

# UNIT VI

## ACCOUNTS

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### **MAIN OBJECTIVE**

To help students to appreciate the need for accounting in Small Scale Enterprises.

### **LEARNING OUTCOME**

- To understand what is accounting.
- To understand the objectives of accounting.
- To identify the stages/process involved in accounting.
- To understand to maintain the Journal, Ledger, Cash Book and Trial Balance.

### **CONTENTS**

1. Books of Accounts
2. Journal
3. Ledger
4. Cash Book
5. Trial Balance

## ACCOUNTING TERMS

Before understanding of accounting it is necessary to know the meaning of certain accounting terms which are frequently used in accounting.

1. **Capital:** - Capital is the amount invested in a business. It can be defined as any money or anything invested in a business.

In the accounting sense, Excess of assets over liabilities is called as capital. Therefore Accounting equation will be  $\text{Capital} = \text{Assets} - \text{Liabilities}$ .

2. **Goods:** - Goods mean commodities, articles or things, products in which a businessman deals.

In other words, goods refer the things which are for resale. For example, Furniture's will be the goods of furniture merchant, cloth will be the goods of cloth merchant.

3. **Drawings:** - Drawings refer to cash or goods or anything withdrawn by the proprietor from the Business for personal use.

4. **Transaction:** - Transactions refer the exchange of or transfer of money or money's worth between the two parties. It can be defined as exchange of goods and services between the two or more persons for money or money's worth. Eg. Purchase and sale of goods for cash or on credit. Payment and receipts of cash etc. However, sending the price list, or receiving the price list, placing of an order, cancelling the order cannot be considered as business transactions.

The transactions can be classified as follows:-

a) **Cash transactions:** - A cash transactions refer to any transactions involves immediate payment of receipt of cash, eg. Purchase of goods for cash, sale of goods for cash, payment of any expenses etc.

b) **Credit transactions:** - It is a business transaction where there is no payment or receipt of cash at the time of transactions but payment and receipt of money is postponed to future date.

Eg, purchase of goods on credit, sale of goods on credit.

C) **Non-cash transactions:** - these are the types of transactions where there is no Payment and receipt cash either immediately or at a future date. Eg. Depreciation charged on any fixed assets, bad debt, written off etc.

5. **Purchase:** - Goods purchased by a business for sale are called purchases. Purchases may be cash Purchases or credit purchases.

6. **Sales:** - Goods sold by a business called as sales. (Goods mean things Indented for sale).

7. **Assets:** - Assets refer to any property or things owned by a business organization.

For e.g., land and building plant and machinery cash, bank balance.

Assets also include the amount receivable by the business organization from outsiders.

Example – sundry debtors, outstanding income etc.

8. **Liabilities :-** Liabilities refer to the amount due from a business to others, either for goods purchased on credit or money borrowed.

For example – bank loan, creditors, bills payable etc.

9. **Stock:** - unsold goods being in a business called stock.

10. **Debtor:** - Debtor is person who owes money to the business organization.

11. **Creditors:** - A creditor is person to whom business has to pay money for goods purchased on credit.

12. **Till takings:** - Till takings refer to cash sales.

## **MEANING AND DEFINITION OF BOOK – KEEPING**

Book keeping is defined as it is art of recording business transactions in a systematic manner.

As per R.N. Carter “The science and art of correctly recording in the books of accounts all those business transactions that result in the transfer of money or money worth” is book-keeping.

Book keeping can also be defined as art and science of recording the monetary aspects of financial transactions.

## **DIFFERENCES BETWEEN BOOK KEEPING AND ACCOUNTANCY**

Book keeping is concern with mere recording of business transactions in the journal or in the subsidiary books and posting the different entries to the relevant ledger. On the other hand, accounting involves not only recording of business transactions, but also, presenting of the information in the ledger through financial statements and the interpretation of financial statements for drawing conclusions. So, scope of accounting is much wider than that of book keeping.

## **OBJECTS OF BOOK KEEPING**

1. To find out the result of business during the year (i.e. profit or loss)
2. To find out the total amount of capital in the business on particular day.
3. To find out the total amount of assets and liabilities in the business on any particular date.
4. To have a permanent record of all the financial transactions of an organizations for future reference.
5. To prevent and minimize the errors and frauds in an organization.

## **DOUBLE ENTRY SYSTEM OF BOOK KEEPING**

### **SYSTEMS OF ACCOUNTING**

There are various methods of maintaining accounts. These methods or systems are as follows:

1. Indian System
2. English System
3. Cash System

- 1) **Indian System** : - Indian traders have been writing their accounts in Indian language like, Hindi, Marathi and in Dravid languages etc. The accounts are maintained in long books called “Bahis” and the system is known as “Bahikhata”. This system was known as Deshinama system or Mahajani System”. Though this system records double records double effects of the transactions, importance is not given to cash transactions.
  
- 2) **English System:** - English system of book keeping is adopted by modern large business organizations. This system is classified as
  - a) Single Entry
  - b) Double Entry
  
- a) **Single Entry:** - In this system only the personal accounts and cash accounts are maintained and impersonal accounts are ignored. Hence this system failed to write the complete effects of the business transactions.
  
- b) **Double Entry System:** - The double entry system is the most popular and scientific methods of maintaining the accounts of the business. Under this system, double effects of the business transactions are recorded. As per the double entry system, each business transactions have two effects or two aspects. The double effects of the business transactions to recorded in the form of debit and credit.

Therefore, double entry system can be defined as it is the system of recording the double effects of the business transaction in the form of accounts in the order of debit and credit with equal value.

### **CLASSIFICATIONS OF ACCOUNTS**

As per the double entry system, the double effects or aspects of business transactions are recorded in the form of accounts. In other words, two aspects of business transactions are converted into accounts.

Eg: - Sold goods for cash Rs.20, 000

In the above example there are two different aspects, one aspect is cash (which comes in) another is goods (which goes out). These two aspects are presented in the form of Accounts as

- a) Cash Account
- b) Goods Account

Once, we find the accounts involved are in the transactions then; these accounts are to be classified, to find out the debit and credit aspects.

**The accounts may be classified as under:**

1. Personal Accounts
2. Impersonal Accounts

The Impersonal Accounts are further classified as:

1. Real or Property Accounts
2. Nominal Account or Fictitious Accounts

To remember in a simple way accounts may be of three types:

1. Personal Accounts
2. Real Accounts
3. Nominal Accounts

- 1) **Personal Accounts:** - These are the accounts of individuals, firms, companies, local bodies, etc, with whom business deals. These are the accounts of persons.

Eg, 1. Ram`s account, Agnel `s A/C (these are natural personal accounts)

Eg, 2. Dena bank A/C, Fr. Agnel H.S.S.'S A/C Dempo co`s A/C (These accounts are artificial personal accounts)

Eg,3. Debtors A/C, Creditors A/C, Outstanding Expense A/C, Outstanding Income A/C. (These accounts are Representative Personal Accounts).

2) **Impersonal Accounts:** - These accounts are the accounts of properties or things and expenses or losses and incomes and gains. these accounts are classified as –

**a) Real Accounts**

These are the accounts of properties or things or assets of business organizations.

Eg, 1. Goods A/c, Building A/c, Cash A/c, Furniture A/c.

These are Tangible Real Accounts – which can be seen, touched, felt or measured.

Eg, 2. Patent's A/c, Goodwill A/c, Copyrights A/c.

These are Intangible Accounts – which cannot be seen and touched.

**b) Nominal accounts**

These accounts are the accounts of expenses, or, losses and income and gains of businessmen. These accounts are called as fictitious accounts.

E.g., 1. Advertisement A/c, Salary paid A/c, Travelling Exp. A/c, Discount allowed A/c.  
These are expenses or losses account.

Eg, 2. Discount received A/c, Interest received A/c, Commission received A/c.

These accounts are Incomes and Gains account.

**DEBIT AND CREDIT RULES OF ACCOUNTS**

Under double entry system of book keeping both the aspects of the business transactions are recorded. Both these aspects of a transaction are in the opposite direction. Hence out of the two aspects or two accounts involved in the transactions one account is to be given debit and another is to be given credit. The debit and credit terms are used to write the double effects of the business transactions.

The debit and credit rules of each kind of accounts are different from other.

The debit and credit rules of different kinds of accounts given below:

Kind of accounts	Debit and credit rules
1. Personal account	Debit the receiver Credit the giver
2. Real account	Debit what comes in Credit what goes out
3. Nominal accounts	Debit expenses and losses Credit incomes and gains

### Illustration:-

From the following transactions find out the accounts involved and classify them into personal, real and nominal accounts. Also find out the debit and credit aspects with reasons.

2012

- April 1 Mr. Anil started business with cash Rs. 1, 00,000
- April 2 Purchased goods for cash Rs. 25,000
- April 5 Sold goods for cash Rs. 10,000
- April 7 Bought goods from Mr. Anish worth Rs. 10,000 on credit
- April 9 Sold goods to Mr. Peter worth Rs. 7000 on credit
- April 15 Received for commission Rs. 2000
- April 18 Paid for office salary Rs. 12,000
- April 20 Paid to Mr. Anish Rs. 3000
- April 22 Received from Mr. Peter Rs. 2000
- April 25 Withdrawn cash for personal use Rs. 1000
- April 26 Returned goods to Mr. Anish worth Rs. 1500
- April 27 Returned goods by Mr. Peter Rs. 1200
- April 28 Purchased office furniture Rs. 20,000
- April 29 Paid for office rent Rs. 6000 to Mr. Satish
- April 29 Opened an account with Dena Bank by depositing cash Rs. 5000
- April 30 Withdrawn cash from bank Rs. 2000
- April 30 Paid for advertisement by cheque Rs.500



Date of transactions	Accounts involved	Kind of account	Account debited	Account credited	Reasons for debit and credit
2012 April 1 b)	a) Cash a/c Capital a/c	Real a/c Personal a/c	Cash a/c -----	----- Capital a/c	Debit what comes in Credit the giver
April 2	a) Cash a/c b) Goods a/c	Real a/c Real a/c	----- Goods a/c	Cash a/c ----- -	Credit what goes out Debit what comes in
April 5	a) Cash a/c b) Goods a/c	Real a/c Real a/c	Cash a/c -----	----- - Goods a/c	Debit what comes in Credit what goes out
April 7	a) Goods a/c b) Anish's a/c	Real a/c Personal a/c	Goods a/c -----	----- Anish's a/c	Debit what comes in Credit what giver
April 9	a) Goods a/c b) Mr. peter's a/c	Real a/c Personal a/c	----- Peter's a/c	Goods a/c -----	Credit what goes out Debit the receiver
April 15	a) Cash A/c b) Commission A/c	Real A/c Nominal A/c	Cash A/c -----	----- - Commissio n A/c	Debit what comes in Credit the incomes and gains
April 18	a) Salary A/c b) Cash A/c	Nominal A/c Real A/c	Salary A/c -----	----- Cash A/c	Debit Exp. And losses Credit what goes out
April 20	a)Anish's A/c b) Cash A/c	Personal A/c Real A/c	Anish's A/c -----	----- Cash A/c	Debit the receiver Credit what goes out
April 22	a)Cash A/c b) Peter's A/c	Real A/c Personal A/c	Cash A/c -----	----- Peter's A/c	Debit what comes in Credit the giver
April 25	a)Cash A/c b) Drawing's A/c	Real A/c Personal A/c	----- Drawing's A/c	Cash A/c ----- --	Credit what goes out Debit the receiver
April 26	a)Goods return A/c b) Anish's A/c	Real A/c Personal A/c	----- Anish's A/c	Goods return A/c -----	Credit what goes out Debit the receiver
April 27	a)Goods return A/c b) Peter's A/c	Real A/c Personal A/c	Goods return A/c -----	----- - Peter's A/c	Debit what comes in Credit what goes

					out
April 28	a) Furniture A/c b) Cash A/c	Real A/c Real a/c	Furniture A/c ----- -----	----- - Cash A/c	Debit what comes in Credit what goes out
April 29	a) Rent A/c b) Cash A/c	Nominal A/c Real A/c	Rent A/c -----	----- Cash A/c	Debit expenses & losses Credit what goes out
April 29	a) Dena Bank A/c b) Cash A/c	Personal A/c Real A/c	Dena Bank A/c -----	----- Cash A/c	Debit the receiver Credit the giver
April 30	a) Cash a/c b) Bank A/c	Real a/c Personal a/c	Cash a/c ----- --	----- Bank A/c	Debit what comes in Credit the giver
April 30	a) Bank A/c b) Advertisement A/c	Personal A/c Nominal A/c	----- Advertisemen t A/c	Bank A/c -----	Credit the giver Debit Expenses & Losses

# JOURNAL

## INTRODUCTION:

In double entry system of Book Keeping, mainly there are five stages. It may be called as accounting Process. Those five stages are:-

1. Recording all the transactions in a book i.e Journal and in sub-division of Journal.
2. Preparation of ledger account.
3. Balancing of ledger account.
4. Preparation of a Trial balance.
5. Preparation of financial Statements.

## Sources of Documents

Business transactions are to be recorded in the books of accounts on the basis of certain documentary evidence. They are called as supporting – documents of business transactions. The following are some of the sources of documents.

1. **Cash Memo:** When goods are sold or any assets are sold for cash the business concern receives cash and gives cash memo which provides detailed information about the cash transaction.
2. **Invoice or Bill:** This document is prepared when business unit purchased goods or sold goods on credit. Invoice or bill gives the details of goods purchased or sold on credit. The original invoice is sent to the customers.
3. **Receipts:** This document acknowledges the payment or receipt of money. It is always prepared in duplicate or with counterfoil. The one who pays money gets the original copy of the receipts. The duplicate copy or the counterfoil is the basis of record.
4. **Cheque:** Cheque is an instrument in writing signed by the drawer directing the bank to pay certain sum of money to or to the order of a third person or to the bearer. A separate page is provided in the cheque book on which the drawer enters the details.
5. **Pay-in-slip:** This is used for depositing money in the bank. Counterfoil of the slip gives the detail of deposit of money in the bank.

## 6. Debit Note and Credit Note:

**Debit Note:** It refers that a debit has been given in our books of accounts to the Personal account to whom it has been sent.

**Credit Note:** It refers that a credit has been given in our books of accounts to the Personal account to whom it has been sent.

### MEANING AND DEFINITION OF JOURNAL:

'Journal' is derived from the French word 'Jour' which means a day. Thus, Journal means "a daily record" Journal is the book where in all the transactions are first recorded. It is a book of "Original entry" or "Primary entry" All the transactions are first recorded in this book in the order of date, and subsequently posted in the ledger.

#### Form of a Journal

Date	Particulars	Voucher No.	LF	Debit Rs		Credit Rs

Recording of Transactions in the Journal is called as journalizing the transactions.

## STEPS IN JOURNALIZING THE TRANSACTIONS:

1. Find out the different accounts involved in the transactions; and ascertain class or kind of each account.
2. Find out the account debited and account credited by applying the debit and credit rules of account.
3. Write in the Journal the account which is debited being first item, and write the account credited below the account which is debited is written with the word "TO" (in the particular column of journal).
4. Narration: It is the brief explanation about the Particular transactions, which is to be written below the account credited, is written in the Journal.

From the following transactions, pass the journal entries in the books of Mr. Praveen.

2012

Jan 1 Mr. Praveen started business with cash Rs. 1, 20,000

Jan 3 Bought goods for cash Rs. 40,000

Jan 5 Sold goods for cash Rs. 15,000

Jan 7 Purchased furniture for office Rs. 12,000

Jan 8 Paid for wages Rs. 500

Jan 10 Paid for office salary Rs. 6000

Jan 15 Received commission Rs. 1200

Jan 17 Purchased goods from Mr. Devid on credit Rs. 10,000

Jan 18 Sold goods to Mr. Abdul on credit Rs. 7000

Jan 19 Withdrawn cash from the business for personal use Rs. 1800

Jan 20 Paid to Mr. Devid Rs.2000

Jan 25 Returned goods to Mr. Devid worth Rs. 1300

Jan 28 Received from Abdul Rs. 4000

Jan 29 Mr. Abdul returned goods worth Rs. 1000

### Journal of Mr. Praveen

Date	Particulars	Vo. No.	L/F	Debit	credit
2012 Jan 1	Cash A/c ----- Dr To capital A/c (Being started business with cash)			1,20,000	1,20,000
Jan 3	Purchases A/c-----Dr (goods A/c) To cash A/c ( Being bought goods for cash)			40,000	40,000
Jan 5	Cash A/c-----Dr To sales A/c( Good`s A/c) (Being goods sold for cash)			15,000	15,000
Jan 7	Furniture A/c----- Dr To cash A/c (Being bought furniture for cash)			12,000	12,000
Jan 8	Wages A/c-----Dr To cash A/c ( Being paid for wages)			500	500
Jan 10	Salaries A/c -----Dr To cash A/c ( Being paid for salaries)			6000	6000
Jan 15	Cash A/c-----Dr To commission A/c ( Being received for commission)			1200	1200
Jan 17	Purchases A/c -----Dr. To Mr. Devid A/c ( Being bought goods on credit )			10,000	10,000
Jan 18	Abdul`s A/c-----Dr To sales A/c ( Being sold goods on credit)			7000	7000

Jan 19	Drawing's A/c -----Dr To cash A/c ( Being withdrawn for personal use)	1800	1800
Jan 20	Devid's A/c-----Dr To cash A/c ( Being paid to Mr. Devid)	2000	2000
Jan 25	Devid's A/c-----Dr To purchases Returns A/c ( i.e goods return A/c) (Being returned goods to Mr. Devid)	1300	1300
Jan 28	Cash A/c -----Dr. To Abdul's A/c ( Being received from Abdul)	4000	4000
Jan 29	Sales Return A/c-----Dr To Abdul's A/c (Being Mr. Abdul returned goods)	1000	1000

### COMBINED OR COMPOUND JOURNAL ENTRIES

Sometimes we find more than two accounts in a journal entry or two or more transactions of similar nature may take place on the same day. In such case, only one journal entry can be passed of similar transactions. Such type of journal entry is called as combined journal entry. In a combined journal entry, either there may be two or more accounts will be debited or two or more accounts may be credited.

**The following example will make you to understand the combined entry.**

1. Started business with cash Rs. 1, 50,000 and with goods Rs. 50,000.

The above transactions can be read as

- a) Started business with cash Rs. 1,50,000

Journal entry is

Cash A/c -----Dr	1, 50,000	
	To capital A/c	1, 50,000

- b) Started business with goods Rs. 50,000

Journal entry is

Goods A/c-----Dr	50,000	
	To capital A/c	50,000

The above two entries can be shown in combined entry as

Cash A/c-----Dr	1, 50,000	
Goods A/c-----Dr	50,000	
	To capital A/c	2, 00,000

(Being started business with cash and goods)

## DISCOUNT

Discount is an incentive given by the seller to buyer. Discount may be of two types...

- 1) Trade Discount
- 2) Cash Discount

- 1) **TRADE DISCOUNT:** -- It is an allowance given by the wholesaler to the retailer. Trade discount helps the retailer to fix the price to earn his margin of profit.

**Accounting treatment:** - Since the trade discount is already deducted in the invoice, trade discount will not appear in the books of accounts.

However, the journal entry of the transactions with trade discount should be passed with the net amount of goods sold or bought.

Eg, 1) Sold goods to Mr. Anil worth Rs. 5000 @ 2% trade discount.

Journal entry:- Anil`s A/c ----Dr	4900
	To sales A/c
	4900



Eg, 2) Bought goods from Mr. Arun worth Rs. 10,000 @ 5% T.D.

Journal entry:- purchases A/c -----Dr	9500
To Arun`s A/c	9500

**2) CASH DISCOUNT: -** It is an incentive given by the seller or the receiver to the buyer or the debtor to recover the debts earlier. Cash discount may be allowed (on receipt of cash) or received (on payment of cash).

The following examples, shows the accounting treatment of cash discount

Eg, 1) Received from Mr. Anil Rs.4800 in full settlement of his account with Rs.4900

Journal entry: - cash A/c----Dr	4800
Discount allowed A/c	100
To Anil`s A/c	4900

Eg, 2) Paid to Mr. Arun Rs. 9300 in full settlement of his account with Rs. 9500

Journal entry: - Arun`s A/c-----Dr	9500
To cash A/c	9300
To Discount Allowed A/c	200

Illustration: - Journalise the following transactions in the books of Mr. Agnel.

2012

- April 1 Mr. Agnel started business with cash Rs. 2, 00,000 and with bank balance Rs. 50,000
- April 3 Purchased goods from Mr. Sunil worth Rs. 10,000 @ 2% T.D.
- April 5 Sold goods to Mr. Abdul worth Rs. 8000 @ 5% T.D.

- April 9 Paid for office rent by cheque Rs.8000
- April 20 Received from Abdul RS. 4000
- April 25 Bought furniture for office use for Rs. 20,000
- April 26 Cash purchases Rs. 50,000
- April 27 Cash sales Rs. 30,000
- April 28 Received from Abdul Rs. 3450 in full settlement of his account with Rs. 3600
- April 28 Withdrawn for bank for personal use Rs.3000
- April 29 Paid for stationary Rs.200 and wages Rs.300
- April 29 Paid to Sunil Rs. 9700 in full settlement of his account with Rs. 9800
- April 30 Bought goods for cash Rs. 15000 @ 2% discount
- April 30 Sold goods for cash Rs. 10,000 @ 3% discount

### Journal of Mr.Agnel

Date	Particulars	L/ F	Debit	Credit
2012				
April 1	Cash A/C-----Dr Bank A/c-----Dr. To capital A/c (Being started busi. With cash and bank balance)		2,00,000 50,000	2,50,000
April 2	purchases A/c -----Dr To Sunil`s A/C (Being bought goods on credit @ 2% T.D/)		9800	9800
April 5	Abdul`s A/c-----Dr To sales A/c (Being sold goods on credit @ 5% T.D.)		7600	7600

April 9	Office rent a/c -----Dr To Bank A/c (Being paid for off. Rent by cheque)	8000	8000
April 20	Cash A/c-----Dr To Mr. Abdul`s A/c (Being received cash)	4000	4000
April 25	Office rent A/c-----Dr To cash A/c (Being bought furniture for off. Use)	20,000	20,000
April 26	Purchase A/c -----Dr To cash A/c (Being paid for purchases)	50000	50000
April 27	Cash A/c -----Dr To sales A/c (Being received for sales)	30000	30000
April 28	Cash A/c-----Dr Discount allowed A/c To Abdul`s A/c (Being received from Abdul in full settlement of his account)	3450 150	3600
April 28	Drawing`s A/c-----Dr To bank A/c (Being withdrawn from bank for personal use)	3000	3000

April 29	<u>Stationary A/c-----Dr</u>	200	
	Wages A/c -----Dr	300	
	To cash A/c		500
	( Being paid for stationary and wages)		
April 29	<u>Sunil's A/c</u>	9800	
	To cash A./c		9700
	To discount received		100
	A/c (Being paid to Mr. Sunil in full settlement of his account)		
April 30	<u>Purchases A/c -----Dr</u>	15000	
	To cash A/c		14700
	To discount received		300
	A/c ( Being bought goods for cash @ 2% discount)		
April 30	<u>Cash A/c-----Dr</u>	9700	
	Discount allowed A/c-----	300	
	Dr		10,000
	To sales A/c		
	( Being sold goods for cash @ 3% discount)		
		4,21,300	4,21,300
	<u>                    Total</u>		