

The background features several stylized sun icons. One is a simple yellow silhouette in the top left. Another is a metallic, reflective sun with a human-like face in the middle left. A third is a yellow silhouette in the bottom left. A horizontal band with a wavy, textured pattern in shades of yellow and orange runs across the middle of the slide.

PRINCIPLES OF ACCOUNTING

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What it is all about ?





Flow

- ★ Definition of accounting
- ★ Double entry system
- ★ Assumptions
- ★ Glossary
- ★ Types of accounts
- ★ Accounting rules
- ★ Journal entries
- ★ Trial balance
- ★ Profit & Loss a/c
- ★ Balance sheet
- ★ Q & A



What is accounting?

- ★ American Institute of Certified Public Accountants defines accounting as
- ★ **Accounting is an art of regulating, 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**
- ★ **In short – Record, Classify, Regulate and interpret in terms of money.**



Principles of Accounting

- ★ **DOUBLE ENTRY** –each transaction with double impact i.e. it affects two sides.
- ★ E.g. Furniture purchased – depletion of cash and addition to asset.
- ★ Loan repaid by the company– depletion of cash and reduction in loan.
- ★ Salary paid by the company –Expenditure increased and cash balance decreased.
- ★ Goods sold – goods out and cash in. Income increased and goods decreased.



Accounting terminologies

- ★ **Asset** – what the business **owns**. E.G. Land, Building, Machinery, Furniture etc
- ★ **Liability** – what the business **owes** . E.g. Loans, Capital etc
- ★ **Capital** – money owned by the promoter of the business.
- ★ **Income** – money received for the goods and services sold
- ★ **Expenses** – money paid for wages, power, fuel, salary, transport etc
- ★ **Debtors** - one who owes money to the company. purchaser of goods from the company.
- ★ **Creditors** – one who has to receive money from the company. E.g. supplier of goods to the company



GLOSSARY

- ★ **Capital receipt** –capital, debentures etc
- ★ **Revenue expenditure** –amount spent for producing goods/services . E.g. salary,rent.RM etc
- ★ **Provisions** - amount due but not paid or received before closing the books. E.g. Rent for march not paid.
- ★ **Net worth(owners' funds)**- capital +Free reserves
(Free reserve represents accumulated profits over a period)





Assets (what business owns)



★ **Current assets** – convertible in to cash with in one year from the date of balance sheet.
E.g. raw material, work in process , finished goods, debtors etc



★ **Fixed assets** – E.g. land & building, machinery, furniture etc



★ **Intangible assets** – E.g. Good will, Trade marks etc



Liabilities (what business owes)

- ★ **Current liability** – amount falling due within one year from the date of balance sheet. E.g. creditors, bank overdraft, tax provisions.
- ★ **Long Term liability** – amount falling due beyond one year. E.g. Debentures, Term loans from bank etc
- ★ **Capital & reserves** (reserves represent accumulated profits made over a period of times)
Capital represents owner's funds.
E.g. Infosys stated in 1982. Profit made & accumulated (after distributing dividends) till date and retained in the business.





Capital & Revenue Expenditure

CAPITAL	REVENUE
Large amount	Relatively small
Improve or enhance earning capacity	Maintain asset
Long duration benefit	Short duration
Non- recurring	recurring
Balance sheet item	Trading /P & L A/c item



Cap. & Rev. Expenditure-Examples

(1) Cost of replacement of defective parts of the machinery is

- a. Capital expenditure
- b. Revenue expenditure
- c. Deferred revenue expenditure
- d. None of the above

(2) Loss of goods due to fire Rs.8000 is a revenue expenditure because----

- a. It is recurring
- b. Amount involved is small
- c. Loss is arising out of business operations
- d. None of the above



Cap. & Rev. Expenditure-Examples

(3) Expenditure incurred in acquiring the patents rights for the business is an example of ----

- a. Capital expenditure
- b. Deferred revenue expenditure
- c. Revenue expenditure

(4) Professional fees paid in connection with acquisition of leasehold premises is----

- a. Capital expenditure
- b. Deferred revenue expenditure
- c. Revenue expenditure



Deferred Revenue expenditure

★ Expenditure incurred in one year , but benefit of which is accruing not in one year but following two or more years , then such expenditure is called as Deferred Revenue expenditure

★ Examples

- Heavy advertisement exp.
- Issue of capital expenses
- Preliminary expenses



adjustments

- ★ Outstanding income – Rent due but not received for March. (from the point of land lord)
- ★ Outstanding expenses – Salary not paid for March.
- ★ Income received in advance – advances received from customer to supply goods.
- ★ Prepaid expenses – Insurance paid for for March & April.
- ★ Depreciation on assets - ***Depreciation*** – *loss in the value of asset due to wear and tear.*



Reporting conventions

- ★ **Conservative concept** – provide for all anticipated losses but not for profits
- ★ **Accounting period** – business results are to prepared periodically – Qly/Hly/Yly etc
- ★ **Consistency concept** – consistency in accounting policy to be followed.
- ★ **Substance over form** – proper disclosures rather than sticking to prescribed legal format.



PRINCIPLES OF ACCOUNTING – Types of a/cs

- * Real a/c – accounts relating to Asset & Liability –
e.g. furniture, machinery, loans, capital**
- ★ Personal a/c– in the name of persons –**
- ★ Nominal a/c – Income & expenditure**
- ★ Income – sales & profit etc**
- ★ Expenditure - salary, purchases etc**
- ★ Profit = income > expenses**
- ★ Losses = expenses > income**



Principles of accounting – Work rule

TYPE OF A/C	DEBIT	CREDIT
REAL A/C	RECEIVER BENEFIT IN What comes in	GIVER – BENEFIT OUT What goes out
PERSONAL A/C	RECEIVER	GIVER
NOMINAL A/C	EXPENSES.& LOSSES	INCOME & PROFIT



Real account

- ★ **Accounting rule – debit the receiver and credit the giver.**
- ★ **E.g. Furniture purchased with cash**
- ★ **Debit the furniture (receiver of the benefit or receiver of the benefit)**
- ★ **Credit the cash (Credit the giver or giver of the benefit)**



Personal account

- ★ **Accounting rule – Debit the receiver and credit the giver**
- ★ Goods sold to X i.e. goods sold first and cash will be received subsequently. Until then X will remain as debtor(one who has to pay to the money company). X is the name of a person,
- ★ E.g. Debit X a/c (Receiver)
- ★ Credit sales a/c (Giver)



Nominal account

- ★ **Accounting rule – Debit – expenses & losses. Credit – income & profit**
- ★ **Salary paid (expenditure fro the company) – Debit**
- ★ **Goods sold (income for the company) - Credit**



Assumptions

- ★ **Business entity concept** – ownership is separate from business. That is why owner's capital is treated as liability.
- ★ **Money measurement** – transactions of monetary value are to be recorded.. Money is a common measure to measure all heterogeneous items (asset/liability) in the financial statements



Assumptions

- ★ **Cost concept** - transactions are recorded at acquisition price. E.g. purchase of building. Cost of acquisitions to be recorded
- ★ Exceptions – valuation of current assets such as raw material , finished goods etc. Market price or cost price which ever is lower.



Assumptions

- ★ **Going concern concept** - it means company is having perpetual entity. It is important to show all assets and liabilities at book value. Otherwise at realizable value which will create problem supplier of goods, employees, lenders etc to have long term relationship.
- ★ **Accrual system of accounting.** Income or Expenditure to accounted during period to which it relates. E.g. rent for March is not paid at the tome of closing accounts. So, it should be accounted in the same financial year and not in the next financial year.
- ★ .



Assumptions

- ★ **Dual aspect** – every transaction has dual or two fold effect and therefore it should be recorded at two places
- ★ **Matching concept** – expenses incurred in accounting period should be matched with revenues during that period. It is because the revenue and expenses incurred to earn these revenue must belong the same accounting period.
- ★ **Objectivity** – accounting transactions to be recorded with out any bias of accountants and others



Principles of accounting

Journal entry



- ★ Each transaction – entry to be passed
- ★ Debit to one & credit to another a/c
- ★ Posting to respective ledger a/cs of books
- ★ Books to be maintained – sales ,
purchase, debtors, creditors, machinery, salary,
commission, rent cash, bank etc
- ★ Balance to be arrived at the end of accounting
period. **Debit side of ledger a/c > credit side it is
Debit balance and vice versa.**



System of recording – Journal entry

★ **Furniture purchased** –

★ Furniture a/c (Dr) – Real a/c

★ To cash a/c (Cr) - Real a/c

★ **Salary paid** –

★ Salary a/c (Dr) – Nominal a/c

★ To cash a/c (Cr) – Real a/c

★ **Goods sold** –

★ Cash a/c (Dr) - Real a/c

★ To sales a/c (Cr) – Nominal a/c



DR				CR			
DATE	PARTICULARS	J.F	AMOUNT (RS)	DATE	PARTICULARS	J.F	AMOUNT RS.



Cash book account (asset – real)

★ Debit(receipt)

★ Opening balance 100

★ Sales 200

★ Interest 50

★ Total 350

★ Credit (payment)

★ Furniture purchased 50

★ Salary paid 20

★ Rent paid 20

★ Closing balance 260

★ Total 350



Furniture account asset- real)

★ Debit

★ Opening balance 500

★ Purchases 50

★ Total 550

★ Credit

★ Sale of old 20

★ Closing balance 530

★ Total 550



Salary account (nominal)

★ Debit

★ Salary – April 1000

★ “ May 1500

★ “ June 1100

★ Total 3600

★ Credit

★ Transferred to TB 3600

★ Total 3600



Sales account (nominal)

★ Debit

★ Sales returns 1000

★ Tr to TB 12000

★ Total 13000

★ Credit

★ Sales to X 1000

★ Sales to Y 3000

★ Sales to A 5000

★ Sales to B 4000

★ Total 13000



Debit and credit balance



★ Debit balances means
DR side > CR side

★ Normally following
items will always
show DR balances

★ Assets

★ Expenses

★ Losses



★ Credit balances means
CR side > Dr side

★ Normally following
items will always
show CR balances

★ Liability

★ Income

★ profit



Principles of accounting – Trial balance

- ★ Summary of all ledger balances
- ★ Prepared periodically(monthly/quarterly/Half yearly)
- ★ Debit or credit balance of ledger balance transferred to trial balance
- ★ Both the sides (Dr & Cr) should tally/match
- ★ To check arithmetical accuracy
- ★ Serves as basis for preparing profit & Loss a/c.



TRIAL BALANCE

	DEBIT	CREDIT
Capital (L)		1000
Loans (L)		500
Machinery (A)	300	
Building (A)	200	
Stock (A)	100	
Sales (Income)		1500
Purchases (exp.)	2000	
Salary (exp.)	400	
Total	3000	3000



Principles of accounting – Profit & Loss a/c

- ★ **Statement of Income & Expenditure during a particular period. It reflects whether company is making profit or loss.**
- ★ **Dr.bal. – expenditure & losses(left hand side)**
- ★ **Cr.Bal. – income & profit right hand side)**
- ★ **CR > DR side = Profit**
- ★ **DR > CR side = Loss**
- ★ **It contains revenue – income & expenditure**
- ★ **Transfer of ledger balance after preparation of T/B**
- ★ **Balance of profit/loss transferred to B/S**



Profit & Loss a/c

Debit (expenses)	Credit (income)
Opening stock Purchases Wages Transport expenses Salary Power Repairs and Maintance Depreciation Profit (Cr > Dr)	Sales Other income Closing stock Loss (Dr > Cr)



Principles of accounting – Balance Sheet

- ★ **Statement of Assets & Liabilities**
- ★ **It reflects financial position of business**
- ★ **On a particular date. It reflects how much business owns/owes**
- ★ **Assets** – (Dr balance) – Land, Building, Machinery, Furniture, Debtors, Stock etc
- ★ **Liabilities** –(Cr balance) – creditors, Bank loans, Income tax dues etc.



Balance sheet - VERTICAL FORM

★ **Source of fund (liability)**

★ Capital

★ Reserves

★ Secured loans

★ Unsecured loans

★ **Application of Funds (asset)**

★ Fixed asset

★ Investments

★ Loans & advances

★ Current assets

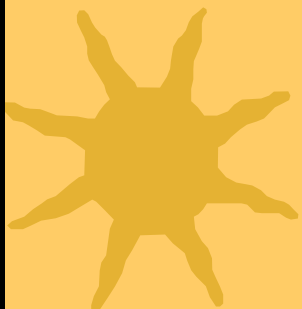
★ Less current liability & Provisions = net current assets

★ Misc.(intangible) – Good will etc



BALANCE SHEET (Horizontal)

LIABILITIES	ASSETS
CAPITAL RESERVES PROFIT BORROWINGS CURRENT LIABILITIES AND PROVISIONS	FIXED ASSETS INVESTMENTS LOANS AND ADVANCES CURRENT ASSETS LOSS INTANGIBLE ASSETS





Principles of accounting - Linkages

- ★ Trial balance, P & L then B/S next.
- ★ **Adjustment entries**
- ★ Depreciation in P&L and deducted from Asset in B/S
- ★ Closing stock – both in P&L and B/S.
- ★ Prepaid income – E.g. advance payment received from customers. P&L and liability side of B.S
- ★ Prepaid expenses - E.g. Insurance paid in advance. P & L and Asset side of B.S.
- ★ Out standing expenses – E.g. Rent for march not paid. P & L and Liability side
- ★ Balance of Profit or Loss transferred to liability side of B/S and if it is loss on asset side.



Questions.

★ CAPITAL ACCOUNT IS LIABILITY OR AN ASSET:

★ A. LIABILITY

★ B. REVENUE

★ C. EXPENSE

★ D. NONE OF THESE.



QUESTION

★ AMOUNT BROUGHT IN BY OWNER IN BUSINESS SHOULD BE CREDITED TO

★ A. Capital a/c

★ B. Reserves a/c

★ C. Asset a/c



QUESTIONS

★ WAGES PAID TO RAJU TO BE DEIBED
TO

★ A. RAJU

★ B WAGES

★ C. CASH

★ D. BANK



QUESTIONS.

- ★ Q. CREDIT SALES MADE TO ROHIT TO BE DEIBTED TO
- ★ A. SALES
- ★ B. PURCHASE
- ★ C. CASH
- ★ D. ROHIT



QUESTIONS

- ★ FURNITURE PURCHASED BY ISSUING CHEQUE
- ★ WHAT ENTRIES TO BE PASSED
- ★ A. DEBIT FURNITURE AND CREDIT BANK ACCOUNT
- ★ DEBIT BANK ACCOUNT AND CREDIT FURNITURE
- ★ DEBIT FURNITURE AND CREDIT CASH.
- ★ DEBIT BANK AND CREDIT FURNITURE SHOP ACCOUNT



QUESTIONS

- ★ RETURN OF GOODS purchased SHOULD BE CREDITED TO
- ★ A. SALES RETURN
- ★ B PURCHASE RETURN
- ★ C.CUSTOMER ACCOUNT
- ★ D. GOODS ACCOUNT



MATCH FOLLOWING

	A		B
A	RAMESH	1	REAL
B	DENA BANK	2	PERSONAL
C	RENT	3	NOMINAL
D	COMPUTER	4	REAL
E	LAND	5	NOMINAL
F	DISCOUNT	6	PERSONAL





QUESTION

- ★ WHAT IS JOURNAL ENTRY
- ★ A. ORIGINAL ENTRY
- ★ B. DOUBLE ENTRY
- ★ C. DUPLICATE ENTRY
- ★ NONE



QUESTION

- ★ PASS JOURNAL ENTRY:
- ★ RENT PAID FOR OFFICE PREMISES RS.30000 OUT OF WHICH PART AMOUNT OF RS.10000 PAID BY CHEQUE AND REST BY CASH.



QUESTION

- ★ PASS JOURNAL ENTRY:
- ★ PURCHASED 100 SHARES OF CENTRAL BANK OF INDIA FOR RS.100 PER SHARE.



QUESTIONS

★ PASS JOURNAL ENTRY:

★ SOLD GOODS TO TENDULKAR RS.15000



QUESTIONS

- ★ PASS JOURNAL ENTRY:
- ★ DRAVID SOLD GOODS FOR RS.12000 TO X ON CREDIT TERMS



QUESTIONS

- ★ PASS JOURNAL ENTRY:
- ★ RECEIVED DUE AMOUNT FROM TENDULAKAR AND ALLOWED HIM DISCOUNT OF 10%



QUESTIONS

★ PASS JOURNAL ENTRY:

★ PAID SALARY AND RENT RS.1200 AND
1500 RESPECTIVELY.



QUESTIONS

- ★ PASS JOURNAL ENTRY:
- ★ KIRAN BECAME INSOLVENT. HE HAD TO PAY 10000 TO US. BUT WE RECEIVED ONLY 25 PAISE A RUPEE.



QUESTION

- ★ PASS JOURNAL ENTRY:
- ★ BOUGHT FURNITURE FROM GODREJ & BOYCE CO. LTD AND PAID BY CHEQUE RS.50000



QUESTION

- ★ PASS JOURNAL ENTRY:
- ★ DEPOSITED CASH IN BANK RS.1000



QUESTIONS

- ★ PASS JOURNAL ENTRY:
- ★ PURCHASED GENERATOR FROM RAMA & CO. RS.50000

Thank You

