

NMBC

Unit : I

According to American Institute of Certified Public Accountants (AICPA)

"Accounting is the art of recording, classifying and summarising in a significant manner and in terms of money transactions and events which are of a financial character, and interpreting the results thereof."

Significance / Nature of Accounting:

- ① Recording,
- ② Classification
- ③ Summarising
- ④ Significant manner.
- ⑤ In terms of money.
- ⑥ Transactions & events of financial nature.
- ⑦ Interpreting the results.

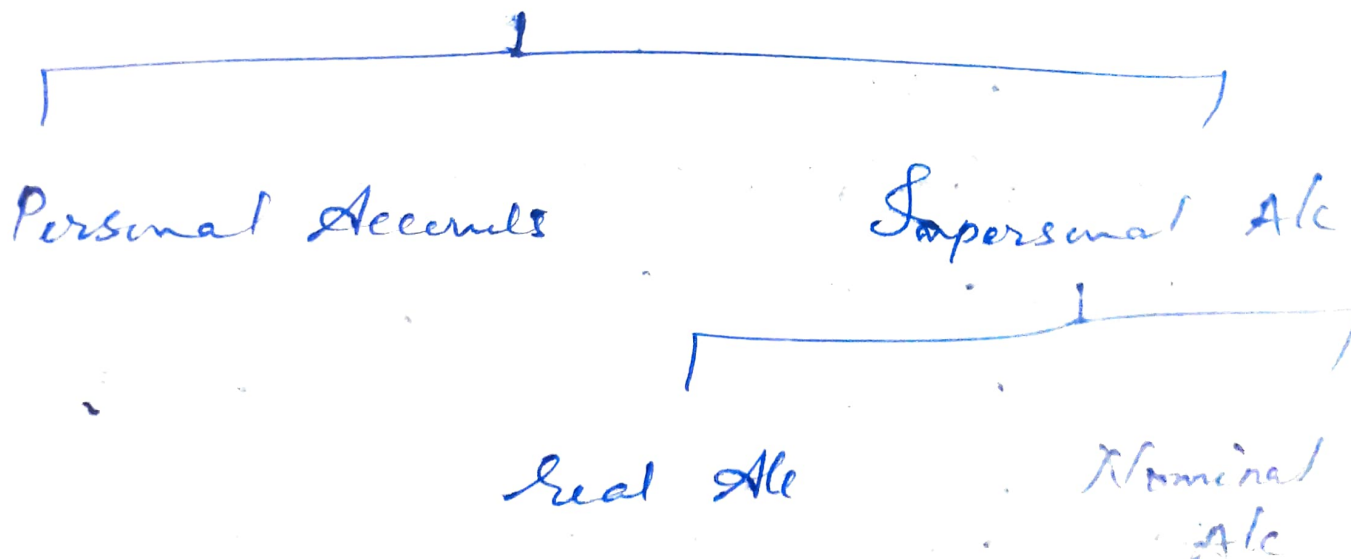
Book keeping:-

- recording of business transactions in a systematic manner.
- mechanical & repetitive nature.
- Doesnot need specialised skill & knowledge.

Objectives of Accounting:-

- ① Maintenance of Accounting records.
- ② Ascertainment of profit & Loss.
- ③ Depiction of financial position
- ④ Providing Information
- ⑤

Types of Accounts:-



Personal Accounts:

Accounts of persons with whom the business has dealings are known as personal accounts.

Natural persons / Artificial persons / Legal Bodies / Representative personal accounts.

Real Accounts:

Accounts in which the business records the real things owned by it.

Tangible real accounts / Intangible real accounts.

Nominal Accounts:

It relates to the items which exist in name only.

Expenses / Incomes / Gain / Losses.

Unit : II

Methods of Accounting :

Single entry system

Double Entry System

Single Entry System :

Under this system only the personal accounts of the debtors & creditors & cash book of the trader are maintained.

Impersonal Accounts & Assets are ignored.

Double Entry System :

Every transaction has two aspects.

One is benefit receiving aspect &

the other one is benefit giving aspect.

The benefit receiving aspect is said to be a 'debit', & the benefit giving aspect is said to be a 'credit'.

Advantages of Double Entry System:

- ① Complete record.
- ② Ascertainment of profit & Loss.
- ③ Knowledge of financial position.
- ④ Accuracy of Accounts.
- ⑤ No scope for fraud.
- ⑥ Tax authorities
- ⑦ Amount due from customers.
- ⑧ Amount due to suppliers.
- ⑨ Comparative study.

Disadvantages of Double Entry System:

- Maintenance of a number of books
- The system is costly to maintain
- No guarantee of absolute accuracy of the books.

Rules of Double Entry System.

Personal Accounts:

Debit the receiver.

Credit the giver.

Real Accounts:

Debit what comes in.

Credit what goes out.

Nominal Accounts:

Debit all expenses & losses.

Credit all incomes & gains.

Journal:

Journal is a book of Primary entry (or) original entry. All transactions are initially recorded in the Journal.

Specimen :-

Journal

Date	Particulars	L.F	Debit Amt (Rs)	Credit Amt (Rs)

Unit : III

Subsidiary Books.

These subsidiary books are also known as books of original entry because, transactions are first recorded in these books to be subsequently transferred to their respective accounts in the ledger.

Subsidiary Books comprise of the following:

- Purchase Book /
- Sales Book /
- Purchase return. Book /
- Sales return. Book. /
- Cash book /
- Bills receivable book /
- Bills payable Book.

General Journal. to record other transactions which cannot be entered in the above specialised books.

Purchase book:

Known as Bought book / purchase day book / Invoice book / purchase Journal.

① All credit purchases of goods are recorded.

② ~~Credit~~ ^{Cash} purchase of goods & credit (or) cash purchase of Assets are ignored.

③ Inward Invoices received from suppliers, duly verified, form the basis for entries in purchase book.

Sales book:

Day book / sales day book / sold book / sales Journal.

① All credit sales of goods.

② cash sales of goods & credit sales of Assets are ignored.

purchase return book:

Returns outward book / Purchase returns Journal.

① Goods returned to suppliers which ~~are~~ were originally purchased on credit are recorded.

② Debit notes sent by the firm to the suppliers when goods are returned form the basis for entries in this book.

Sales return book:

Returns inward book / Sales returns Journal.

① Goods returned by customers which were originally sold on credit are recorded.

② Credit notes sent to the customers after receiving the goods returned by them form the basis of entries in this book.

Format:

Purchase Book

Date	Name of the Supplier	L.F	Inward Invoice No	Details	Amt

Sales Book

Date	Name of the Customer	L.F	Outward Invoice No	Details	Amt

Purchase return Book

Date	Name of the Supplier	Debit note	L.F	Amt

Sales return Book

Date	Name of the Customer	Credit note	L.F	Amt

Unit : IV

Ledger :

- All recorded transactions are grouped on a predetermined basis.

- A summary statement of all the transactions relating to a person ~~asset~~ asset, expense, income which have taken place during a given period of time & shows their net effect.

Format

Raman's A/c

Date	Particulars	Amt	Date	Particulars	Amt
	To Sales A/c	500			
<u>Sales Account</u>					
Date	Particulars	Amt	Date	Particulars	Amt
				Raman A/c	500

Balancing of Ledger Accounts:

It is customary to balance all ledger A/c at the end of an accounting year.

Balancing is done as follows:

- ① Both sides of an account are totalled separately.
- ② Difference between the totals of both sides is ascertained.
- ③ The difference is entered on the side on which the total is short. In the column 'balance, c/d' is written.
- ④ If the left hand side of an account is more it is called 'Debit balance'. It is written on the right hand side as 'By Balance c/d'. If the right hand side is more, it is termed as 'Credit balance'. It is written on the left hand side as 'To Balance c/d'.

⊛ Balances of accounts for expenses, incomes, sales purchases etc, are transferred to Trading & P&L ac.

Balance in personal & real accounts are carried forward to the next year, by carrying the balances down.

Balance old from debit side appears on the credit side & Balance old and vice versa.

Trial balance

A statement containing the balance of all ledger accounts as at any given date arranged in the form of debit & credit columns placed side by side & prepared with the object of checking the arithmetical accuracy of ledger postings.

— M. S. GOSWAMI

Objectives :

- To Avoid Arithmetical errors.
- To have balances of all the accounts of Ledger.
- To have a proof of each transaction.
- To have material for preparing the P&L and balance sheet.
- Can compare two (or) more years.

Limitations :-

- Very costly & cannot adopted by the small concerns.
- There are certain errors which are not disclosed by trial balance.
- If trial balance is not prepared correctly then the final accounts prepared will not reflect the true & fair view.

Preparation of trial Balance

- ① total method.
- ② balance method.

format

S. No	Name of the Account	Dr Amt	Cr Amt

Unit 15

Final Accounts :-

Preparation of final accounts is the last step in the ~~accounting~~ accounting cycle. Final accounts include a number of accounts...

i.e., Trading Account / Profit & Loss Account, Balance Sheet.

Once the trial balance is extracted and errors rectified a trader prepares the final accounts so as to know the final results, and financial position of his business.

Trading Account & Profit and Loss account are prepared by transferring from the trial balance, all nominal accounts and all remaining accounts real & personal accounts pertaining to property, Assets, debtors, & creditors. are just shown in Balance Sheet.

Trading Account

Op. Stock
Purchase.
(-) returns
Wages
Freight
Carriage Inwards
Clearing charges
Dock dues
Power (factory)
Octroi duty
Fuel & oil
Gross profit c/d xx

xxx

Sales
(-) return
Closing Stock

Gross loss c/d xx

xxx

Profit & Loss A/c

Gross Loss b/d.

- Salaries
- rent & rates
- Stationeries
- Postage
- Insurance
- repairs
- Trading Expenses
- office Expenses
- Interest paid
- Bank charges
- Sundry Expenses

Gross profit b/d

- Commission earned
- rent received
- Interest received
- Discount received

Net profit c/d xx

xxx

Net Loss b/d. xx

xxx

