

Focus area notes of accountancy 2020-2021– Class 11

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Chapter.1
Introduction to Accounting

Meaning of Accounting

Accounting is the art of recording, classifying, and summarising 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.

Qualitative Characteristics of Accounting Information

1.Reliability : Reliability means the users must be able to depend on the information. Accounting information is considered to be reliable if it is free from bias and faithfully represents the facts.

2.Relevance : The information to be relevant, it must be available in time.

3.Understandability: Understandability means decision-makers must interpret accounting information in the same sense as it is prepared and conveyed to them.

4.Comparability: It means that the accounting reports should be comparable with other firms to identify similarities or differences.

Objectives of Accounting

1.Maintenance of Records of Business Transactions:

Accounting is used for the maintenance of a systematic record of all financial transactions in book of accounts. Moreover, the recorded information enables verifiability and acts as an evidence.

2 Calculation of Profit and Loss:

The most important objective of every business is to earn profit. Accounting helps in ascertaining profit or loss to the enterprise by preparing a profit and loss account.

3 Depiction of Financial Position

Accounting aims at ascertaining the financial position of the business concern in the form of its assets and liabilities at the end of every accounting period.

4 Providing Accounting Information to its Users:

The accounting information generated by the accounting process is communicated in the form of reports, statements, graphs and charts to the users who need it in different decision situations.

Basic Terms in Accounting

Entity **:** Entity means a reality that has a definite individual existence. Business entity means a specifically identifiable business enterprise like Super Bazaar, Hire Jewellers, ITC Limited, etc.

Transaction: A event involving some value between two or more entities. It can be a purchase of goods, receipt of money, payment to a creditor, incurring expenses, etc. It can be a cash transaction or a credit transaction.

Assets: Assets are economic resources of an enterprise that can be usefully expressed in monetary terms. It can be broadly classified into two,**a) Current assets and (b)Non-current assets.**

a) Current assets:

Current assets are those assets which can be converted in to cash within a short period. ie. within one year.

eg. Current Investment, Inventories,Trade receivables(Bills Receivables), cash and cash equivalents, short term loans and advances, other current assets (Accrued income, Prepaid expenses, Debtors,

(b)Non-current assets .

Assets which are acquired for relatively longer periods for carrying on the business are called fixed assets.

Eg: Fixed Assets, Non-Current Investment,Deferred Tax Assets(Net),Long-term loans and advances, other non-current assets .

Fixed Assets includes a) Tangible Assets, Intangible Assets, Capital Work In Progress, Intangible Assets under Development.

Tangible Assets: Assets having definite shape and physical existence are called Tangible Assets.
Eg: Land and Building, Machinery,Furniture,Premises,Fixtures and fittings, etc.

Intangible Assets: Assets having no definite shape and physical existence are called intangible Assets.
Eg:Patent, Trade mark,Goodwill etc.

Wasting Assets: Assets which get exhausted to the extent of extraction are called wasting assets.
Eg: Mines , Quarries, Oil fields etc.

Fictitious Assets: Assets which have no real value but are shown in the books of accounts only for technical reasons are called fictitious assets.
Eg: Preliminary expenses, Discount on issue of shares and debentures, underwriting commission. Etc

Liabilities: Liabilities are obligations or debts that an enterprise has to pay at some time in the future. They represent creditors' claims on the firm's assets .Liabilities includes **a)Current Liabilities and b) Non-Current Liabilities.**

a)Current Liabilities: These are liabilities which become due and payable within a short time (within one year).
Eg: Short Term Borrowings ,Trade Payables,Creditors,Outstanding expenses, Other Current Liabilities, Short Term Provisions etc.

b) Non-Current Liabilities: Liabilities which are payable after a long period are termed as long term liabilities.
Eg:Long Term Borrowings,Deferred Tax Liabilities (Net),Other Long Term Liabilities,Long Terms Provisions.

Capital: Amount invested by the owner in the firm is known as capital.

Sales: Sales are total revenues from goods or services sold or provided to customers. Sales may be cash sales or credit sales.

Revenues:These are the amounts of the business earned by selling its products or providing services to customers, called sales revenue. Revenue is also called income.
Eg:commission, interest, dividends, royalties, rent received, etc.

Expenses: Costs incurred by a business in the process of earning revenue are known as expenses.
Eg:depreciation, rent, wages, salaries, interest, cost of heater, light and water, telephone, etc.

Expenditure: Spending money or incurring a liability for some benefit, service or property received is called expenditure. Expenditure may be Revenue expenditure and Capital expenditure
Eg:Purchase of goods, purchase of machinery, purchase of furniture, etc.

Revenue expenditure:If the benefit of expenditure is exhausted within a year, it is treated as an expense (also called revenue expenditure)

Capital expenditure: If the benefit of an expenditure lasts for more than a year, it is treated as an asset (also called capital expenditure) such as purchase of machinery, furniture, etc.

Profit: The excess of revenues of a period over its related expenses during an accounting year is profit. Profit increases the investment of the owners.

Gain:A profit that arises from events or transactions which are incidental to business such as sale of fixed assets, winning a court case, appreciation in the value of an asset.

Loss: The excess of expenses of a period over its related revenues its termed as loss. It decreases in owner's equity.

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Discount: Discount is the deduction in the price of the goods sold.
Voucher: The documentary evidence in support of a transaction is known as voucher.
Goods: It refers to the products in which the business unit is dealing,
Drawings: Withdrawal of money and/or goods by the owner from the business for personal use is known as drawings. Drawings reduces the investment of the owners.
Purchases: Purchases are total amount of goods procured by a business on credit and on cash, for use or sale
Stock: Stock (inventory) is a measure of something on hand-goods, spares and other items in a business. It is called Stock in hand.
Debtor: A debtor is a person who owes money to the business firm as he received some benefits from the business. Debtors are collectively known as **Sundry Debtors, Book Debts, Accounts receivable.**
Creditor: A creditor is a person whom the business owes money as he has given some benefit to the business. Creditors collectively known as **sundry creditors or Accounts Payable** etc.

Chapter.2
Theory Base of Accounting

Basic Accounting Concepts : The basic accounting concepts are referred to as the fundamental ideas or basic assumptions underlying the theory and practice of financial accounting and are broad working rules of accounting activities.
The important concepts are:
1. Business entity: This concept assumes that business has distinct and separate entity from its owners. Thus, for the purpose of accounting, business and its owners are to be treated as two separate entities.
2. Money measurement: The concept of money measurement states that only those transactions and happenings in an organisation, which can be expressed in terms of money are to be recorded in the book of accounts.
3. Going concern: The concept of going concern assumes that a business firm would continue to carry out its operations indefinitely (for a fairly long period of time) and would not be liquidated in the near future.
4. Accounting period: The period of interval for which accounts are prepared to know the profit or loss and what exactly the financial position of the business is called accounting period.
5. Dual aspect (or Duality): This concept states that every transaction has a dual or two-fold effect on various accounts and should therefore be recorded at two places.
Assets = Liabilities + Capital
6.Matching: The concept of matching emphasises that expenses incurred in an accounting period should be matched with revenues during that period.
7. Conservatism (Prudence): This concept requires that business transactions should be recorded in such a manner that profits are not overstated. All anticipated losses should be accounted for but all unrealised gains should be ignored.

Chapter.3
Recording of Transactions-I

Accounting Equation: Accounting equation signifies that the assets of a business are always equal to the total of its liabilities and capital (owner’s equity). The equation reads as follows:
A = L + C
Where,
A = Assets
L = Liabilities
C = Capital

Equities include both owner's equity or capital and creditor's equity or liabilities. Therefore, the accounting equation may be as follows:
(i) A – L = C
(ii) A – C = L
(iii) A-C-L =0

Rules of Debit and Credit:

Every transaction has a dual aspect – **the receiving aspect is called Debit and the giving aspect is called Credit.**
All accounts are divided into **five categories** for the purposes of recording the transactions:
(a) Asset (b) Liability (c) Capital (d) Expenses/Losses, and (e) Revenues/Gains.

Type of Account	If Debited	If Credited
1.Assets	Increase	Decrease
2.Liability	Decrease	Increase
3.Capital	Decrease	Increase
4.Income	Decrease	Increase
5.Expenses	Increase	Decrease

Books of Original Entry

The transactions are first recorded in these books in a chronological order. **Journal** is one of the books of original entry. The process of recording entries in the journal is called **journalising.**
Journal – It is the prime book or book of original entry or book of prime entry in which transactions are recorded in the order in which they occur. It is the book of accounting transaction in a chronological order.
Journal entry :The transactions entered in the journal are called journal entry. It is also known as the **day book** because it records daily transactions in the order in which they took place.

Format of a Journal

Date	Particulars	L/F	Debit Amount Rs.	Credit Amount Rs.

Ledger : The ledger is the principal book of accounting system. A ledger is a collection of accounts. A book containing all accounts to which entries are transferred from the books of original entry. A ledger may be in the form of bound register, or cards, or separate sheets may be maintained in a loose leaf binder. In the ledger, each account is opened preferably on separate page or card.

Name of the Account

Dr. Cr.

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

Differences between Journal and ledger

Journal	**Ledger**
It is a book of first entry as all transactions are recorded first in the journal.	It is a book of final entry as all transactions are recorded finally in the ledger.
Transactions are recorded in a chronological order	Transactions are recorded in an analytical manner
Transactions are recorded on the basis of source documents	Posting is done on the basis of journal (book of original entry)
Balancing is not done	All ledger accounts are balanced
The process of recording entries in the books of original entry is called journalizing	The process of recording entries in the ledger is called posting.

Posting is process of transferring entries from books of original entry to the ledger.

Chapter.4
Recording of Transactions-II

Special journals:
The journal is subdivided into many subsidiary books called special journals or day books.
Special journal or day book. The journal in which transactions of a similar nature are recorded is known as special journal or day book.
Journal Proper.:Transactions that cannot be recorded in any special journal are recorded in journal called the Journal Proper.

Single Column Cash Book

The single column cash book records all cash transactions of the business in a chronological order, i.e., it is a complete record of cash receipts and cash payments. When all receipts and payments are made in cash by a business organisation only, the cash book contains only one amount column on each (debit and credit) side.

Cash Book

Dr. Cr.

Date	Receipts	L.F.	Amount Rs.	Date	Payments	L.F.	Amount Rs

Double Column Cash Book

In this type of cash book, there are two columns of amount on each side of the cash book. A businessman generally opens a current account with a bank when the number of bank transactions is very large. As such one more column called Bank column is added on both the sides of the cash book to record the bank transactions.
The opening balance of cash column in the cash book always shows a 'debit balance', but the bank column of the cash book may show either a debit balance or credit balance. A credit balance is shown when the bank allows a customer to withdraw more than what is deposited into the bank. Such facility is provided by the bank is called as "overdraft".

Contra entry – It is a transaction in between cash and bank. When a transaction is recorded on both the sides of cash book but in different columns, such entry is called "Contra Entry".It is more likely to occur in a double column cash book as it is a combination of cash account and bank account. To indicate that the entry is a contra entry, the alphabet "C" should be written in the LF column on both sides

Double Column Cash Book

Dr. Cr.

Date	Receipts	L.F.	Cash Rs	Bank Rs	Date	Payments	L.F.	Cash Rs.	Bank Rs

Petty cash book - A number of small payments, like telephone bills, taxi fares, postage, cartage etc. have to be made by every organization. In this case a petty cashier is appointed to make all the small payments and record the same in a separate cash book called 'petty cash book'.

Imprest system of petty cash book – The term imprest means advance. Under this system of petty cash, a fixed amount is advanced to the petty cashier at the beginning of a period. The amount advanced to him by the main cashier is called "imprest" and hence this system is called as imprest system of petty cash.

Purchase day book or Purchase journal –A special journal in which only credit purchases are recorded. Cash purchases and purchases of assets are not recorded in it.

Format of Purchase Day Book

Date	Particulars	Invoice.No	L/F	Details	Amount

Sales journal : A special journal in which only credit sales are recorded. Cash sales and sale of assets are not recorded in the sales day book.

Format of Sales Day Book

Date	Particulars	Invoice.No	L/F	Details	Amount

Chapter 5.
Bank Reconciliation Statement

Bank Reconciliation Statement: It is a statement prepared by the customer of a bank showing the causes of disagreements between the balance as per cash book and pass book as on a particular date.

Causes of differences between cash book and the bank pass book
(i)Timing differences on recording of the transactions. and
(ii)errors made by the business or by the bank.
(i)Timing differences on recording of the transactions

(a) Cheques issued by the bank but not yet presented for payment:

When cheques are issued by the firm to suppliers or creditors of the firm, these are immediately entered on the credit side of the cash book. The bank will debit the firm's account only when these cheques are actually paid by the bank. Therefore there may be difference between two balances because of time lag in issuing and payment of cheque.

(b) Cheques paid into the bank but not yet collected:

When firm receives cheques from its customers (debtors), they are immediately recorded in the debit side of the cash book. This increases the bank balance as per the cash book. However, the bank credits the customer account only when the amount of cheques are actually realised.

(c) Direct debits made by the bank on behalf of the customer:

The banks deduct some amount from the account of the firm for the various services provided by the bank. This will reduces the pass book balances. It will be recorded in the cash after receiving statements from the bank. Therefore the pass book balance will be less than cash book balance.

(d) Amounts directly deposited in the bank account:

The customers of a trader might have deposited money into the trader's bank account directly. But it may not be intimated to the trader soon, hence it will not be recorded in the cash book.

(e) Interest and dividends collected by the bank

When the bank collects interest and dividend on behalf of the customer, then these are immediately credited to the customers account. But the firm will know about these transactions and record the same in the cash book only when it receives a bank statement.

(f) Direct payments made by the bank on behalf of the customers:

Sometimes the customers give standing instructions to the bank to make some payment regularly on stated days to the third parties. Eg. Telephone bill, electricity bill, rent, etc. Thus the passbook balance will be less than cash book balance.

(g) Cheques deposited/bills discounted dishonoured:

Sometimes the customer discounts bills of exchange before maturity for urgent cash. If on the date of maturity, such a bill is dishonoured, the bank will debit the customer's account. The customer will make this entry in his book only after getting information from the bank.

(ii)errors made by the business or by the bank.

a) Errors committed in recording transaction by the firm:

Omission or wrong recording of transactions relating to cheques issued, cheques deposited and wrong totalling, etc., committed by the firm while recording entries in the cash book cause difference between cash book and passbook balance.

(b) Errors committed in recording transactions by the bank:

Omission or wrong recording of transactions relating to cheques deposited and wrong totalling, etc., committed by the bank while posting entries in the passbook also cause differences between passbook and cash book balance.

Chapter.6

Trial Balance and Rectification of Errors

Meaning of Trial Balance

A trial balance is a statement showing the balances, or total of debits and credits, of all the accounts in the ledger with a view to verify the mathematical accuracy of posting into the ledger accounts. Trial balance is an important statement in the accounting process as it shows the final position of all accounts and helps in preparing the final statements.

Objectives of Preparing the Trial Balance

The trial balance is prepared to fulfil the following objectives :

1. **To ascertain the arithmetical accuracy of the ledger accounts.**

The purpose of preparing a trial balance is to ascertain whether all debits and credit are properly recorded in the ledger or not and that all accounts have been correctly balanced.

2. **To help in locating errors.**

If the trial balance total does not agree, it means that there exist some errors due to posting of wrong amount, wrong totalling, posting on wrong side, omission to post an amount etc. As soon as it is identified, it can be rectified.

3. **To help in the preparation of the financial statements.** (Profit & Loss account and Balance Sheet).:Trial balance is considered as the connecting link between accounting records and the preparation of financial statements. Final accounts or financial statements consists of Trading and Profit and Loss account and the balance sheet. The financial statements are prepared with the balances of ledger accounts, therefore, an accountant should make it sure that all the accounts are correctly prepared.

Preparation of Trial Balance

Balances Method

This is the most widely used method in practice. Under this method , the balance of ledger accounts are shown in the trial balance. The accounts having debit balance are entered in the debit column of the trial balances. Similarly, accounts showing credit balances are written in the credit column.

Chapter
Financial Statements – I

Financial statements are the statements, which present periodic reports on the process of business enterprises and the results achieved during a given period. Financial statements includes trading and profit and loss account, balance sheet. Financial statement are also useful to creditors, shareholders and employees of the enterprise.

The basic objectives of preparing financial statements are :

(a) To present a true and fair view of the financial performance of the business;
(b) To present a true and fair view of the financial position of the business;

Trading and Profit and Loss Account

Trading and Profit and Loss account, also known as **Income statement,** Trading and Profit and Loss account is prepared to determine the profit earned or loss sustained by the business enterprise during the accounting period. It is basically a summary of revenues and expenses of the business and calculates the net figure termed as profit or loss. Trading and Profit and Loss account is also an account with Debit and Credit sides. It can be observed that debit balances (representing expenses) and losses are transferred to the debit side of the Trading and a Profit and Loss account and credit balance (representing revenues/gains) are transferred to its credit side.

Concept of Gross Profit and Net Profit

The excess of sales over purchases and direct expenses is called gross profit. If the amount of purchases including direct expenses is more than the sales revenue, the resultant figure is gross loss. The computation of gross profit can be shown in the form of equation as :

Gross Profit = **Sales – (Purchases + Direct Expenses)**
Gross Profit = **Net sales – cost of goods sold**
Net Sales = **Sales – Sales returns**
Cost of goods sold = **(Opening stock + Net Purchases + Direct Expenses) – Closing stock**
Net Purchase = **Purchase – Purchase returns**
Gross Loss = **Cost of goods sold – Net sales**

Format

Dr. TRADING A/C FOR THE YEAR ENDED............ Cr.

Particulars	Amount	Particulars	Amount
Opening Stock	XXXX	Sales XXXX	
Purchases XXXX		Less: Sales returns XXX	XXXX
Less: Purchase returns XX	XXXX	Closing stock	XXXX
Direct Expenses:		Profit & Loss a/c (Gross loss	
Carriage	XXX	transferred to P&L a/c)	XXXX
Wages	XXX		
Fuel	XXX		
Royalty	XXX		
Consumable stores	XXX		
Other manufacturing expenses	XXX		
Import duty	XXX		
Excise duty	XXX		
Octroi	XXX		
Clearing charges	XXX		
Dock dues	XXX		
Primary Packing Materials	XXX		
Profit & Loss a/c (Gross Profit transferred to P&L a/c)	XXX		
	XXXXX		XXXXX

Net Profit

It is calculated by deducting non-operating expenses from operating profit and adding non-operating income.

Profit and Loss A/c for the year ended........

Dr Cr.

Particulars	Amounts	Particulars	Amounts
Gross loss B/F (Gross loss transferred from Trading a/c, if any)	XXXX	Gross Profit B/F (Transferred from Trading account, if any)	XXXX
		Other incomes	XXX
Operating expenses:		Operating Loss C/d	XXX
Administration expenses	XXX		
Selling expenses	XXX		XXX
Distribution expenses	XXX		
Operating Profit C/d	XXXX		XXXX
Operating Loss B/F	XXX		
Non Operating expenses:		Operating Profit B/f	XXX
Interest	XXX	Non Operating incomes:	XXX
Tax	XXX	Net Loss transferred to Capital a/c	XXX
Loss on sale of fixed assets	XXX		
Loss on sale of investment	XXX		
Net Profit transferred to Capital a/c	XXX		
	XXXXX		XXXXX

Relevant Items in Trading and Profit and Loss Account

Items on the debit side

(i) Opening stock : It is the stock of goods in hand at the beginning of the accounting year. This is the stock of goods which has been carried forward from the previous year and remains unchanged during the year and appears in the trial balance. In the trading account it appears on the debit side.

(ii) Purchases less returns : Goods, which have been bought for resale appears as purchases on the debit side of the trading account. They include both cash as well as credit purchases. Goods which are returned to suppliers are termed as **purchases return.** It is shown by way of deduction from purchases and the computed amount is known as Net purchases.

(iii).Wages : Wages refer to remuneration paid to workers who are directly engaged in factory for loading, unloading and production of goods and are debited to trading account.

(iv)Carriage inwards/Freight inwards: These expenses are the items of transport expenses, which are incurred on bringing materials/goods purchased to the place of business. It is debited to the trading account.

(v).Fuel/Water/Power/Gas : These items are used in the production process and hence are part of expenses. It is debited to the trading account.

(vi)Packaging material and Packing charges : Cost of packaging material used in the product are direct expenses as it refers to small containers which form part of goods sold. So it is debited to the trading account. However, the packing refers to the big containers that are used for transporting the goods and is regarded as an indirect expense debited to profit and loss account.

(vii)Salaries : These include salaries paid to the administration, godown and warehouse staff for the services rendered by them for running the business. It is debited to the profit and loss account.

(viii)Rent paid : These include office and godown rent, municipal rates and taxes, factory rent, rates and taxes. It is debited to profit and loss account.

(ix)Interest paid : Interest paid on loans, bank overdraft, renewal of bills of exchange, etc. is an expense and is debited to profit and loss account.

(x)Commission paid: Commission paid or payable on business transactions undertaken through the agents is an item of expense and is debited to profit and loss account.

(xi)Repairs : Repairs and small renewals/ replacements relating to plant and machinery, furniture, fixtures, fittings, etc. for keeping them in working condition are included under this head. Such expenditure is debited to profit and loss account.

(xii)Miscellaneous expenses : In normal usage these expenses are called Sundry expenses or Trade expenses. It is debited to profit and loss account.

Items on the credit side

(i) Sales less returns : Sales account in trial balance shows gross total sales(cash as well as credit) made during the year. It is shown on the credit side of the trading account. Goods returned by customers are called return inwards and are shown as deduction from total sales and the computed amount is known as net sales.

(ii) Other incomes: Incomes such as rent received, dividend received, interest received, discount received, commission received, etc. Are credited in the profit and loss account.

Closing Entries

The following are the journal entries passed to prepare the trading account.

1. To close the accounts and transfer them to the debit side of trading account.

Trading A/c Dr.
To Opening stock A/c
To Purchases A/c
To Wages A/c
To Carriage inwards A/c
To All other direct expenses A/c
(Individually)

2.The purchases returns or return outwards are closed by transferring its balance to the purchases account.

Purchases return A/c Dr.
To Purchases A/c

3.The sales account is closed by transferring its balance to the credit side of the trading and profit and loss account by recording the following entry:

Sales A/c Dr.
To Trading A/c

4.The sales returns or returns inwards account is closed by transferring its balance to the sales account as :

Sales A/c Dr.
To Sales return A/c

5.The closing stock is valued and brought into books by passing an entry

closing Stock A/c. Dr.
Trading A/c.

6. The gross profit or gross loss is transferd to profit and loss account.

a. **If there is gross profit.**

Trading A/c. Dr.
To profit and loss account.

b. **If there is gross loss.**

Profit and loss account. Dr.
To Trading A/c. Dr.

5. Closing of Indirect expenses and losses by transferring to Profit and loss A/c

Profit and loss A/c ..Dr
To Indirect Expense A/c
To Losses A/c

6. Closing of Indirect incomes and gains by transferring to Profit and loss A/c

Indirect Incomes A/c ..Dr
Gains A/c ..Dr
To Profit and loss A/c

Chapter
Financial Statements – II

Treatment of the following adjustments in the preparation of Financial Statements:

1. **Closing Stock**:It represents the cost of unsold goods lying in the stores at the end of the accounting period.

Adjustments:

• Posted to the credit side of Trading account.
• Shown on the Asset side of Balance sheet.

The adjustment entry to be recorded in this regard is :

Closing stock A/c Dr
To Trading A/c

2.Outstanding Expenses (Accrued expenses)

When expenses of an accounting period remain unpaid at the end of an accounting period, they are termed as outstanding expenses.

Journal:

Expenses A/c ..Dr

To Outstanding Expenses

Adjustments:

• Added to the concerned expenses account on the debit side of Trading and Profit and Loss A/c.

• Shown on the Liabilities side of Balance sheet.

3. Prepaid Expenses (Paid but not due).

Those expenses which have been paid in advance, whose benefit will be available in future are called unexpired or prepaid expenses.

Journal:

Prepaid Expenses A/c ..Dr

To concerned Expense A/c

Adjustments:

• Deducted from the concerned expenses on the debit side of Trading and Profit and Loss A/c.

• Shown on the Asset side of Balance sheet.

4.Accrued Income(Income earned but not received)

An income which has been earned but not received during the accounting year is called accrued income.

Journal:

Accrued Income A/c ..Dr

To Income A/c

Adjustments:

• Added to the concerned income on the credit side of Trading and Profit and Loss A/c.

• Shown on the Asset side of the Balance sheet.

5.Income Received in Advance (Unearned Income)

Income received but not earned during the accounting year is called income received in advance.

Journal:

Income A/c ..Dr

To Income Received in Advance A/c

Adjustments:

• Deducted from the concerned income on the credit side of Trading and Profit and Loss A/c.

• Shown on the Liabilities side of Balance sheet.

6.Depreciation

Depreciation is the decline in the value of fixed assets on account of wear and tear and passage of time. It is treated as a business expense and is debited to profit and loss account.

Journal:

Depreciation A/c ..Dr

To Asset A/c

Adjustments:

• Shown on the debit side of Trading and Profit and Loss A/c.

• Deducted from the value of assets in Balance sheet.

Balance Sheet

The balance sheet is a statement prepared for showing the financial position of the business summarising its assets and liabilities at a given date. It is prepared at the end of accounting period, immediately after the preparation of trading and profit and loss account. Items of liabilities and capital are shown on the left hand side, known as "Liabilities" side and the items of assets are shown on the right hand side, known as "Assets" side of the balance sheet.

Proforma of Balance Sheet

Format

LIABILITIES	AMOUNTS	ASSETS	AMOUNTS
Bank overdraft	XXX	Cash in hand	XXX
Bills payable		Cash at bank	XXX
Outstanding expenses	XXX	Short term investment	XXX
Sundry creditors	XXX	Sundry Debtors	XXX
Income received in advance	XXX	Bills Receivable	XXX
Loans and advances	XXX	Stock of goods	XXX
Capital:		Machinery	XXX
Opening balance XXXX		Furniture	XXX
Add: Net Profit (less: N/p) XX		Buildings	XXX
XXXX		Patents	XXX
Less: Drawings XX	XXXX	Copyrights	XXX
		Goodwill	XXX
	XXXXX		XXXXX

Chapter

Computerised Accounting System

Concept of Computerised Accounting System

A computerised accounting system is an accounting information system that processes the financial transactions and events as per Generally Accepted Accounting Principles (GAAP) to produce reports as per user requirements.

Advantages of Computerised Accounting System

1.Speed : Accounting data is processed faster by using a computerised accounting system than it is achieved through manual efforts.

2. Accuracy – The possibility of error is eliminated because the primary accounting data is entered only once.

3.Reliability : The computer system is well-adapted to performing repetitive operations.

4.Up-to-Date Information : The accounting records, in a computerised accounting system are updated automatically as and when accounting data is entered and stored.

5.Real Time User Interface: Most of the automated accounting systems are inter-linked through a network of computers.

6.Automated Document Production : Most of the computerised accounting systems have standardised, user defined format of accounting reports that are generated automatically.

7.Scalability : In computerised accounting additional cost required for additional data processing very low. So computerised accounting is highly scalable.

8.Legibility : The data displayed on computer monitor is legible. This is because the characters (alphabets, numerals, etc.) are type written using standard fonts. This helps in avoiding errors caused by untidy written figures in a manual accounting system.

9.Efficiency : The computer based accounting systems ensure better use of resources and time.

10.Quality Reports : The reports generated by this system are error free and highly objective and can be relied upon.

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11.MIS Reports : The computerised accounting system facilitates the real time production of management information reports, which will help management to monitor and control the business effectively.

12.Storage and Retrieval : The computerised accounting system allows the users to store data in a manner that does not require a large amount of physical space. This is because the accounting data is stored in hard-disks, CD-ROMs,etc.

13.Motivation and Employees Interest :The computer system requires specialized training for staff which makes them feel highly motivated and develops interest on the job.

Thanks

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