For the students of

B.C.A, Sem: IInd

Name of Paper- ACCOUNTING AND FINANCIAL MANAGEMENT (Unit I and 2)

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Generally Accepted Accounting Principles

The common set of accounting principles, standards and procedures that companies use to compile their financial statements. GAAP are a combination of authoritative standards (set by policy boards) and simply the commonly accepted ways of recording and reporting accounting information. Accountants use generally accepted accounting principles (GAAP) toguidetheminrecordingand reporting financial information. GAAP comprises a broadset of principles that have been developed by the accounting profession and the Securities and Exchange Commission (SEC). Two laws, the SecuritiesAct of 1933 and the Securities Exchange Act of 1934, give the SEC authority to establish reporting and disclosure requirements. However, the SEC usually operates in anoversight capacity, allowing the FASB and the Governmental Accounting Standards Board (GASB) to establish these requirements. The GASB develops accounting standards for state and localgovernments.

The current set of principles that accountants use rests upon some underlying assumptions. The basic assumptions and principles presented on the next several pages are considered GAAP and apply to most financial statements. In addition to these concepts, there are other, more technical standards accountants must follow when preparing financial statements. Some ofthese are discussed later in this book, but other are left for more advancedstudy.

BASIC ACCOUNTING CONCEPTS

Accounting is a system evolved to achieve a set ofobjectives. In order toachieve the goals, we need a set of rules or guidelines. These guidelines are termed here as "BASIC ACCOUNTING CONCEPTS". The term concept means an idea or thought. Basic accounting concepts are the fundamental ideas or basic assumptions underlying the theory and profit of FINANCIAL ACCOUNTING. These concepts help in bringing about uniformity in the practice of accounting. In accountancy following concepts are quitepopular.

1. Business EntityConcept:

In this concept"Business istreated asseparatefromtheproprietor".AlltheTransactions recorded in the book of Business and notin the books of proprietor. The proprietoris also treated as a creditor for the Business. In case this concept is not followed, affairs of the business will be mixed with the personal transactions of the proprietor and the true picture of the business will not be known. Even the proprietor is regarded as creditorto the extent of thecapitalcontributedby him to thebusiness.

2. **Going ConcernConcept:**

This concept relateswith the long life of Business. The assumption is that business will continue to exist for unlimited period unless it is dissolved due to some reasons or the other.it is for this reason that fixed assets are recorded at original cost and are depreciated onthebasisoftheir expected life rather than on the basis of marketvalue.

3. **Money MeasurementConcept:**

In this concept"Only those transactions are recordedinaccountingwhichcanbeexpressedin terms of money, those transactions which cannot beexpressed in terms of money are not recorded in the books of accounting". Non-monetary events such as retirement ofmanager, sales policy of management, working conditions of workers etc. cannot berecorded in accounting books.

4. **CostConcept:**

According to this concept, an asset is recorded at its cost in thebooks of account. i.e., the pricewhich is paid at the time of acquiring it. In balance sheet, these assets appear not at cost price every year, but depreciation is deducted and they appear at the amount, which is cost, less classification.

5. **Accounting PeriodConcept:**

Every Businessman wants to know the result of his investment and efforts after acertain period. Usually one-year period is regarded as an ideal for this purpose. This period is called AccountingPeriod. It depends on the nature of the business and object of the proprietor ofbusiness.

6. **Dual AspectConcept:**

According tothis concept "Every businesstransactionshastwoaspects",oneisthereceiving benefit aspect another one is giving benefitaspect. The receivingaspect is termed as 'Debit';where asthe giving aspect is termed as "Credit". Therefore, for everydebittherewillbe corresponding credit. The dual aspect is also expressed in another form of equation asunder.

Capital + Liabilities = Assets

Capital = Assets –Liabilities

7. **Matching CostConcept:**

According to this concept "The expenses incurred during an accounting period, e.g., if revenue is recognized on all goods sold during a period, cost of those good sole should also be charged to thatperiod.

ACCOUNTING CONVENTIONS

Accounting is based on some customs or usages. Naturally accountantsareheretoadoptthat usage or custom. They aretermed as convert conventions in accounting. The followingare some of the important accountingconventions.

1. **Convention of FullDisclosure:**

According tothis conventionaccountingreportsshoulddisclosefullyandfairlytheinformation. They purport torepresent.Theyshouldbepreparedhonestly and sufficiently disclose information which is if material interest to proprietors, present and potential creditors and investors. The companies act, 1956 makes it compulsory to provide all the information in the prescribed form. Full disclosure does not mean disclosure of each and every item of information. It only means disclosure of such information which is of significance toowners, investors and creditors.

2. **Convention ofMateriality:**

Under this convention the trader records importantfactoraboutthecommercialactivities.Inthe form of financial statements if any unimportant information is to be given for the sake of clarity it will be givenasfootnotes.Its means unimportant mattes should be either left out or merged with otheritems.

3. **Convention ofConsistency:**

It means that accounting method adopted should not be changedfrom yeartoyear. It means thatthere should be consistent in the methodsor principlesfollowed. Or elsethe results of a year cannot be conveniently compared with that of another.Ifchangebecomesnecessarythechange and its effect should be statedclearly.

4. **Convention ofConservatism:**

This convention is based onthe policy of playing safe. According to this convention all possible or expected losses should be provided for but unearned or unrealized profit should be left out. This convention warns the trader not to takeunrealized income into account. That iswhy the practice of valuing stock at cost or market price whichever is lower is in vague. It takes in to consideration all prospective losses but leaves all prospectiveprofits.

Accounting System

There are two systems in Accounting. They are

1. Single EntrySystem 2. Double entrysystem

Single Entry System:

The system which does not totally follow the principles of double entry system is called single entry system. Under this system complete record of each and every transaction is notmaintained. Under this methodrealandnominalaccountsarenotmaintained.Transactionsarerecordedonly in cash book and only personal accounts aremaintained. It isnot proper to callit 'system' because it is not based on any scientific system like Double entrysystem.

Double Entry System:

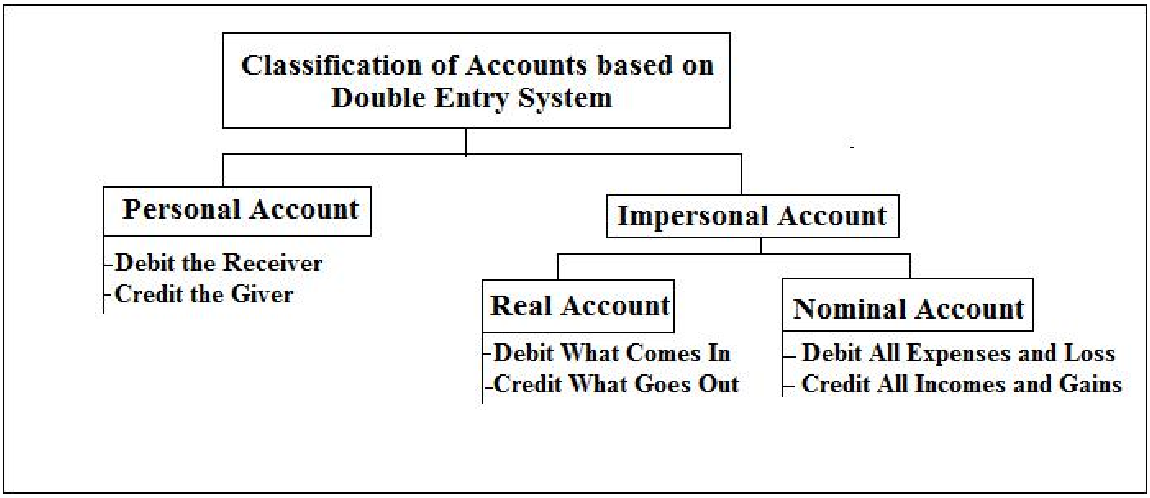
According tothis system every transactionhastwoaspectsi.e.onepartreceivingandanotherpart is giving aspect. When wereceive something, we give something else in return. This method of writing every transactionin two accounts is known as 'Double Entry System'. Every transaction is divided into two aspects, debit and credit. One account is to be debited and another account is to be credited for every transaction in order tohave a complete record of thesame. Every transaction affects two accounts in opposite direction. A transaction has to be recorded in two different accounts on opposite sides of an equal value. Both theaccounts cannot be debited orcredited.

Classifications of Accounts:

An account isa summary of the record of all the transactions relating to a person, asset, expenses or gain. It has two sides the lefthand caledthe 'debit' side and the right hand side caled'credit' side. Accounts are broadly classified into two heads. Theyare

1. Personal Accountand
2. ImpersonalAccount.

Impersonal account later divided into Real Account and Nominal Account



Personal Account:
It is related to persons with who a concern carries on business. They are

- Natural persons such as Raju, Rani, Suresh etc.
- Artificial persons such as Andhra Bank and Universal Trading Companyetc.
- Representative personal accounts such as outstandingsalaries, prepaid insurance accounts etc.

Real Account:
Accounts relating toproperties or assets of a trader areknownasrealaccounts.Itincludestangible assets such as buildings, furniture, cash etcand also intangible assets such as good will, trade-marksetc.

Nominal Account:
Accounts dealing with expenses, gains, losses, and incomes are called Nominal Account,
Example:- Wages, Salaries, Interest, Commission Received.

Journal Entries

Journal is books for recording daily transaction. All the business transactionsare recorded in this book in a chronological order. It is a book of prime, original orfirst entry, as all business transactions are first recorded in the journal. Journals help in thepreparation of accounts in the ledger. The process of recording transaction in Journal istermed as 'Journalising'. The journalis rules asfollows.
Format for Journal Entries:
Journal Entries in the books of XXX Company

Date	Particulars	LF	Debit Amount(Rs.)	Credit Amount(Rs.)

Column 1:
Date: the date on which the transaction has taken place is entered in the column.

Column 2:
Particulars: in the first line, the name of the account to be debited is written. The Word'Dr' is written at the end of the first line. In the second lime some space is left and the word 'To' is written before the name of the account to be credited. Then thename of the account to be credited is written. A brief explanation usual y with the word 'Being' is written caled'narration' the narration explains the reason for debiting and crediting the particular accounts and helps one to understand the nature and purpose of the journal entry at a futuredate.

Column 3:
L.F.: it stands for 'Ledger Folio'. In this column the page number on which the variousaccounts appear in the ledger areentered.

Column 4:
Debit (Amount): In this column the amount to be debited against the Debit account is written

Column 4:
Credit (Amount): In this column the amount to be credited against the Credit account is written.

ILLUSTRATION 1:

Journalize the following transactions in the books of Rama Krishna:

Particulars	Amount
2012	
July 1 Mr. Ram started business with cash	2,00,000
July4 Goods purchased for cash	20,000
July5 He deposited in bank	40,000
July7 Goods sold	15,000
July10 Purchased from Mr. Kamlesh on credit	25,000
July11 Furniture purchased	18,000
July12 Wages paid	4,000
July20 Interest received	500
July25 Cash paid to Mr.Kamlesh	25,000
July 30 Additional capital brought by Mr. Ram	50,000

Solution: Journal Entries in the Books of Ram Company

Date	Particulars	L.F	Debit (Amount) Rs.	Credit (Amount) Rs.
July- 1-2012	Cash A/c Dr To Capital A/c (Being start of business by Ram)		2,00,000	2,00,000
July -4- 2012	Purchase A/c To Dr CashA/c (Being Purchased Goods for Cash)		20,000	20,000
July -5-2012	Bank A/c Dr To CashA/c (Being Deposit Cash into Bank)		40,000	40,000
July -7-2012	CashA/c Dr To Sales A/c (Being Sale of Goods in Cash)		15,000	15,000
July -10-2012	Purchase A/c Dr To Kamlesh A/c (Being Purchases goods on credit from Kamlesh)		25,000	25,000
July-11-2012	Furniture A/c Dr To Cash A/c (Being Furniture Purchased)		18,000	18,000
July-12-2012	Wages A/c Dr To Cash A/c (Being Wages paid in Cash)		8,000	8,000
July- 20-2012	Cash A/c Dr To Interest A/c (Being Receipt of Interest)		500	500
July -25-2012	Kamlesh A/c To Dr Cash A/c (Being Payment of Credit Purchases)		25,000	25,000
July -30-2012	CashA/c Dr To Capital A/c (Being Introductionof Additional Capital in Business)		50,000	50,000

ILLUSTRATION 2: Journalize the following transactions in the books of Ravi:

Particulars	Amount
2008	
March 1 Purchase of goods from ram	3, 20,000
March10 Paid rent for the month	2,000
March11 Purchase of Machine	1, 00,000
March12 Paid salaries	12,000
March15 Paid to ram	1, 00,000
March20 Sold goods to shyam	20,000
March25 Received from shyam	30,000
March31 Received cash from cash sales	2, 50,000
March31 Wages paid	5,000

Solution: Journal Entries in the Books of Ravi Company

Date	Particulars	L.F	Amount(Dr) Rs.	Amount(Cr) Rs.
1-March-2008	PurchaseA/c Dr To Ram A/c (Being purchased goods on credit from Ram)		3, 20,000	3, 20,000
10-March-2008	RentA/c Dr To Cash A/c (Being rent paid)		2,000	2,000
11-March-2008	Machine A/c Dr To Cash A/c (Being purchase of plant)		1, 00,000	1, 00,000
12-March-2008	Salaries A/c Dr To Cash A/c (Being salariespaid)		12,000	12,000
15-March-2008	RamA/c Dr To Cash A/c (Being cash payment to Ram)		1, 00,000	1, 00,000
20-March-2008	ShyamA/c Dr To Sales A/c (Being goods sold on credit to Shyam)		20,000	20,000
25-March-2008	CashA/c Dr To Shyam A/c (Being Cash Received from shyam)		30,000	30,000
31-March-2008	CashA/c Dr To Sales A/c (Being goods sold for cash)		2, 50,000	2, 50,000
31-March-2008	WagesA/c Dr To Cash A/c (Being wages paid)		5,000	5,000

Illustration:3 Following are the transactions in the month of January, 2009 of Mr. Prasad & Co:

Jan 1 Purchase goods worth Rs. 5,000 for cash less 20% trade discount and 5% cash discount. Jan 4 Purchase of goods from Bharat Rs. 5,000 Jan 12 Sold goods to Rohanon credit Rs. 600 Jan 18 Sold goods to Ram for cash Rs.1000. Jan 20 Paid salary to RatanRs. 2000 Jan 26 Interest received from MadhuRs. 200 Jan 31 Sold goods for cash Rs. 500. Jan 31 Withdrew goods from business for personal use Rs. 200

Solution: Journal Entries in the Books of Mr.Prasad& Co

Date	Particulars	L.F	Amount(Dr) Rs.	Amount(Cr) Rs.
1-Jan-2009	PurchaseA/c Dr To CashA/c To Discount A/c (Being Purchase of goods for cash worth Rs. 5,000 and allowed tradeandcash discount)		4,000	 3,800 200
04-Jan-2009	PurchaseA/c Dr To BharatA/c (Being goods purchased from Bharat)		5,000	5,000
12-Jan-2009	RohanA/c Dr To Sales a/c (Being goods sold on Credit to Rohan)		600	600
18-Jan-2009	CashA/c Dr To Sales A/c (Being Goods sold on cash)		1,000	1,000
20-Jan-2009	SalaryA/c Dr To Cash A/c (Being Salaries Paid)		2,000	2,000
26-Jan-2009	CashA/c Dr To Interest A/c (Being Interest paid)		200	200
31-Jan-2009	CashA/c Dr To sales (Being goods sold for cash)		500	500
31-Jan-2009	Drawings A/c Dr To PurchasesA/c (Being goods withdrawn for personal use)		200	200

Ledgers

It is a book of final entry. All business transactions are first recorded inthe journal and finally recorded in the ledger. The process of transferring thetransaction from journal to the ledger is called posting. Ledger is the main or principal or most important book of the business .ledger is a book where the various accounts pertaining to a particular person thing or service are grouped together in one place in the form of an account. It containsaccounts for all the persons with whom the business deals, for all the assets or things held by the business and for all the expenses incurred and incomes earned by the business. Ledger may be defined as a bookwhich contains records of all transaction permanently in a summarisedand classifiedform.

The following are the guidelines for posting transactions in the ledger.

- After the completion of Journal entries only posting is to be made in theledger.
- For each item inthe Journal aseparate account isto be opened. Further, foreach new item a new account is to beopened.
- Depending upon the number of transactions spacefor each account is to be determined in theledger.
- For each account theremust be a name. This shouldbe written in the top of thetable.Atthe end of the name, the word “Account” is to beadded.
- The debit side of the Journal entry is to be posted on the debit side of the account,by startingwith“TO”.
- The credit side of the Journal entry is to be posted onthe debit side of the account, by starting with“BY”.
- The journal entries should be posted to the ledger accounts in the order of theirdates.

Format for Ledger Posting:

Dr. Cr.

Date	Particulars	JF	Amount (Rs)	Date	Particulars	JF	Amount (Rs)

Journalize the following transactions in the books of Ravi and post them into ledgers:

Particulars	Amount
2008 March 1 Started business with cash	4,50,000
March 1 Purchase of goods from ram	3, 20,000
March10 Paid rent for the month	2,000
March11 Purchase of Machine	1, 00,000
March12 Paid salaries	12,000
March15 Paid to ram	1, 00,000
March20 Sold goods to shyam	20,000
March25 Received from shyam	30,000
March31 Received cash from cash sales	2, 50,000
March31 Wages paid	5,000

Solution: Journal Entries in the Books of Ravi Company

Date	Particulars	L.F	Amount(Dr) Rs.	Amount(Cr) Rs.
1-March-2008	CashA/c Dr To Capital A/c (Being business started with cash)		4,50,000	4,50,000
1-March-2008	PurchaseA/c Dr To Ram A/c (Being purchased goods on credit)		3, 20,000	3, 20,000
10-March-2008	RentA/c Dr To Cash A/c (Being rent paid)		2,000	2,000
11-March-2008	Machine A/c Dr To Cash A/c (Being purchase of plant)		1, 00,000	1, 00,000
12-March-2008	Salaries A/c Dr To Cash A/c (Being salariespaid)		12,000	12,000
15-March-2008	RamA/c Dr To Cash A/c (Being cash payment to Ram)		1, 00,000	1, 00,000
20-March-2008	ShyamA/c Dr To Sales A/c (Being goods sold on credit to Shyam)		20,000	20,000
25-March-2008	CashA/c Dr To Shyam A/c (Being Cash Received from shyam)		30,000	30,000
31-March-2008	CashA/c Dr To Sales A/c (Being goods sold for cash)		2, 50,000	2, 50,000
31-March-2008	WagesA/c Dr To Cash A/c (Being wages paid)		5,000	5,000

Ledger Posting

Dr. **CashAccount** Cr.

Date	Particulars	JF	Amount (Rs)	Date	Particulars	JF	Amount (Rs)
01-03-2008 25-03 31-03-2008	To Capital A/c To Syam A/c To Sales A/c		4,50,000 30,000 2,50,000	10-03-2008 11-03 12-03 15-03 31-03-2008 31-03-2008	By Rent A/c By Machine A/c By Salaries A/c By RamA/c By Wages A/c By Balance C/d		2,000 1,00,000 12,000 1,00,000 5,000 5,11,000
			7,30,000				7,30,000
01-04-2008	To Balance B/d		5,11,000				

Dr. **CapitalAccount** Cr.

Date	Particulars	JF	Amount (Rs)	Date	Particulars	JF	Amount (Rs)
31-03-2008	To Balance C/d		4,50,000	01-03-2008	By Cash A/c		4,50,000
			4,50,000				4,50,000
				01-04-2008	By Balance B/d		4,50,000

Dr. **PurchaseA/c** Cr.

Date	Particulars	JF	Amount (Rs)	Date	Particulars	JF	Amount (Rs)
15-03-2008	To Ram A/c		3,20,000	31-03-2008	By Balance C/d		3,20,000
			3,20,000				3,20,000
01-04-2008	To Balance B/d		3,20,000				

Dr. **RamAccount** Cr.

Date	Particulars	JF	Amount (Rs)	Date	Particulars	JF	Amount (Rs)
01-03-2008	To Cash A/c		1,00,000	01-03-2008	By Purchase A/c		3,20,000
31-03-2008	To Balance C/d		2,20,000				
			3,20,000				3,20,000
				01-04-2008	By Balance B/d		2,20,000

Dr. **RentAccount** Cr.

Date	Particulars	JF	Amount (Rs)	Date	Particulars	JF	Amount (Rs)
10-03-2008	To Cash A/c		2,000	31-03-2008	By Balance C/d		2,000
			2,000				2,000
01.04-2008	To Balance B/d		2,000				

Dr. **MachineA/c** Cr.

Date	Particulars	JF	Amount (Rs)	Date	Particulars	JF	Amount (Rs)
11-03-2008	To Cash A/c		1,00,000	31-03-2008	By Balance C/d		1,00,000
			1,00,000				1,00,000
01.04-2008	To Balance B/d		1,00,000				

Dr. **SalariesAccount** Cr.

Date	Particulars	JF	Amount (Rs)	Date	Particulars	JF	Amount (Rs)
12-03-2008	To Cash A/c		12,000	31-03-2008	By Balance C/d		12,000
			12,000				12,000
01-04-2008	To Balance B/d		12,000				

Dr. **ShyamAccount** Cr.

Date	Particulars	JF	Amount (Rs)	Date	Particulars	JF	Amount (Rs)
20 -03 -2008	To Sales A/c		20,000	25 -03 -2008	By Cash A/c		2,50,000
31-03-2008	To Balance C/d		2,30,000				
			2,50,000				2,50,000
				01-04-2008	To Balance B/d		2,30,000

Dr. **SalesAccount** Cr.

Date	Particulars	JF	Amount (Rs)	Date	Particulars	JF	Amount (Rs)
31-03-2008	To Balance C/d		2,70,000	25-03-2008	By Shyam A/c		20,000
				31-03-2008	By Cash A/c		2,50,000
			2,70,000				2,70,000
				01-04-2008	To Balance B/d		2,70,000

Dr. **WagesAccount** Cr.

Date	Particulars	JF	Amount (Rs)	Date	Particulars	JF	Amount (Rs)
25-03-2008	To Cash A/c		5,000	31-03-2008	By Balance C/d		5,000
			5,000				5,000
01-04-2008	To Balance B/d		5,000				

Trial Balance

"Trial balance is a statement containing the balances of al ledger accounts, as at any given date, arranged in form of debit and credit columns placed side by side and prepared with the object of checking the arithmetical accuracy of ledger posting. The fundamental principle of double entry system of book keeping is that every debit has a corresponding credit and vice versa of equal moment. Therefore, the total of the debit balances must equal in aggregate to the total of the credit balances when accounts are balances when accounts arebalances.

A trail balance can be prepared in two ways. They are

1. TotalMethod
2. BalanceMethod

1. TotalMethod:

Under this method, the debit totals of each account shown inthe debit and credit column of the trailbalance.

2. BalanceMethod:

Under this method, the difference of each account is extracted. If the debit side of an account is bigger in amount than the credit side the difference is put in the debit column of the trail balance and if the credit side is bigger, the difference is written on the credit column of trainbalance

How to prepare Trail Balance?

1. Accounts dealing with assets, expenses &losses will showndebitbalance
2. Accounts dealing with liabilities, incomes and gain will show creditbalance
3. 'Sundry Debtors' are the total amount due from various debtors and 'Sundry Creditors" are the total amount due to various creditors
4. Opening stock will show debit balance, generally closing stock will not appear in Trail Balance
5. Reserves and provisions such as General Reserve,Provisionfordoubtfuldebts, reservefor discount on debtors will show credit balance. However Reserve for Discount on Creditors will show debitbalance.

Problem 1:

From the following list of balance of Mr. X. Prepare a Trial Balance as on 30-06-2005

Particulars	Amount	Particulars	Amount
OpeningStock	1,800	Wages	1,000
Sales	12,000	Bank Loan	440
Coal	300	Purchases	7,500
Repairs	200	Carriage	150
Incometax	150	Debtors	2,000
Land	600	Cash in hand	20
Plant	750	Machinery	180
Lighting	230	Creditors	800
Capital	4,000	Bills receivables	60
Office furniture	60	Office salaries	250
Patents	100	Good will	1500
Bank	510		
		6th, April set-3	

Solution:

Trial Balance of Mr. X as on 30-06-2005

	Debit (Rs.)	Credit (Rs.)
OpeningStock	1,800	
Wages	1000	
Sales		12,000
Bank Loan		440
Coal	300	
Purchases	7,500	
Repairs	200	
Carriage	150	
Incometax	150	
Debtors	2,000	
Land	600	
Cash in hand	20	
Plant	750	
Machinery	180	
Lighting	230	
Creditors		800
Capital		4,000
Bills receivables		60
Office furniture	60	
Patents	100	
Good will	1,500	
Bank	510	
Office salaries	250	
	17,300	**17,300**

Problem 2:

Prepare trial balance for the following information

Particulars	**Amount**
Capital	1,00,000
Plant & Machinery	1,60,000
Sales	3,54,000
Purchases	1,20,000
Returns outwards	1,500
Returns inwards	2,000
Opening stock	60,000
Discount allowed	700
Discount Received	1,600
Bank Charges	150
Sundry Debtors	90,000
Sundry Creditors	50,000
Salaries	13,600
Manufacturing Wages	20,000
Carriage inwards	1,500
Carriage outwards	2,400
Provision for bad debts	1,050
Rent, rates and taxes	20,000
Advertisements	4,000
Cash	1,800
Bank	12,000
Closing stock	70,000

Particulars	**Debit**	**Particulars**	**Credit**
Plant & Machinery	1,60,000	Capital	1,00,000
Purchases	1,20,000	Sales	3,54,000
Returninwards	2,000	Returnoutwards	1,500
Opening stock	60,000	Discount received	1,600
Discount allowed	700	Sundry Creditors	50,000
Sundry Debtors	90,000	Provision for bad debts	1,050
Salaries	13,600		
Manufacturing wages	20,000		
Carriage inwards	1,500		
Carriage outwards	2,400		
Rent, rates and taxes	20,000		
Advertisements	4,000		
Cash in hand	1,800		
Bank	12,000		
Bank Charges	150		
	508150		**508150**