the proprietor and the business are recorded in the books of accounts of the business. These transactions may relate to introducing capital in the business, withdrawing of cash from business for personal use of the proprietor etc. Withdrawing of cash or goods for personal use of the proprietor is known as drawings.

Example 5:

2008

Aug. 16: Mr. Ram started business with Cash Rs. 10,000; Furniture Rs. 15,000; Machinery Rs. 50,000.

Aug. 17: Mr. Ram withdraws Rs. 2,000 for personal use.

Date	Particulars	L.F.	Debit (Rs.)	Credit (Rs.)
2008				
Aug. 16:	Cash A/c Dr.		10,000	
	Furniture A/c Dr.		15,000	
	Machinery A/c Dr.		50,000	
	To Capital			75,000
	(Being business started with cash, furniture and machinery)			

PDF created with pdfFactory Pro trial version www.pdffactory.com

Aug.17:	Drawings A/c Dr. To Cash A/c (Being cash withdrawn for personal use)		2,000	2,000



ACTIVITY 5.1

Enter the following transactions in journal–

Purchase goods for Rs. 5, 000

Goods sold for Rs. 3,000

Purchase goods for Rs. 4,000 from Mr. Hari on credit

Rent paid Rs. 500

5.6 SUBSIDIARY BOOKS OF ACCOUNTS

So far we have discussed some of the transactions that are recorded in journal. Journal is the primary book of account where transactions are recorded date-wise. In case of large organizations where there are numerous transactions, it will be difficult to record all the transactions through journal. Hence, for convenience of recording, the journal is divided into a number of special journals. These are known as subsidiary books. The number of subsidiary books maintained by a business organization depends on the size of the organization and the nature of transactions. Now, we will discuss some subsidiary books maintained by a business organization in general.

Purchase Book

In purchase book the transactions relating to credit purchase of goods are recorded. But cash purchases and purchase of fixed assets are not recorded in this book. This book is also known as Purchase Journal or Bought Day Book. At the end of a certain period, the total of Purchase Book is posted to the debit side of Purchase Account and the suppliers' accounts will be credited with the respective amounts.

PDF created with pdfFactory Pro trial version www.pdffactory.com

Purchase Returns Book

The transactions relating to return of goods to the supplier which were purchased on credit are recorded in Purchase Return Book. The goods may be returned due to not confronting to the specifications or defective goods or for any other reason. It is also known as Returns Outward Book. The total of this book, after a certain period, is credited to Returns Outward Account and the suppliers' accounts, to whom goods were returned, are debited with the respective amounts.

Sales Book

This book is meant for recording credit sale of goods. Cash sale of goods and sale of articles other than goods are not recorded in this book. This book is also known as Sales Journal or Sold Day Book. At the end of a certain period, the total of Sales Book is posted to the credit side of Sales Account and the customers' accounts will be debited with the respective amounts.

Sales Return Book

When goods sold on credit are returned by the customers, they are recorded in Sales Return Book or Returns Inward Book. At the end of a certain period, the total of this book is debited to Returns Inward Account and the customers' accounts, who have returned the goods, are credited with the respective amounts.



LET US KNOW

When goods are returned to the supplier, a debit note is sent to him indicating that his account has been debited with the amount mentioned in the debit note. On the other hand, when goods are returned by the customer, the seller sent a credit note indicating that customer's account has been credited with the amount mentioned in the credit note.

PDF created with pdfFactory Pro trial version www.pdffactory.com

Bills Receivable Book

This book is used to record all promissory notes receivedand Bills of Exchange accepted by customers for the amounts due from them. A promissory note contains an unconditional promise in writing, to pay a certain sum of money only to a certain person on a specific future date.

Bills Payable Book

This book is used to record all promissory notes given and Bills of Exchange accepted by the business for the amounts due to suppliers. A bill of exchange is an instrument in writing, containing an unconditional order to pay a certain sum of money only to a certain person on a specific future date.



CHECK YOUR PROGRESS

Q.3: What is Purchase Book?

.....

.....

Q.4: What is Sales Return Book?

.....

.....

.....

.....

.....

5.7 MEANING OF LEDGER

Although journal is chronological record of all business transactions, yet it cannot provide all information regarding a particular account at one place. The journal cannot show the net effect of various transactions affecting a particular person, asset, revenue and expense. For example, if a trader wants to know the amount due to a particular supplier or the amount

PDF created with pdfFactory Pro trial version www.pdffactory.com

due from a particular customer, he will have to go through the whole journal. It would be a tedious and time consuming process. To overcome this difficulty, another book of account, in addition to Journal/special purpose books, is maintained. This book is called 'Ledger'.

Ledger is a book of account which contains a condensed and classified record of all transactions of the business posted from the journal. It is also called the **book of final entry.** In other words, the book, which contains accounts, is known as the ledger or Principal Book. Ledger provides necessary information regarding various accounts. Personal accounts in ledger show how much money firm owes to the creditors and the amount it can recover from its debtors. The real accounts show the value of properties and also the value of stock. Nominal accounts reflect the sources of income and also the amount spent on various items.

In accounting all transactions are ultimately recorded in the ledger. In this book, separate accounts are opened for each 'account head' and all transactions relating to a particular 'account head' will be posted in the concerned account. An account for each person, each type of revenue, expense, asset and liability is opened in the ledger. For example, all transactions relating to a particular supplier; say Vivek will be posted to the account of Vivek. This helps in ascertaining the amount due to Vivek.

Ledger is generally maintained in the form of a bound register. First few pages of the ledger has ordinary horizontal ruling for indexing. Remaining pages are ruled like an account and is consecutively numbered. The index pages are used for writing the names of accounts and the Folio No. (Page No.) where a particular account has been opened for easy location. The ledger may also be maintained in loose-leaf form instead of one bound book.

Ledger is the 'King of all the Books of Accounts': Ledger is called the king of all the books of account, because it is the book which alone can exhibit the position of each 'account head' in a convenient form. It can supply all the useful information such as the net result of various transactions involving an asset, a liability, capital, revenue and an expense.

PDF created with pdfFactory Pro trial version www.pdffactory.com

Ledger is the ultimate destination of all transactions because posting is made from the journal to the ledger. The information available in the ledger in classified and summarised form also facilitates the preparation of a Trading and Profit and Loss Account and a Balance Sheet. Thus, Ledger is called the King of all books because no other book of account can supply all the information like ledger.

Utility/Importance/ Advantages: The utility/importance of 'Ledger' can be summarised as follows:

a) **Condensed Scattered Information:** The ledger brings out the scattered information from the 'Journal'. It shows the condensed information under each account head.

b) **Full Information at a Glance:** As the ledger records both the debit and credit aspects in two different sides, the complete position of an account can be ascertained at a glance.

c) **Balance:** At the end of a specified period, the net effect of transactions of a particular 'account head' can be ascertained by finding out the balance of that account. For example, how much is due from a customer or how much is payable to a creditor or what is the total amount of purchases or what has been the expenditure on different heads, all these information can be ascertained by balancing the accounts appearing in the ledger.

d) **Trial Balance:** As both the aspects are recorded, the net debit effect and the net credit on the accounts must be equal on a particular date. This is verified by preparing a statement called Trial Balance. This is possible only if the ledger accounts are maintained.

e) **Preparation of Final Accounts:** Ledger is the 'store-house' of all information relating to the transactions. It facilitates the preparation of a 'Profit and Loss Account' from the balances of revenue and expenses accounts. It also, facilitates the preparation of a 'Balance Sheet' from the balances of assets, liabilities and capital accounts.

PDF created with pdfFactory Pro trial version www.pdffactory.com



CHECK YOUR PROGRESS

Q.5: What is ledger book?

.....

.....

.....

Q.6: State any two points of importance of ledger.

.....

.....

Purpose of Ledger: A businessman requires various information to ascertain the net results, financial position and progress of the business. Ledger can provide various information, which are given below.

a) **Information Regarding Debtors :** A trader can know the amount of money receivable from various customers and others who are known as debtors.

b) **Information Regarding Creditors :** A trader can know the amount of money payable to various suppliers and others who are known as creditors.

c) **Information Regarding Purchases and Sales :** The total purchase of goods and the total sale of goods during a specific period can be known by preparing Purchase A/c and Sales A/c.

d) **Information Regarding Revenue and Expenses :** The amount of revenue earned from different sources and the amount of expenses incurred on different account heads for a particular period may be known from the ledger.

e) **Information Regarding Assets and Liabilities :** The amount of various types of assets such as Land, Building, Machinery, cash in hand, cash at bank, etc. and the amount of various liabilities can be obtained from ledger.

Sub-divisions of Ledger: Ledgers may be sub-divided in the following manner:

PDF created with pdfFactory Pro trial version www.pdffactory.com

A) Personal Ledger

i) Debtors' ledger or Sales Ledger and

ii) Creditors' ledger or Bought Ledger.

B) General or Nominal Ledger: These are explained below:

a) Personal Ledger: The ledger which contains the accounts of persons, firms or organisations to whom goods are sold on credit or from whom goods are bought on credit, is known as personal ledger. Generally personal ledgers are sub-divided into

i) Debtors' ledger or Sales Ledger and

ii) Creditors' ledger or Bought Ledger.

i) Debtors' Ledger or Sales Ledger: In this ledger, the accounts of all Debtors for goods sold are maintained. Posting is made from Sales Day Book, Purchase Returns Book, Cash Book, Bills Receivable Book and Journal Proper for the transactions affecting the accounts of Debtors.

ii) Creditors' Ledger or Bought Ledger: In this ledger, the accounts of all Creditors for goods purchased are maintained. Posting is made from Purchase Day Book, Purchase Returns Book, Cash Book, Bill Payment Book and Journal proper for the transactions affecting the accounts of Creditors.

b) General Ledger: This ledger contains all accounts other than the accounts of Debtors and Creditors for goods. All accounts falling in the category of Assets, Liabilities (except debtors and creditors for goods), Capital, Revenue and Expense are maintained in this ledger. For example, if a machine is sold to Ram on credit, his account will appear in General Ledger; again, if goods are sold to him on credit, his account will appear in the Debtors' Ledger. General Ledger is also known as Impersonal Ledger or Nominal Ledger.

Distinctions between Journal and Ledger: Following are the distinctions between a Journal and a Ledger.

PDF created with pdfFactory Pro trial version www.pdffactory.com

Sl. No.	Points of Distinction	Journal	Ledger
i)	Nature	Journal is a book of primary entry	Ledger is a book of final entry.
ii)	Basis of Recording	In Journal, transactions are recorded on the basis of voucher	Here transactions are recorded from the journal
iii)	Manner of Recording	Here transactions are recorded in order to happening i.e. date-wise	Here transactions are recorded on the basis of 'account heads'
iv)	Narration	Every entry in the journal is followed by a narration	Posting in the Ledger is not followed by any narration
v)	Form of Information	It provides information in scattered form	It provides information in a summarised and classified form

Format of a Ledger Account: There are two types of forms for writing up Ledger Accounts namely– (a) Horizontal form and (b) Vertical or 'T' form. These are discussed below.

a) Horizontal Ledger Account is Ruled out as follows:

"AB & Co" Account

Date	Particulars	J.F.	Debit Amount (Rs.)	Credit Amount (Rs.)	Debit Or Credit	Blance (Rs.)

In this form of ledger, balance is ascertained after every transaction. This method is generally used in bank. Where the accounts are maintained in computers through the use of accounting software like Tally, accounts are also prepared in this from.

PDF created with pdfFactory Pro trial version www.pdffactory.com

b) A vertical or 'T' shaped form is ruled as under:

"AB & Co" Account

Dr. **Cr.**

Date	Particulars	J. F.	Amount (Rs.)	Date	Particulars	J. F.	Amount (Rs.)
1	2	3	4	1	2	3	4

J.F. (Journal Folio): In this column, the page number of the Journal where the transaction was originally recorded is mentioned. It helps in locating the entry in the Journal. Again, in Journal the page number of the Ledger where the account appears is written in the Ledger Folio column.

Features of Ledger Accounts: In 'T' shaped form of writing up a ledger account, balance is ascertained periodically. In this book 'T' shaped form of Ledger Account has been used. Such Ledger Account has the following features:

a) Two Sides: A Ledger Account has two sides, namely Left hand and Right hand side. Left hand side is called the Debit side while the right hand side is called the Credit side.

b) Recording of Two Aspects: Posting is made on the debit side of the ledger account which has been debited in the journal and the account which has been credited in the journal is posted on the credit side of the ledger account

c) Balancing: Each account in the ledger is balanced independently. This is done by ascertaining the difference between the total of the Debit side and total of the Credit side.

Closing and Opening Balance: The balances of account ascertained at the end of a particular period are known as closing balances. These balances become the opening balances in the next period.

PDF created with pdfFactory Pro trial version www.pdffactory.com



CHECK YOUR PROGRESS

Q.7: What are the functions of a ledger account?

.....

.....

.....

.....

.....

Q.8: State any two points of differences between journal and ledger.

.....

.....

.....

.....

5.8 MEANING OF LEDGER POSTING

Ledger posting means making entries of the transactions in the ledger books from the journal. Posting is a process of transferring debit and credit aspects of the entries appearing in the journal and other books of original entry to the debit and credit sides of the relevant accounts in the ledger. Postings are made using the word 'To' and 'By' as a prefix. For debit side entry 'To' prefix is used and for credit side entry 'By' prefix is used. The aim of posting is to make a classified and summarised record of all business transactions under appropriate account heads.

5.9 RULES REGARDING POSTING

Rules generally followed while posting the transactions in the Ledger: The following basic rules are to be followed while posting the transactions in the ledger:

a) Separate accounts should be opened in the ledger for posting the different transactions recorded in the journal.

PDF created with pdfFactory Pro trial version www.pdffactory.com

b) All the transactions pertaining to one account head should be posted to that account.

c) Two aspects of the business transaction namely – debit and credit aspects– should be posted on the debit side and credit side of the account respectively.

Basic Points Regarding Posting: Basic points to be kept in mind before posting are:

1) Opening of Separate Accounts: Separate accounts should be opened for different 'account heads' in the ledger for posting the different transactions recorded in the journal. For example: Cash A/c, salary A/c, purchases A/c etc.

2) One Account for each kind of Transaction: One account should be opened for each kind of transaction. Transactions taking place during an accounting period relating to that particular account should be posted to that account only. If more than one account is opened for one kind of transactions, the object of summarisation of transactions of similar nature will not be achieved. For example, it may be found that in the journal, Cash A/c has been debited during a week, say on six different dates and the same account has been credited on four different dates. For recording these transactions in ledger, only one Cash A/c will be opened in ledger for transactions taking place on all the days and posting of all entry relating to Cash A/c will be made in that account only.

Methods of Posting: There are three methods of posting from Journal to Ledger:

a) Entry-wise Posting: Posting of each journal entry in the affected 'account heads' may be made before proceeding to the next entry.

b) Account Head-wise Posting: Posting may be made 'account head' wise i.e. posting of all Debits and Credits relating to one particular account head may be made before taking up another account head.

c) Page-wise Posting: Posing may be made in all account heads appearing in one particular page of the journal before taking up the next page.

PDF created with pdfFactory Pro trial version www.pdffactory.com

Procedure for posting into an account:

a) Which has been debited in the journal–

Step 1: Concerned account in the ledger should be located. If no account appears in the ledger for that account head, a new account should be opened and the name of the new account head along with the Folio No. should be recorded in the index page.

Step 2: In the 'Date column' on the debit side, date of the transaction should be recorded.

Step 3: In the 'Particulars column' on the debit side, the name of the 'account head' credited in the journal, should be recorded as:

"To … … … (name of the account credited) … … …"

Step 4: In the 'J.F column' on the debit side, the Folio (page) number of the Journal where the transaction has been originally recorded should be entered. Also the Folio (page) number of the ledger in which the concerned account appears, should be entered in the 'Ledger folio column' of the Journal for cross reference.

Step 5: In the 'Amount column' on the debit side, the amount as recorded in the journal against the account where the posting has been made should be entered.

b) Which has been credited in the journal

Step 1: Concerned account in the ledger should be located. If no account appears in the ledger for that account head, a new account should be opened and the name of the new account head along with the Folio No. should be recorded in the index page.

Step 2: In the 'Date column' on the Credit side, the date of the transaction should be recorded.

Step 3: In the 'Particular column' on the credit side, the name of the 'account head' debited on the journal, should be recorded as:

PDF created with pdfFactory Pro trial version www.pdffactory.com

"By … … … (name of the account credited) … … …"

Step 4: In the 'J.F. column' on the credit side, the Folio (page) number of the Journal where the transaction has been originally recorded should be entered'. Also the Folio (page) number of the ledger in which the concerned account appears, should be entered in the 'Ledger folio column' of the Journal for cross reference.

Step 5 : In the 'Amount column' on the credit side, the amount as recorded in the journal against the account where the posting has been made should be entered.

Note: When the debit aspect of a transaction entered in the journal is posted in the ledger, only the debit side of that account is affected; when the credit aspect of a transaction entered in the journal is posted in the ledger, only credit side of that account is affected. In order to have a complete record of each transaction, both the aspects will have to be posted.

Posting of simple Journal Entry:

Example: On 1st January 2008, Mr. X started business with a capital Rs. 18,000

Journal of Mr. X

Date	Particulars	L. F.	Dr. Amount (Rs.)	Cr. Amount (Rs.)
2008 Jan1	Cash A/c Dr. To Capital (Being cash brought in as capital)		18,000	18,000

In the above entry, the accounts affected are Cash A/c and Capital A/c. Therefore, in the ledger, Cash A/c and Capital A/c will be opened. Posting in both the accounts are shown as under.

PDF created with pdfFactory Pro trial version www.pdffactory.com

Posting in Cash Account:

In the Books of Mr. X

Ledger Accounts

Cash Account

Dr. **Cr.**

Date	Particulars	L. F.	Amount (Rs.)	Date	Particulars	L. F.	Amount (Rs.)
2008 Jan 1	To Capital		18,000				

As the Cash A/c has been debited in the Journal, Cash account will also be debited in the Ledger. This means that posting will be made in the debit side of the Cash A/c. On the debit side, in the 'date column', date of the transaction will be written, i.e. Jan. 1, 2008. In 'particulars column', the account which has caused an effect in the Cash A/c will be written. As per the entry in the journal, Capital will be written in the 'particulars column' with 'To' as prefix. In the 'J.F. column', the Folio number (page number) where the entry appears in journal will be written. In the 'amount column' in the ledger, the figure stated against Cash account in the journal, as shown above, will be entered.

Posting in the Capital Account:

In the Books of Mr. X

Ledger Accounts

Capital

Dr. **Cr.**

Date	Particulars	L. F.	Amount (Rs.)	Date	Particulars	L. F.	Amount (Rs.)
				2008 Jan 1	By Cash A/c		18,000

As the Capital has been credited in the journal, Capital will also be credited in the Ledger. This means that posting will be made on the credit side of the Capital. On the credit side, in the 'date column', the date of the transaction i.e. Jan. 1. 2008, will be written. In the 'particulars column', the

PDF created with pdfFactory Pro trial version www.pdffactory.com

account which has caused an effect in the Capital will be written. As per the entry in the journal, Cash A/c has caused an effect in the Capital. Therefore, Cash A/c will be written in the 'particulars column' with a prefix 'By'. In the 'J.F column', the Folio number (page number) where, the entry appears in journal will be written. In the 'amount column' in the ledger, the figure stated against Capital in the journal, as shown above, will be entered.

Example: Purchase of furniture from Modern Furnisher on credit for Rs.12,000 on January 1, 2008.

Journal Entry

Furniture A/c	Dr.	12,000	
To Modern Furnisher			12,000
(Being furniture purchased on credit)			

The amount of Rs. 12,000 will be debited to the Furniture A/c and credited to Modern Furnisher in the following way–

Ledger

Furniture Account

Dr. **Cr.**

Date	Particulars	L. F.	Amount (Rs.)	Date	Particulars	L. F.	Amount (Rs.)
2008	To Modern Furnisher		12,000				

Ledger

Modern Furnisher

Dr. **Cr.**

Date	Particulars	L. F.	Amount (Rs.)	Date	Particulars	L. F.	Amount (Rs.)
				2008 Jan1	By Furniture Account		12,000

PDF created with pdfFactory Pro trial version www.pdffactory.com

5.10 BALANCING OF AN ACCOUNT

The 'balance' is a term used in accounting which means the difference between the two sides of an account, or the total of the account containing only debits and only credits. Balancing of an account is an important aspect of accounting. It implies the process of ascertaining the net difference of an account after totalling of both sides – viz. debit side and credit side.

In simple words, balancing means the insertion (writing) of the difference between the two totals, debit side total and credit side total, in the smaller (smaller total) side, so that the (grand) totals of the two sides become equal.

Balancing is done periodically, i.e. weekly, monthly, quarterly, half-yearly or yearly, depending on the requirements of the business.

A computerised system will usually print the balance of the account after each transaction, but in a manual system we must calculate the balance. The balance of an account shows the position of an account on a particular day. Such balance of an account may be **'Debit balance' or 'Credit balance'**.

Basic Points of Balancing an Account:

a) *The total of both the sides of an account may be equal. In that case, the account does not show any balance.*
b) *The total of the debit side may be more than the total of the credit side. In that case, the account shows debit balance.*
c) *The total of the credit side may be more than the total of the debit side. In that case the account shows credit balance.*

Nature of Ledger Account Balances: The nature of balances of different classes of ledger accounts will be as under.

1) **Asset Account:** Assets account will always show debit balance. For example, Cash Account will always show debit balance, because all cash receipts are shown on the debit side and all cash payments are shown on the credit side. Since cash payments cannot be more than the receipts, cash account will show the debit balance. When cash receipts are equal to the cash payments then the cash account

PDF created with pdfFactory Pro trial version www.pdffactory.com

will not show any balance. Thus, it never shows credit balance.

2) **Liability Account:** Liability accounts will always show credit balance. For example Creditors Account, Bills Payable Account, Outstanding expense Account, Loan from Gauri Account etc.
3) **Capital Account:** Capital account will always show credit balance.
4) **Revenue Account:** Revenue accounts will always show credit balance. For example, Sales Account, Commission Received Account etc.
5) **Expense Account:** Expense account will always show debit balance. For example, Sales Account, Commission Allowed Account, Wags Account etc.
6) **Drawings Account:** Drawings account will always show debit balance.



CHECK YOUR PROGRESS

Q.9: What is the object of balancing an account?

.....

.....

5.11 ILLUSTRATIONS

Illustration 1: Enter the following transactions in the respective ledger accounts in the books of XY Company

2008

Aug. 1: Purchase goods for Rs. 1, 000.

Aug. 10: Goods sold for Rs. 7, 000.

Aug. 12: Salary paid Rs. 4, 000.

Aug. 15: Rent paid Rs. 1, 000.

PDF created with pdfFactory Pro trial version www.pdffactory.com

Solution: *Workings*

In the books of XY Company

Journal entries

Date	Particulars	L.F.	Debit (Rs.)	Credit (Rs.)
2008 Aug. 1	Purchase A/c Dr. To Cash A/c (Being goods purchased)		1,000	1,000
Aug. 10	Cash A/c Dr. To Sales A/c (Being goods sold)		7,000	7,000
Aug 12	Salary A/c Dr. To Cash A/c (Being salary paid)		4,000	4,000
Aug 15	Rent A/c Dr. To Cash A/c (Being rent paid)		1,000	1,000

In the Books of XY Company

Ledger Accounts

Dr. **Purchase Account** **Cr.**

Date	Particulars	J. F.	Amount (Rs.)	Date	Particulars	J. F.	Amount (Rs.)
Aug.1	To Cash A/C		1,000	Aug.15	By Balance c/d		1,000
			1,000				1,000

PDF created with pdfFactory Pro trial version www.pdffactory.com

Aug.16 To Balance b/d 1,000

Dr.			**Sales Account**				**Cr.**
Date	Particulars	J.	Amount	Date	Particulars	J.	Amount
Aug.15	To By Balance c/d	F.	(Rs.)			F.	(Rs.)
			7,000	Aug.10	By Cash A/c		7,000
			7,000				7,000
				Aug.16	By Balance b/d		7,000

Dr.			**Salary Account**				**Cr.**
Date	Particulars	J.	Amount	Date	Particulars	J.	Amount
Aug.12	To Cash A/c	F.	(Rs.)			F.	(Rs.)
			4,000				
				Aug.15	By Balance c/d		4,000
			4,000				4,000

Aug.16 To Balance b/d 4,000

Dr.			**Rent Account**				**Cr.**
Date	Particulars	J.	Amount	Date	Particulars	J.	Amount
Aug.15	To Cash A/c	F.	(Rs.)			F.	(Rs.)
			1,000				
				Aug.15	By Balance c/d		1,000
			1,000				1,000

Aug.16 To Balance b/d 1,000

Dr.			**Cash Account**				**Cr.**
Date	Particulars	J.	Amount	Date	Particulars	J.	Amount
Aug.10	To Sales A/c	F.	(Rs.)			F.	(Rs.)
			7,000	Aug.1	By Purchase A/c		1,000
				Aug.12	By Salary A/c		4,000
				Aug.15	By Rent A/c		1,000
				Aug.15	By Balance c/d		1,000
			7,000				7,000

PDF created with pdfFactory Pro trial version www.pdffactory.com

Aug.16 To Balance b/d 1,000

Illustration 2: Enter the following transactions in the respective ledger accounts in the books of Amir Enterprise for the month of January, 2013

2013

January 1: Capital introduced into business Rs. 50, 000

January 2: Purchase goods from ABC Company on credit for Rs. 10, 000.

January 4: Goods sold to Assam Company on credit for Rs. 15, 000.

January 10: Commission received Rs. 1, 000.

January 17: Travelling expenses paid Rs. 3, 000.

January 20: Cash paid to ABC Company Rs. 5, 000

January 22: Cash received from Assam Company Rs. 5, 000

Solution: *Workings*

In the books of Amir Enterprise

Journal entries

Date	Particulars	L.F.	Debit (Rs.)	Credit (Rs.)
2013 Jan. 1	Cash A/c Dr. To Capital (Being capital introduced into business)		50,000	50,000
Jan. 2	Purchase A/c Dr. To ABC Company (Being goods purchased on credit)		10,000	10,000
Jan. 4	Assam Company Dr. To Sales A/c (Being goods sold on credit)		15,000	15,000
Jan. 10	Cash A/c Dr. To Commission A/c (Being commission received)		1,000	1,000

PDF created with pdfFactory Pro trial version www.pdffactory.com

Jan. 17	Travelling Expense A/c Dr. To Cash A/c (Being travelling expenses paid)		3,000	3,000
Jan. 20	ABC Company Dr. To Cash A/c (Being cash paid)		5,000	5,000
Jan. 22	Cash A/c Dr. To Assam Company (Being cash received)		5,000	5,000

In the books of Amir Enterprise

Ledger Accounts

Dr. **Capital Account** **Cr.**

Date	Particulars	J. F.	Amount (Rs.)	Date	Particulars	J. F.	Amount (Rs.)
2013 Jan.31	To Balance c/d		50,000	2013 Jan.1	By Cash A/c		50,000
			50,000				50,000
				Feb.1	By Balance b/d		50,000

Dr. **Purchase Account** **Cr.**

Date	Particulars	J. F.	Amount (Rs.)	Date	Particulars	J. F.	Amount (Rs.)
2013 Jan.2	To ABC Company		10,000	2013 Jan.31	By Balance c/d		10,000
			10,000				10,000
Feb.1	To Balance b/d		10,000				

PDF created with pdfFactory Pro trial version www.pdffactory.com

Dr. **Sales Account** **Cr.**

Date	Particulars	J. F.	Amount (Rs.)	Date	Particulars	J. F.	Amount (Rs.)
2013 Jan.31	To Balance c/d		15,000	2013 Jan.4	By Assam Company		15,000
			15,000				15,000
				Feb.1	By Balance b/d		15,000

Dr. **Commission Account** **Cr.**

Date	Particulars	J. F.	Amount (Rs.)	Date	Particulars	J. F.	Amount (Rs.)
2013 Jan.31	To Balance c/d		1,000	2013 Jan.10	By Cash A/c		1,000
			1,000				1,000
				Feb.1	By Balance b/d		1,000

Dr. **Travelling Expenses Account** **Cr.**

Date	Particulars	J. F.	Amount (Rs.)	Date	Particulars	J. F.	Amount (Rs.)
2013 Jan.17	To Cash A/c		3,000	2013 Jan.31	By Balance c/d		3,000
			3,000				3,000
Feb.1	To Balance c/d			3,000			

Dr. **ABC Company** **Cr.**

Date	Particulars	J. F.	Amount (Rs.)	Date	Particulars	J. F.	Amount (Rs.)
2013 Jan.20	To Cash A/c		5,000	2013 Jan.2	By Purchase A/c		10,000
Jan.31	To Balance c/d		5,000				
			10,000				10,000
				Feb.1	By Balance b/d		5,000

PDF created with pdfFactory Pro trial version www.pdffactory.com

Dr. **Assam Company** **Cr.**

Date	Particulars	J. F.	Amount (Rs.)	Date	Particulars	J. F.	Amount (Rs.)
2013				2013			
Jan.4	To Sales A/c		15,000	Jan.22	By Cash A/c		5,000
				Jan.31	By Balance c/d		10,000
			15,000				15,000
Feb.1	To Balance b/d		10,000				

Dr. **Cash Account** **Cr.**

Date	Particulars	J. F.	Amount (Rs.)	Date	Particulars	J. F.	Amount (Rs.)
2013				2013			
Jan.1	To Capital		50,000	Jan.17	By Travelling Expenses A/c		3,000
Jan.10	To Commission		1,000	Jan.20	By ABC Company		5,000
Jan.22	To Assam Company		5,000	Jan.31	By Balance c/d		48,000
			56,000				56,000
Feb.1	To Balance b/d		48,000				



ACTIVITY 5.1

Prepare ledger accounts from the following in the books of Assam company–

Cash paid to Mr. Ram Rs. 5,000

Interest received Rs. 500.

Telephone charges paid Rs. 500.

Wages paid Rs. 1,000.

Electricity charges paid Rs. 500

PDF created with pdfFactory Pro trial version www.pdffactory.com



5.12 LET US SUM UP

In this unit we have discussed the following points–

- Journal is the primary book to record business transactions
- Steps involved in the process of journalising
- Journal entries relating to purchase and sale of goods, receipts and payment of cash etc.
- The various subsidiary books like purchase book, sales book, sales return book etc.
- Ledger contains all the accounts and known as principal book.
- Various advantages of ledger and sub- division of ledger.
- Differences between journal and ledger.
- The process of transferring journal into ledger which is known as ledger posting.
- Basic points regarding ledger posting and balancing of accounts.



5.13 FURTHER READING

1) Bhattacharya, Ashis; *Financial Accounting*; New Delhi: Prentice Hall of India Pvt. Ltd.
2) Maheshwari, S. N.; *Financial Accounting*; New Delhi: Vikash Publishing House Pvt. Ltd.
3) Dam, B. B. & Theory and Gautam, H. C.; *Practice of Financial Accounting*; Guwahati: Capital Publishing Company.
4) Gupta, R. L. & Radhaswamy, M.; *Accountancy*; New Delhi: Sultan Chand & Sons.



5.14 ANSWERS TO CHECK YOUR PROGRESS

Ans. to Q. No. 1: Journal is a book of original entry in which transactions are recorded as and when they occur in chronological order from source documents.

PDF created with pdfFactory Pro trial version www.pdffactory.com

Ans. to Q. No. 2: Step 1: Identification of accounts or 'account heads' affected by the transaction.

Step 2: Classification of accounts or account heads.

Step 3: Application of Rules for Debit and Credit

Ans. to Q. No. 3: The transactions relating to credit purchase of goods are recorded in purchase book.

Ans. to Q. No. 4: When goods are sold on credit are returned by the customers, they are recorded in Sales Return Book. At the end of a certain period, the total of this book is debited to Returns Inward Account and the customers' accounts, who have returned the goods, are credited with the respective amounts.

Ans. to Q. No. 5: Ledger is a book of account which contains a condensed and classified record of all transactions of the business posted from the journal. It is also called the book of final entry.

Ans. to Q. No. 6: i) Condensed scattered information

ii) Full information at a glance

Ans. to Q. No. 7: Functions of ledger account are to provide: (a) Information regarding Debtors (b) Information regarding Creditors (c) Information regarding Purchases and Sales (d) Information regarding Revenue and Expenses (e) Information regarding Assets and Liabilities.

Ans. to Q. No. 8: i) Journal is a book of primary entry whereas ledger is a book of final entry.

ii) In Journal, transactions are recorded on the basis of voucher. But in ledger transactions are recorded from the journal.

Ans. to Q. No. 9: The object of balancing of account is to know periodical balance of an account.



5.15 MODEL QUESTIONS

Q.1: Describe different types of Books of Account.

Q.2: What is meant by journal?

Q.3: What is Journalising? How is it done?

PDF created with pdfFactory Pro trial version www.pdffactory.com

Q.4: Journalise the following transactions-

i) Cash paid to Mr. X– Rs. 5,000

ii) Purchased goods for– Rs. 15,000

iii) Sale of goods for cash– Rs. 1,00,000

iv) Wages paid in Cash– Rs. 10,000

v) Amount paid to XY Company– Rs. 10,000

Q.5: What is meant by ledger? What are the main purposes of ledger?

Q.6: Prepare relevant accounts in the ledger book from the following information–

i) Furniture purchased– Rs. 10, 000

ii) Purchase goods on credit from X Co.– Rs. 15,000

iii) Sale of goods for cash– Rs. 1,00,000

iv) Salaries paid in Cash– Rs. 10,000

v) Amount paid to X Co.– Rs. 10,000

Q.7: What is meant by ledger posting?

Q.8: What is meant by balancing of an account?

*** ***** ***

PDF created with pdfFactory Pro trial version www.pdffactory.com



REFERENCES

1) Bhattacharya, Ashis; *Financial Accounting*; New Delhi: Prentice Hall of India Pvt. Ltd.
2) Dam, B.B. & Theory and Gautam, H.C.; *Practice of Financial Accounting*; Guwahati: Capital Publishing Company.
3) Dam, B.B.; Sarda, R. A.; Barman, Ramen; Kalita, Bijoy (2006); *Theory and Practice of Accountancy*; Guwahati: Capital Publishing Company.
4) Das. K.R.; Singha, K.M.; Paulchoudhury, K.S.; Banik, G.G.; Chakraborty, D. (2006); *Accountancy* (Volume II); Guwahati: LBS Publications.
5) Gupta, R.L. & Radhaswamy, M.; *Accountancy*; New Delhi: Sultan Chand & Sons.
6) Grewal, T.S. (2007); *Introduction to Accountancy*; New Delhi: Chand and Co. Ltd.
7) Maheshwari, S.N.; *Financial Accounting*; New Delhi: Vikash Publishing House Pvt. Ltd.
8) Rao, Thukaram; *Advanced Accounting*; New Delhi: New Age International Publishers.
9) Ras, Thukaram. Advanced Accounting. New Delhi, New Age International Publishers.
10) Sikidar, Dr. Sajit; Nath, Dr. Ghanshyam (2006); *Accountancy*; (Part II) Guwahati: Modern Publishers.

PDF created with pdfFactory Pro trial version www.pdffactory.com