Question And Answers?

1) What is Double Entry Book-Keeping System? 10 MARKS

Explain how they are useful to management with examples of such accounting or Discuss its object and advantage?

Discuss its chief characteristics?

Classify the different types of accounts giving definition and examples .State the rules of Debit and credit.

Explain the rules of journalizing various types of accounts with suitable example?

Answer:

Double entry is an almost universally used system of business record keeping. It is a system of recording business transaction which recognises that each transaction has a dual aspect. It is so named because the principle of double entry book keeping are based upon every transaction having two aspect or two parts, i.e. two account are always affected by each transaction. Under this system, each transaction is seen as a flow of value from one account to another. The receiving account is debited with the amount and the giving account is credited. Therefore, every debit has an equal and offsetting credit.

If only two accounts are affected (as in the purchase of building for cash), one account, building is debited and the other account, cash is credit for the same amount. If more than two accounts are affected by a transaction, the sum of the debit entries must be equal to the sum of the credit entries.

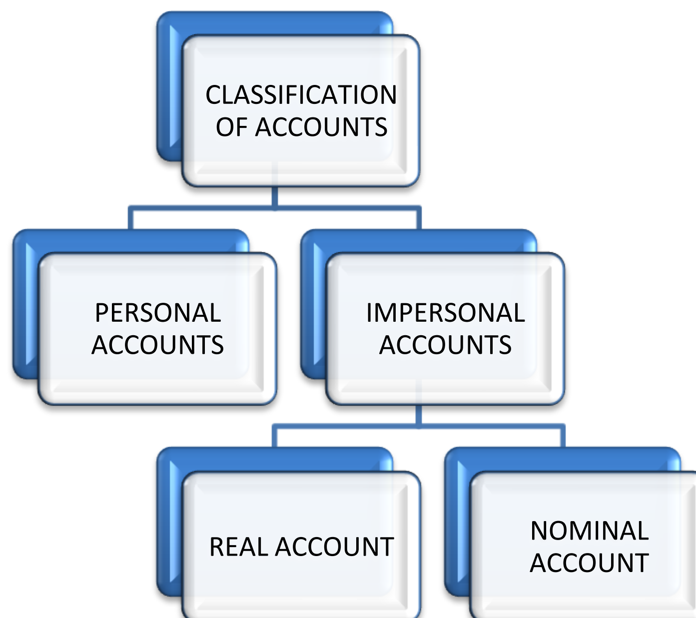
It is therefore, necessary to decide for each transaction, the following:

a) Which are the two accounts involved ,and
b) Whether the entries to those accounts are debit or credit.

Applying the principles of double entry will result in the amount being debited to an account being equal to the amount being credited to another account. The rule of double entry

system can be explained in terms of the basic accountings equation. **Liabilities + Capital = Assets.**

CLASSIFICATION /TYPES OF ACCOUNTS:



1) **PERSONAL ACCOUNTS:** The accounts which relate to an individual, firm, company or an institution are called personal accounts.**eg.** Account of Mohan, Account of DCM limited, Account of Delhi University, Bank account, Capital account of proprietor, Drawings of proprietor etc.

RULE: "Debit the Receiver, Credit the Giver".

E.g. Paid Rs 1000 to Hari.

In this case, two accounts affected are Hari's A/c and Cash A/c. According to the rule of ''Debit the receiver'', Hari's account will be debited in the entry as he is the receiver of cash. Simultaneously, the account of cash will be credited, as cash has gone out. The entry will be:

Hari (Debit the receiver) Dr.1, 000
To Cash A/c (Credit the giver) 1,000

Object: To ascertain as to how much amount a personal account owes to the business.

2) **IMPERSONAL ACCOUNTS:** When the transaction recording does not affect particular persons but affect business is known as impersonal accounts. It can be Real or Nominal Account.

   a) **Real Account:** The account of all those things whose value can be measured in terms of money and which are the properties of the business are termed as Real Accounts.
   E.g. Cash Account, Furniture Account, Machinery Account, Building Account, Goodwill Account etc.

RULE: "Debit What Comes In, Credit What Goes Out"

E.g. Furniture for Rs 5000 has been purchased for cash.

In this case furniture account should be debited according to the rules of ''Debit what comes in'' while cash account should be credited according to the rule of ''Credit what goes out''. Entry will be:

Furniture A/c Dr.5000
To Cash A/c 5000

Object: This account represents the value of various properties owned by a business in terms of money.

   b) **Nominal Account:** These accounts include the accounts of all Expenses and Losses and Income and Gains.

RULE: "Debit all Expenses & losses, Credit all Income & Gains".

E.g. (Relating to Expenses**):** Salaries Paid, Rent Paid, Discount allowed, Bad Debts etc.
(Relating to Incomes**):** Commission Received, Interest Received, Discount Received

- **E.g. Paid Rs 5000 for salaries:**

In this case the two accounts being affected are salaries A/c and Cash A/c. Salaries represents expenses and as such salaries account will be debited according to the rule of ''Debit the expenses''. On the other hand, cash account will be credited according to the rule of ''Credit what goes out''. Entry will be:

Salary A/c (Debit the expenses) Dr. 5,000
To Cash (Credit what goes out) 5,000

- **E.g. Received Rs 1,000 for Commission.**

In this case the two accounts being affected are commission A/c and Cash A/c. Commission A/c is a nominal account and represents an income. As such commission account will be credited according to the rule of ''credit the income''. On the other hand, cash account is a real account and will be debited according to the rule of ''debit what comes in''. Entry will be:

Cash A/c (Debit what come in) Dr.1, 000
To Commission A/c (Credit the income) 1,000

Object: These accounts are opened simply to explain the nature of need for which cash has been paid. It provides information regarding the following.

- Amount spent on various heads in a particular period.
- Income received on various heads in a particular period.

Advantages/Object

1) A complete record of all the transaction relating to a business unit is maintained systematically.
2) The financial position of the firm can be ascertained.
3) The arithmetical accuracy of the books of account can be ensured.
4) Location and rectification of errors are possible.
5) The system can be applied to any form of organisation.
6) Consistency can be maintained in the books of account ,which help to make a comparative study of current year's figures with those of the previous year(s)
7) The profit earned or losses suffered for an accounting period can be ascertained.
8) The amount of cash balance available at any point of time can be ascertained.
9) Amount due to suppliers and due from customers can be easily ascertained.
10) It helps take managerial decisions.
11) Greater control over the affairs of the business can be exercised and, thereby, frauds and misappropriations can be minimised.
12) The business transaction does not get mixed up with private transaction of the owners.

Principles or Characteristics

1) **Every business transaction affects two accounts:** Every business transaction has a two-fold effect, i.e. it affects two accounts simultaneously. One of them is debited and other is credited. Certain transaction may affect more than two accounts but the amount of the accounts to be debited and credited will always be equal.
2) **Recording of both personal and impersonal aspect:** Both personal and impersonal aspect of transaction is recorded in double entry. It is possible that both the aspect of a transaction may be personal or both may be impersonal or one may be personal and the other may be impersonal.
3) **Recording is made according to certain specified rules:** In double entry one account is debited and the other is credited. It does not mean that any account may be debited and any account may be credited. There are certain rules for debiting and crediting and debits and credits are made on the basis of these rules.
4) **Preparation of trial balance:** Since one account is debited and the other is credited, total of all debits is always equal to the total of all credits. This helps in finding out the arithmetical
   accuracy of the accounting records. This is done by preparing a trial balance

.

2. What is balance sheet? Distinguish between a trial balance and balance sheet. 5+5 MARKS

Answer

* A balance sheet is an accounting **statement** prepared from accounting balances at a given date.

* It shows the financial position of a business by detailing the sources of funds and the utilisation of these funds.

* A balance sheet shows the assets and liabilities grouped properly classified and arranged in a specific manner.

* The balance sheet is always drawn up at the close of business day, but is most relevant on the last day of the company's accounting period (the balance sheet date).

Major Heads of Balance Sheet:

Liabilities:-	Assets:-
1. Share Capital	1. Fixed Assets
2. Reserve and Surplus	2. Investments
3. Secured Loans	3. Current Assets, Loans of Advances
4. Unsecured Loans	4. Miscellaneous Expenses
5. Current Liabilities and Provisions	5. Profit and Loss Account (Debit balance)

DIFFERENCE BETWEEN A TRIAL BALNCE AND BALANCE SHEET			
S.No	Basis	Trial Balance	Balance sheet
1	Object	To test the accuracy of the ledger posting.	To know the financial position of the business.
2	Period	Prepared generally each month	Prepared at the end of the accounting year.
3	Nature of Account	All the three types of accounts are shown in it.	Only real and personal account is shown.
4	Need	It is not at all compulsory as it only test the accuracy of the postings.	Compulsory to know the financial position of the business.
5	Closing Stock	Does not include	Include
6	Heading	Headings are DEBIT and CREDIT	Headings are ASSETS and LIABILITIES.
7	Legality	It is not accepted by the court	Accepted by the court.
8	Closing of accounts	For preparing a trial balance there is no need to close the account.	For preparing, it is essential to close the accounts.
9	Adjustment	No attention is paid while preparing a trial balance.	Attention is paid to the adjustment while balance sheet is being prepared.
10	Order of account	Here, accounts are shown as they are shown in the ledger accounts.	Shown in order of liquidity or order of permanency

3) What is the difference between Revenue Expenditure, Capital Expenditure and deferred Revenue Expenditure? 10 MARKS.

Answer

1) <u>Capital expenditure:</u>

Capital expenditure includes costs incurred on the acquisition of a fixed asset and any subsequent expenditure that increases the earning capacity of an existing fixed asset.

The cost of acquisition not only includes the cost of purchases but also any additional costs incurred in bringing the fixed asset into its present location and condition (e.g. delivery costs).

Capital expenditure, as opposed to revenue expenditure, is generally of a one-off kind and its benefit is derived over several accounting periods. Capital Expenditure may include the following:

- Purchase costs (less any discount received)
- Delivery costs
- Legal charges
- Installation costs
- Up gradation costs
- Replacement costs

It has the following characteristics.

1) The amount involved in such expenditure is generally large.
2) Benefit is for more than one accounting year.
3) The expenditure is of non-recurring nature.

Examples:

1) Purchase of land ,building ,Machinery or furniture
2) Cost of leasehold land and building
3) Cost of acquisition of long –term rights and benefits (E.g. Patents , copyrights
4) Preliminary expenditures
5) Cost of addition or extensions to existing asset.
6) Cost of overhauling second –hand machine
7) Expenditure on putting an asset into working condition.

2) Revenue Expenditure

Revenue expenditure incurred on fixed assets includes costs that are aimed at 'maintaining' rather than enhancing the earning capacity of the assets. These are costs that are incurred on a regular basis and the benefit from these costs is obtained over a relatively short period of time. For example, a company buys a machine for the production of biscuits. Whereas the initial purchase and installation costs would be classified as capital expenditure, any subsequent repair and maintenance charges incurred in the future will be classified as revenue expenditure. This is so because repair and maintenance costs do not increase the earning capacity of the

machine but only maintains it (i.e. machine will produce the same quantity of biscuits as it did when it was first put to use).

Revenue costs therefore comprise of the following:

- Repair costs
- Maintenance charges
- Repainting costs
- Renewal expense

It has the following characteristics.

1) The amount involved in such expenditure is relatively small.
2) The benefit accruing from such expenditure is available for one accounting period only.
3) The expenditure is of recurring nature.

Examples:

1) Salaries and wages paid to employees.
2) Rent & rates for the factory or office premises.
3) Depreciation on plant & machinery.
4) Consumable stores.
5) Insurance perineum.
6) Taxes and legal expenses.
7) Miscellaneous expenses.
8) Depreciation charged on assets.

3) Deferred Revenue Expenditure.

- Deferred Revenue Expenditures are those expenditures which have been incurred in an accounting period and they do not create any assets but their benefit is spread in more than one accounting period
- It is incurred during a particular accounting period but is applicable either wholly or in part to future accounting periods.
- Example: When a new firm enters into market, it undertakes special advertising campaign on which it spends a very heavy amount, i.e. Rs 5, 00,000 in 2003 and its benefit is expected over next 5 years. This expenditure will be written off over 5 years @Rs 100,000 per year.
- <u>**Examples are Preliminary expenses ,**</u>
  1) Discount on issue of shares and debentures,
  2) Heavy expenditures on marketing of product,

3) Image building,
4) Repairing and painting of building

4) What is meant by accounting concepts? Briefly explain the accounting concepts which guide the accountant at the recording stage?10 Marks
Answer

CONCEPTS: The word concepts denote logical consideration and a notion which is generally widely accepted. The following concepts form the basis of accounting

1) **Business entity assumption**: According to this assumption, the accounting for a business or organization is kept separate from the personal affairs of its owner, or from any other business or organization. This means that the owner of a business should not place any personal assets on the business balance sheet. The balance sheet of the business must reflect the financial position of the business alone. Also, when transactions of the business are recorded, any personal expenditures of the owner are charged to the owner and are not allowed to affect the operating results of the business.
2) **Money measurement assumption**: Only those transaction and events are recorded in accountancy which is capable of being expressed in terms of money.
3) **Going concern concept:** As per this assumption it is assumed that the business will continue to exist for a long period in the future. The transaction is recorded in the books of the business on the assumption that it is a continuing enterprise. It is on this assumption that that we recorded fixed assets at their original cost and depreciation is charged on their assets without reference to their market value
4) **Duality Principle:** According to this principles, every business transaction is recorded as having a dual aspect in other words, every affects at least two accounts. If one account is debited, any other account must be credited .The system of recording transaction based on this principle is called a ''Double entry system.''
   Assets=Liabilities +Capital
5) **Verifiability and objectivity of evidence principle:** The principle means that all accounting transaction that are recorded in the books of account should be evidenced and supported by business document are cash memos, invoice, vouchers etc.
6) **Historical cost Principles:** According to this principles an assets is ordinarily recorded in the books of account at the price at which it was acquired.

7) **Principle of full discloser:** The principle requires that all significant information relating to the economic affairs of the enterprise should be complete disclosed.
8) **Principle of Timeliness:** The principle requires that the financial statement should be prepared quickly at the end of the accounting period and made external users at the earliest possible time.
9) **Principle of Materiality: This** principle is an exception to the principles of full discloser. As such it is termed as modifying principles. According to these principles, items having an insignificant effect or being irrelevant to the users need not be disclosed. These unimportant items are either left out or merged with other items, otherwise accounting statement will be unnecessarily overburdened.
10) **Principle of consistency:** This principle states that accounting principle and methods should remain consistent from one year to another. These should not be changed from year to year.

5) Explain the rules of journalizing various types of accounts with suitable example? 10Marks

Answer

PERSONAL ACCOUNTS: The accounts which relate to an individual, firm, company or an institution are called personal accounts.**eg.** Account of Mohan, Account of DCM limited, Account of Delhi University, Bank account, Capital account of proprietor, Drawings of proprietor etc.

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6) Explain various types of subsidiary books with appropriate proforma of each book? 10 Marks
Answer

Cash Book: This book is used for recording all transaction relating to cash receipts and cash payments. All banking transaction relating to receipts and payments are also recorded in this book.

Dr. Cash Book Cr.

Date	Particulars	J.F.	R. No.	Amount (Rs.)	Date	Particulars	J.F.	V. No.	Amount (Rs.)

Purchase Book: This book is used for recording the credit purchase of goods. But cash purchases and purchase of fixed assets are not recorded in this book.

Cash purchases of the goods are recorded in cash book and not in the purchase book

Following is the format of purchase book:

Purchase Book

Date	Particulars	Inward Invoice No.	L.F.	Amount
(1)	(2)	(3)	(4)	(5)

Sales Book: This book is meant for recording credit sale of goods. Cash sale of goods and sale of articles other than goods are not recorded in this book.

Sales Book

Date	Particulars	Outward Invoice No.	L.F.	Amount
(1)	(2)	(3)	(4)	(5)

Purchase Return Book or Return outward Book: When the goods previously purchased on credit are returned to the suppliers, such return are recorded in this book. The goods may be returned due to not confronting to the specifications or defective goods or for any other reason. It is also known as Returns Outward Book.

The format of the Purchase Return Book is given as:

Purchase Return Book

Date	Particulars	Debit Note No.	L.F.	Amount

Sales Return Book Or Return Inward Book: When the goods previously sold on credit are returned by the customers,, such returns are recorded in this book. The format of the Sales Return Book is given as:

Sales Return Book

Date	Particulars	Credit Note No.	L.F.	Amount Rs.

Bills receivable Book: This book is used for recording the receipts of bills receivables, promissory notes from various parties. The trader is to receive payment for these bills.

Bills Receivable Book

Date	From whom received	Term	Due date	L.F.	Amount

Bills Payable book: This book is used for recording the issue of bills payables, promissory notes to various parties. The trader is to make payment for these bills.

Bills Payable Book

Date	To whom given	Term	Due date	L.F.	Amount

Journal Proper: This book is used for recording the transaction which cannot be recorded in any of the above mentioned books. E.g. purchase of an asset on credit, depreciation on assets, expenses payable, bad debts etc. It is also known as journal proper, Modern journal or principle journal. Some authors call it only "journal".

7) What is Trial Balance? What are its objectives? Discuss various method of preparation of Trial Balance? 10 Marks

Answer

According to double entry system, after recording all the transaction into journal and postings those into ledgers and ascertaining their balances, the statement prepared to ascertain the arithmetical accuracy of accounts on a certain date is called Trial Balance. It is the statement on the basis of which, trading, profit and loss account and balance sheet is prepared.

OBJECTIVES:

To Check the Arithmetical Accuracy

Trial balance is based on the double-entry principle of debit equals credit or credit equals debit. As a result, the debit and credit columns of trial balance must always be equal. If they do, it is assumed that the recordings of financial transactions are accurate. Conversely, if they do not, it is assumed that they are not arithmetically accurate. Therefore, one important purpose of preparing trial balance is to provide a check on the arithmetical accuracy of the recordings of the financial transactions.

2. To Help Locate Accounting Errors
since the trial balance indicates if there is any error committed in the journal and the ledger, it helps the accountant to locate the error because the starting point of locating errors is trial balance itself.

3. To Summarize the Financial Transactions
A business performs several numbers of financial transactions during a certain period of time. The transactions themselves cannot portray any picture of the financial affairs of the business. For that purpose, a summary of the transactions has to be drawn. The trial balance is prepared with a view to summarize all the financial transactions of the business.

4. To Provide the Basis for Preparing Final Accounts
Final accounts are prepared to show profit and loss and the financial position of the business at the end of an accounting period. These accounts are prepared by using the debit and credit of all ledger accounts. Therefore, since the trial balance is a statement of the debit and credit balances of the ledger accounts, it provides the basis for the preparation of the final accounts.

Methods:

TOTAL METHOD: If the total of debit sides of all the account in the ledgers is placed in one column of the list and similarly total of credit sides of all the accounts in the ledgers is placed in another column of the list then this list of total (TRIAL BALANCE) will be known to have been prepared with the total methods.

After recordings totals of all accounts, the trial balance is totalled. If both the sides are equal it is assumed that the accounts are reasonably correct. It is an out of date method and is rarely followed.

BALANCE METHOD: According to this system a trial balance is prepared on the basis of balances of accounts. It is based on the mathematical maxim that if equals are taken away from equals, results are equal. This method is simple and requires less work. Balancing of accounts is a regular feature of practical accounting. Balance obtained in these procedures may easily be used for preparing the final accounts. This is most popular method and is usually adopted in practice.

8) Define Bank Reconciliation Statement and list down the cause of difference in the cash book and pass book balances. Explain the importance of BRS. Explain briefly he procedure for preparing this statement. 10 Marks

Answer

A business man maintains **cash book with bank column** to record cash and bank transaction i.e. deposits and withdraws during the course of business. He balances his cash book with bank column on regular basis may be weekly, monthly or even daily. When an account is open, bank issue a bank **pass book** which is true copy of the transaction recorded in the books of the businessman. Bank passbook is maintained by the bank for the businessman.
Theoretically the **passbook and cash book with bank column** must always tally at anytime. But in practical quite often the balance of both these books documents does not tally.
Thus it can be define as the statement which is prepared for **verifying and reconciling (An accounting process used to compare two sets of records to ensure the figures are in agreement and are accurate). The bank balance,** shown by the **cash book** and **passbook** on a certain day and incorporates the reason of disagreement between them is called a bank reconciliation statement

REASONS FOR DIFFIRENCES IN THE BALANCE OF CASH BOOK AND PASS BOOK.

1) **Cheques issued but not yet presented for payment in the bank**: When a cheque is issued to a creditor by the firm, it is immediately recorded on the credit side of the bank column of the cash book. But the bank will debit the firm's account only when this cheque is actually presented to the bank for payment. Generally, there is a gap of some days between the issue of a cheque and its presentation to the bank.
2) **Cheque paid into bank for collection but not yet credited/collected by the bank**: When a firm receives cheques, drafts etc. from its customers, they are immediately deposited into bank for collection and an entry is made on the debit side of the bank column of the cash book. But the bank will credit the firm's account only when it has actually collected the payment of these cheques from other banks. Again there will be gap of some days between the depositing of the cheques into the bank and credit given by the bank.

3) **Cheques paid into the bank for collection but dishonoured by the bank**: When cheque received from outside parties are deposited with the bank, these are immediately recorded on the debit side of the bank column of the cash book, but if the cheques are dishonoured, bank will not make any entry in the credit of the customer's account. As a result, the cash book will show an increased balance in comparison to the passbook.
4) **Interest allowed by the bank:** Interest allowed by the bank is credited to the firm, but unless intimation is received by the firm from the bank to this effect, no entry is recorded in the bank column of the cash book. Difference of these balances may arise because of the following reasons.
5) **Interest and dividend collected by the bank:** If the bank collect dividend on shares**,** interest on investments, etc on behalf of its customer, it credits the amount in the pass book. This will increase the balance in the pass book and a difference in the two balances will exits unless a corresponding entry is recorded in the cash book by the firm.
6) **Direct payment through bank:** An account holder can instruct the bank to make certain payments such as insurance premium, rent of the shop, electricity and mobile bills, loan instalment, etc. on the behalf. The bank will debit the party's account on making the payment.
7) **Direct payment into bank by a customer:** if any customer of the firm directly deposits the amount of payment into bank account of the firm, then credit entry in the passbook will be recorded by the bank. Unless the corresponding entry is recorded in the cash book, the balance of cash book and pass book will differ.
8) **Advancement in technology:** Today, there is a great impact of technology on banking sector. This is the era of internet banking as well as mobile banking. The funds are transferred from one branch to another branch or from one bank to the other bank electronically. The electronic transfer will change the balance as pass book but balance as per cash book will remain unaffected.
9) **Demat Service:** Today, shares, debentures and bonds are purchased and sold in demat form. Demat means shares and debentures exist in electronic form, not in paper form. If a businessman applies for shares and debentures from his business account and he is given partial allotment; the refund is directly transferred to his account. The transaction increases the balance as per pass book on a particular day but the balance as per cash book will be short by that amount.
10) **Errors:** There may be errors in the account maintain by the customer or bank. The two balances therefore, may not tally.
11) **Retiring a bill under rebate:** When the bills are sent to bank for making payment of the bill before its due date and earns some rebate for customers the bank will debit the customer's account with fewer amounts. Until the information is received from the bank regarding the retirement of the bill under rebate, the balances as per pass book will be more than the balance as per cash book

12) **Bank charges and commission charged by the bank:** Bank provides number of services to its customers. It collects their outstation cheques, dividends on their shares, pays some expenses on their behalf etc. bank charges commission in lieu of the services provided to the customer. Such charges and commission is debited in the pass book but no entry is recorded in the cash book unless the firm obtains the pass book from the bank and record these entries. This will
Cause the difference between two balances.
13) **Interest on bank overdraft charged by bank:** Generally bank allows overdraft facility to traders on current accounts. If bank charges interest on overdraft, an entry will be made in the debit side of the pass book but no entry will be recorded in the cash book unless the firm receives information about the interest charged by the bank. This causes the difference in the two balances.

Need Objective and Importance

1. **To highlight the cause of difference:** The main objective of this statement is to highlight the cause of difference between bank balances as per cash book and bank balance as per pass book. This helps in doing necessary correction at the earliest.
2. **To minimize the chance of fraud by cash staff:** it reduces the chances of frauds by cash staff. The cashier might have passed the entry in the bank column of the cash book but in reality he may not deposit the cash in the bank in time. This clearly depicts the significance of preparation of bank reconciliation statement.
3. **Moral check on staff:** There is a moral check on the staff of the organisation to keep the cash records always up to date.
4. **Detection of errors and omission:** It helps in detection of errors and omission in cash book and pass book. These errors are tried to be reconciled by preparing this statement. It indicates any undue delay in the clearance of outstation cheques

STEPS FOR PREPARING A BANK RECONCILATION STATEMENT.

The following steps should be taken into consideration while preparing a bank reconciliation statement.

1. The cash book should be completed and balance as per bank column on a particular date should be found out covering the period for which the bank reconciliation statement has to be prepared.

2. The bank should be requested to complete and send to the firm the bank pass book up to the date.
3. The date for preparing bank reconciliation statement is selected which is usually the last day of the month.
4. The completed pass book and cash book are compared up to a selected date to identify the cause of difference in the balances of pass book and cash book. The common items of pass book and cash book are put a tick mark () and are ignored. The uncommon items are used as a basis for preparing bank reconciliation statement.
5. The items which are not assigned a special tick mark are classified into common groups on the basis of their characteristics, e.g. cheque issued but not presented, cheque deposited but not collected by a bank, etc.
6. The balance or overdraft shown by pass book or cash book should be taken as starting point in the bank reconciliation statement. If both the balance is given, any of the two may be selected as the starting point and other will be the answer of the statement.
7. The unticked items will be either added or deducted depending upon the effect of the transaction on books.

9) What is the need for subdivision of journal? What is the sub-division and what are the transactions recorded in each sub-division of journal? Also what are its advantages and disadvantages? 10 Marks

Answer

The books in which a transaction is recorded for the first time from a source document are called 'books of original Entry'. Journal is one of the basic books of original entry in which transaction are originally recorded in a chronological (day to day) order according to the principles of double entry system. Thus journal provides a date –wise record of all the transaction with details of the accounts debited and credited, and the amount of each transaction.

If the size of business is a small one, it may be possible to entre each and every traction in one book only, i.e. Journal, which is generally known as the books of original entry. But when the size of the business grows and the number of traction becomes very large, it is no, longer possible to record all transactions in one Journal only d into a number of special journals. These special journals are also known as '**Subsidiary books'**. Or the '**Books of Original Entry '.** Each subsidiary book is meant for recording all the transaction of a similar nature. For

e.g. all cash transaction may be recorded in one book, all credit purchase traction in another book and all credit sales transaction in yet another book, and so on. Thus the subsidiary books may be defined as books where the transactions are entered first and then ledger accounts are prepared on their basis.

Following subsidiary books are most commonly used in a business:

1) **Cash Book:** This book is used for recording all transaction relating to cash receipts and cash payments. All banking transaction relating to receipts and payments are also recorded in this book.
2) **Purchase Book:** This book is used for recording the credit purchase of goods. But cash purchases and purchase of fixed assets are not recorded in this book.. Cash purchases of the goods are recorded in cash book and not in the purchase book.
3) **Sales Book:** This book is meant for recording credit sale of goods. Cash sale of goods and sale of articles other than goods are not recorded in this book.
4) **Purchase Return Book or Return outward Book:** When the goods previously purchased on credit are returned to the suppliers, such return are recorded in this book. The goods may be returned due to not confronting to the specifications or defective goods or for any other reason. It is also known as Returns Outward Book. The format of the Purchase Return Book is given as:
5) **Sales Return Book Or Return Inward Book:** When the goods previously sold on credit are returned by the customers,, such returns are recorded in this book. The format of the Sales Return Book is given as.
6) **Bills receivable Book:** This book is used for recording the receipts of bills receivables, promissory notes from various parties. The trader is to receive payment for these bills.
7) **Bills Payable book:** This book is used for recording the issue of bills payables, promissory notes to various parties. The trader is to make payment for these bills.
8) **Journal Proper**: This book is used for recording the transaction which cannot be recorded in any of the above mentioned books. E.g. purchase of an asset on credit, depreciation on assets, expenses payable, bad debts etc. It is also known as journal proper, Modern journal or principle journal. Some authors call it only "journal".

Advantages:

The main advantages of subdivision of journal **(special journal)** are as follows:

1. **Increases Efficiency:** By the adoption of special journals, the work of recording business transactions can be entrusted to several persons, who will become more familiar with their work and their efficiency will be increased.
2. **Reduction of Bookkeeping:**
   Each special journal is handled by a particular person, who will become more familiar with the work assigned to him. This may result in a reduction of book-keeping errors.
3. **Reduces Detailed Records:** In special journals each transaction is recorded on a single line which is designed to provide all necessary information. For example, the purchase of merchandise is recorded on a single line, indicating a credit to the supplier's account and giving the supplier's name, the date, the amount and any other desired information
4. **Reduces Chances of Fraud:** The chance of fraudulent alteration in an account is reduced because in special journals records of the transaction is kept in a chronological order and a particular person is responsible for it.
5. **Better Internal Control:** Better control is maintained because Special Journals allow the work to be divided in such a way that no employee has conflicting responsibilities.
6. **Saving of Time:** Journalizing can be done by a number of employees simultaneously rather than one employee, thus the business transactions can be written up much more quickly. It results in saving of time.
7. **Saving of Time:** Journalizing can be done by a number of employees simultaneously rather than one employee, thus the business transactions can be written up much more quickly. It results in saving of time.
8. **Saving in Bookkeeping Expenses:** By the adaptation of special journals a large number of transactions of repetitive nature are recorded in one journal in one line. It saves bookkeeping expenses.
9. **Permits Future References:** Transactions of similar nature are recorded in one journal. Future reference to any of them becomes easy.

Disadvantages:

1) They may be expensive in case of small business as in small business it is best to keep journal.
2) It requires some basic knowledge of accountancy as if any of the entries are recorded incorrect then it will be a problem or they need to be rectified.
3) It never provides the complete information.

10) Distinguish between Journal and Ledgers account?

DIFFERENCE BETWEEN A JOURNAL AND LEDGER			
S.No	Basis	Journal	ledger
1	Nature	Book of primary entry	Book of final entry
2	Record	Book of chronological record	Analytical record
3	Date wise	Entries are made date wise	Postings are made account wise
4	Permanence	This is only the original record and not a permanent record	This is permanent record of various accounts.
5	Processing	Process of journal entries is known as journalizing	Process is known as posting
6	Narration	Narration given after every entry	Narration is not given.
7	Folio	Folio of journal is written	Ledger folio is written
8	Basis in final accounts	Final accounts cannot be prepared directly from journal	Ledger is the basis of preparing the final accounts.
9	Balancing	Journal is not balance	Every account is balance

11) What do you mean by Generally Accepted Accounting Principles (GAAP)? Discuss any four such principles.

GAAP (stands for "generally accepted accounting principles," a collection of commonly followed accounting rules and standards for financial reporting.

The purpose of GAAP is to ensure that financial reporting is transparent and consistent from one organization to another.

In the present days no business can remain secretive because various people such as investors ,public employees ,creditors, shareholders ,government organisation, directors etc are interested to know the affairs of the business .It is necessary for accountant to develop some concepts which are regarded as fundamental of accounting. Thus the need for GAAP arises for two reasons, to be logical and consistent in recording the transaction and to confirm to the established practice and procedures.

The principles can be classified mainly into three categories:

1) **Basic assumption or concepts:** These assumptions provide a foundation for accounting process .No enterprises can prepare its financial statement without considering these basic assumption or concepts. On the basis of this basic assumption, accounting profession has developed principles that guide how transaction should be recorded and reported. Following may be treated as basic assumption or concepts.

   A. **Business entity assumption**: According to this assumption, the accounting for a business or organization is kept separate from the personal affairs of its owner, or from any other business or organization. This means that the owner of a business should not place any personal assets on the business balance sheet. The balance sheet of the business must reflect the financial position of the business alone. Also, when transactions of the business are recorded, any personal expenditures of the owner are charged to the owner and are not allowed to affect the operating results of the business.

   B) Money measurement assumption: Only those transaction and events are recorded in accountancy which is capable of being expressed in terms of money.

   C) Going concern concept: As per this assumption it is assumed that the business will continue to exist for a long period in the future. The transaction is recorded in the books of the business on the assumption that it is a continuing enterprise. It is on this assumption that that we recorded fixed assets at their original cost and depreciation is charged on their assets without reference to their market value.

2) **Basic principle:** On the basis of the assumption discussed above, certain principles have been developed that guide how transaction should be recorded and reported. These basic accounting principles are as follows.

   A. **Duality Principle:** According to this principles, every business transaction is recorded as having a dual aspect in other words, every affects at least two accounts. If one account is debited, any other account must be credited .The system of recording transaction based on this principle is called a ''Double entry system.''
   Assets=Liabilities +Capital

   B. **Verifiability and objectivity of evidence principle:** The principle means that all accounting transaction that are recorded in the books of account should be evidenced and supported by business document are cash memos, invoice, vouchers etc.

C. **Historical cost Principles:** According to this principles an assets is ordinarily recorded in the books of account at the price at which it was acquired.
D. **Principle of full discloser:** The principle requires that all significant information relating to the economic affairs of the enterprise should be complete disclosed.

3) **Modifying Principles**: There are certain accounting principles which can be slightly modified by different accountant according to the situation and requirements of the business. This is done in order to make the financial statement more relevant and reliable. These principles are as follows:
   A. **Principle of Timeliness:** The principle requires that the financial statement should be prepared quickly at the end of the accounting period and made external users at the earliest possible time.
   B. **Principle of Materiality: This** principle is an exception to the principles of full discloser. As such it is termed as modifying principles. According to these principles, items having an insignificant effect or being irrelevant to the users need not be disclosed. These unimportant items are either left out or merged with other items, otherwise accounting statement will be unnecessarily overburdened.
   C. **Principle of consistency:** This principle states that accounting principle and methods should remain consistent from one year to another. These should not be changed from year to year.
   D. **Principle of conservatism:** According to this principle, all anticipated losses should be recorded in the books of accounts, but all anticipated or unrealized gains should be ignored.

12) Explain the process of recording in the journal and ledgers. Take 5 imaginary transactions and record them in the journal and ledgers accounts?

Steps of Journalizing

- **Proper proforma :** The journal entries should always be passed in proper proforma.
- **Name of journal**: The name of the owner should always be written on the top of the journal before passing any entry in it.
- **Sorting of two accounts**: First of all two effected accounts of every transaction must be ascertained. The nature of accounts and the rules of debit and credit to be applicable are analyzed properly.
- **Uses of ‘Dr’ and ‘To’:** The word’ Dr’ must be used after the name of the account which is to be debited and word ‘To’ must be used before the account which is to

be credited .There is no need to write credit after the account which to be credited.

- **On personal accounts:** The word Account is not required in the personal account
- **Write narration:** Write a narration within brackets after the accounts to be credited.
- **Totalling of amount:** After making the necessary entries in the journal there must be a total of debit and credit column in a straight line. The total of one page is carried forward to the next page by putting "c/f" carried forward.

Steps of Ledger posting

Posting is the process of transferring entries from the journal to the ledgers. As every business transaction has two aspects and involves two accounts. Each transaction record in the journal is posted in the ledgers in two accounts. In one account is debited and in the other it is credited. The concerned account which is debited in the journal should also be debited in the ledger and the account which is credited in the journal also should be credited in the ledger. Posting is complete only when both the debit and the credit aspects of the transaction are recorded in the ledgers. Separate accounts should be opened for posting various transactions recorded in the journal.

5 Imaginary transactions

1) Ram started business with a capital of Rs 50000
2) Purchased furniture for Rs 1500
3) Opened an account with a bank depositing Rs 5000
4) Purchased goods for Rs 20000
5) Sold goods for Rs 8000

Date	Particulars	L.F	Debit	Credit
2003				
Jul-01	Cash a/c Dr.		50000	
	To Ram's Capital			50000
	(Being Business started with Rs 50000)			
Jul-02	Furniture a/c		1500	

	Dr. To cash a/c (Being furniture purchased)			1500
Jul-03	Bank Dr. To cash (Being amount deposited in the bank)		5000	5000
Jul-04	Purchase Dr. To bank (Being goods purchase for cash)		20000	20000
Jul-05	Cash a/c Dr. To sales (Being goods sold for cash)		8000	8000

12) Explain briefly any three accounting concepts and two accounting Convention.

Accounting Convention

11) **Relevance:** The convention of relevance emphasises the fact that only such information should be made available by accounting as it is relevant and useful for achieving its objectives. For example, business is interested in knowing as to what has been total labour cost? It is not interested in knowing how much employees spend and what they save.
12) **Objectivity:** The convention of objectivity emphasises that accounting information should be measured **a**nd expressed by the standards which are commonly acceptable. For Example Stock of goods lying unsold at the end of the year should be valued as its cost price not a higher price even if it is likely to be sold at a higher price in future.
13) **Feasibility:** The convention of feasibility emphasises that the time, labour and cost of analysing accounting information should be compared benefits arising out of it. For example the cost of oiling and greasing the machinery is so small that its break-up per unit produced will be meaningless and will amount to wastage of labour and time of accounting staff.

Accounting Concepts

14) **Business entity assumption**: According to this assumption, the accounting for a business or organization is kept separate from the personal affairs of its owner, or from any other business or organization. This means that the owner of a business should not place any personal assets on the business balance sheet. The balance sheet of the business must reflect the financial position of the business alone. Also, when transactions of the business are recorded, any personal expenditures of the owner are charged to the owner and are not allowed to affect the operating results of the business.
15) **Money measurement assumption**: Only those transaction and events are recorded in accountancy which is capable of being expressed in terms of money.
16) **Going concern concept:** As per this assumption it is assumed that the business will continue to exist for a long period in the future. The transaction is recorded in the books of the business on the assumption that it is a continuing enterprise. It is on this assumption that that we recorded fixed assets at their original cost and depreciation is charged on their assets without reference to their market value
17) **Duality Principle:** According to this principles, every business transaction is recorded as having a dual aspect in other words, every affects at least two accounts. If one account is debited, any other account must be credited .The system of recording transaction based on this principle is called a ''Double entry system.''

    Assets=Liabilities +Capital
18) **Verifiability and objectivity of evidence principle:** The principle means that all accounting transaction that are recorded in the books of account should be evidenced and supported by business document are cash memos, invoice, vouchers etc.
19) **Historical cost Principles:** According to this principles an assets is ordinarily recorded in the books of account at the price at which it was acquired.
20) **Principle of full discloser:** The principle requires that all significant information relating to the economic affairs of the enterprise should be complete disclosed.
21) **Principle of Timeliness:** The principle requires that the financial statement should be prepared quickly at the end of the accounting period and made external users at the earliest possible time.
22) **Principle of Materiality: This** principle is an exception to the principles of full discloser. As such it is termed as modifying principles. According to these principles, items having an insignificant effect or being irrelevant to the users need not be disclosed. These unimportant items are either left out or merged with other items, otherwise accounting statement will be unnecessarily overburdened.
23) **Principle of Materiality: This** principle is an exception to the principles of full discloser. As such it is termed as modifying principles. According to these principles,

items having an insignificant effect or being irrelevant to the users need not be disclosed. These unimportant items are either left out or merged with other items, otherwise accounting statement will be unnecessarily overburdened.

24) **Principle of consistency:** This principle states that accounting principle and methods should remain consistent from one year to another. These should not be changed from year to year.

13) What do you mean by Accounting? Explain the merits and demerits of accounting?10 Marks
Answer

Accounting may be defined as **Sciences** well as an **Art** of recording pecuniary transaction (transaction relating to money or money's worth) of a business in a set of books in a regular and systematic manner. It is also called science as it is based on certain principles and the accounting is based on 'principles so it is called science.

It is called Art because it has to written in particular performas and has to be written systematically so it is called both 'Science and Art'. Thus

''Accounting can be define as an art of recording ,classifying and summarising in a significant manner and in terms of money, transaction and events which are ,in part at least ,of a financial character, and interpreting the results thereof.'' **–By American Institute of certified Public accountants.**

Accounting offers the following advantage:

1. **Helpful in management of business:** Management needs a lot of information for the efficient running of the business. All such information is provided by the accounting which helps the management in the following:-
   A. Helpful in planning.
   B. Helpful in decision making.
   C. Helpful in controlling.
2. **Provide complete and systematic record:** Business transaction has grown in sizes and complexity and it is not possible to remember each and every transaction. Accounting keeps a prompt and systematic record of all the transaction and summarizes them in order to provide a true picture of the activities of the business entity.
3. **Information regarding profit & loss:** Accounting reports the net result of business activities of an accounting period .The profit & loss account prepared at the end of each

accounting period discloses the net profit earned or loss suffered during that period. The information regarding profit is of great use to the owners and various other interested parties.

4. **Information regarding financial position:** Accounting reports the financial position of the business by preparing a balance sheet at the end of each accounting period. Balance sheet discloses the position of assets and their values on the one hand and liabilities and capital on the other hand.
5. **Enable comparative study:** By keeping a systematic record helps the owners to compare one year's costs, expenses, sales and profit etc. with those of the other year. Such a comparison provides useful information on the basis of which important decision can be taken more judiously.
6. **Helpful in Assessment of tax liability:** Properly maintain records will be of great help when the firm is assessed to income tax or sales tax. Such records when audited are trusted by the taxation authorities.
7. **Evidence in legal matters:** Properly maintain accounts, supported by authenticated documents are accepted by the courts as firm evidence.
8. **Facilitates sale of business:** If a business entity is being sold the accounting information an be utilised to determine the proper purchase price.
9. **Helpful in raising loans:** Accounting information is of great help while raising loans from banks or other financial institution .Such institution before sanctioning loan screen various financial statement of the firm as final account, fund flow statement, cash flow statement etc.

<u>Limitation:</u>

1. **Influence by personal judgement:** Different persons are bound to have different opinion in respect of such things and hence it will result in ascertainment of different figure of profit or loss of business by different persons. Hence the figure of profit cannot be taken as an exact figure. E.g. it is extremely difficult to predict with any degree of accuracy the actual use life of assets which is needed for calculating depreciation.
2. **Based on accounting concepts and convention:** Accounts are prepared on the basis of a number of accounting concepts and convention. Hence the profitability and the financial position disclosed by it may not be realistic.
3. **Incomplete information:** Accounting statements provide only the incomplete information because the actual profit or loss of a business can be known only when the business is closed down.
4. **Omissions of qualitative information:** Accounts contain only that information which can be expressed in terms of money .Qualitative aspect of business units omitted from the books at all, as these cannot be expressed in monetary terms.

5. **Based on historical cost:** Accounts are prepared on the basis of the historical costs (i.e. the original costs) and as such the figures given in financial statement do not show the effect of change in price level.
6. **Affect by window dressing:** Window dressing refers to the practice of manipulating accounts, so that the financial statement may disclose a more favourable position than the actual position.eg the purchase made at the end of the year may not be recorded or the closing stock may be overvalued. Hence, correct decision cannot be taken on the basis of such financial statement.
7. **Unsuitable for forecasting:** Financial accounts are only a record of past events. Continuous changes take place in the demand of the product, policies adopted by the firms, the position of competition etc. As such financial analysis based on past events may not be much use for forecasting.

14) What do you mean by Petty Cash Book? Explain the different forms of Petty Cash Book.

Every business has to make payments involving smaller or petty amount, e.g carriage ,cartage, coolly hire, postage ,telegram etc. Such payments, by their very nature cannot be made by cheques. It is usual for the business unit to maintain a separate cash book to record small payments only. Such cash book is known as Petty Cash Book.

1. Simple Petty Cash Book

A simple petty cash book is one in which there is only one amount column on its both sides with common date and particular column. The debit column is used for entering the balance of cash in the hand of petty cashier at the beginning of the period and the amount received from the head cashier. The credit amount column is used for entering the petty payments in order of date. It is balanced like a ledger account

2. Analytical Petty Cash Book

An analytical petty cash book is one in which there is one amount column in its debit side and a number of columns on its credit side for different heads of expenses. Since the petty cash book analysis the expenses into a number of heads of expenses, the name given to it is analytical petty cash book. Each payment is recorded on it twice, one on total amount column and next on individual expense column. In fact, it is an extension of simple petty cash book. The total amount column is balanced and individual expense columns are totalled.

15) What do you understand by final accounts? Why are they prepared?10Marks.

Answer

After preparing the trial balance final accounts are prepared to achieve the objectives of accountancy. A business man is interested to know the final results of the business –whether he has earned profit or suffered loss in that particular accounting period.

Two main objectives of maintaining accounts are to find out the profit or loss made by the business at the end of regular periodic intervals and to ascertain the financial position of the business on a given date.

For achieving these objectives, the businessman prepares certain financial statement at the end of each accounting period. In order to know profit or loss earned by a firm, income statement or trading and profit and loss account is prepared. Balance sheet or position statement will portray the financial condition of a firm on a particular date. These two statements i.e. trading and profit and loss account and balance sheet are prepared to give the final results of the business , that is why both these are collectively called as final accounts. Thus final account includes the preparation of:

- Trading and Profit & loss Account.
- Balance Sheet.

16)Explain the following with suitable format.10 Marks

Answer

1) DEBIT NOTE

When goods are returned to the supplier, a debit note sent to him indicating that account has been debited with the amount mention in the debit note. Debit note is a letter sent by the purchaser of goods to the seller of goods on return of goods. Return of goods may happen due to the following reasons.

- If goods are defective or excess than ordered
- Wrong totalling in the invoice.
- Excess price of goods.
- Omission of any item in the invoice from the invoice.
- Items recorded in the invoice but not sent /received.

Name of the Firm Issuing the Note
Address of the Firm
Date of Issue
No.
DEBIT NOTE
Against : Supplier's Name
Goods returned as per Delivery Challan No. — Amount (Rs.)
(Details of goods returned)
(Rupees .... Only)
Signature of the Manager with date

2) CREDIT NOTE

- A form or letter sent by a seller to a buyer, stating that a certain amount has been credited to the buyer's account. A credit note is issued in various situations to correct a mistake, such as when (1) an invoice amount is overstated, (2) correct discount rate is not applied, (3) goods spoil within guaranty period, or (4) they do not meet the buyer's specifications and are returned.

Name of the Firm Issuing the Note
Address of the Firm
Date of Issue
No.
CREDIT NOTE
Against : Customer's Name
Goods returned by the customer Challan No. — Amount (Rs.)
(Details of goods received)
(Rupees .... Only)
Signature of the Manager with date

Short Notes

1) Rules of Debit and credit:

PERSONAL ACCOUNTS: The accounts which relate to an individual, firm, company or an institution are called personal accounts.**eg.** Account of Mohan, Account of DCM limited, Account of Delhi University, Bank account, Capital account of proprietor, Drawings of proprietor etc

RULE: "Debit the Receiver, Credit the Giver".

Real Account: The account of all those things whose value can be measured in terms of money and which are the properties of the business are termed as Real Accounts. E.g. Cash Account, Furniture Account, Machinery Account, Building Account, Goodwill Account etc

RULE: "Debit What Comes In, Credit What Goes Out"

Nominal Account: These accounts include the accounts of all Expenses and Losses and Income and Gains.

RULE: "Debit all Expenses & losses, Credit all Income & Gains".

2) Bank reconciliation Statement:

A business man maintains **cash book with bank column** to record cash and bank transaction i.e. deposits and withdraws during the course of business. He balances his cash book with bank column on regular basis may be weekly, monthly or even daily. When an account is open, bank issue a bank **pass book** which is true copy of the transaction recorded in the books of the businessman. Bank passbook is maintained by the bank for the businessman.

Theoretically the **passbook and cash book with bank column** must always tally at anytime. But in practical quite often the balance of both these books documents does not tally.

Thus it can be define as the statement which is prepared for **verifying and reconciling (An accounting process used to compare two sets of records to ensure the figures are in agreement and are accurate)**. **The bank balance,** shown by the **cash book** and **passbook** on a certain day and incorporates the reason of disagreement between them is called a bank reconciliation state.

3) Cash And Trade discount:

S.No	TRADE DISCOUNT	CASH DISCOUNT
1	Allowed by way of deduction in list	allowed on payment being made within a certain period
2	Allowed to attract customer to make bulk purchase	Allowed to attract prompt payment
3	It is not at all recorded in the books of account	Recorded in the books of account
4	Shown by way of deduction from invoice	Not shown by way of deduction from invoice
5	Based on quantity /amount of purchase	Based upon amount of payment

4) **Credit balance in bank account:** In the double entry system, a debit entry is an increase in an asset or expense/decrease in income or a liability while a credit entry is an increase in a liability or income/decrease in an asset or expense.
When we pay money into the bank this increases the amount the bank owes you or decreases the amount you owe the bank. From the bank's point of view this means an increase in the amount they owe you (their liabilities have increased) or a decrease in the amount you owe them (their assets have decreased).
Hence, an increase in our cash balance at the bank is a credit entry on the statement of bank send to us

5) **Bad Debts:** When the goods are sold to a customeron credit, and if the amount becomes irrecoverable due to his insolvency or for some other reason, the amount not recovered is called bad debts. For recording it, bad debts account is debited and the customer's account is credited.

6) **Intangible Assets:** Intangible real account is the account which relates to intangible things which cannot be touched or seen but can be measured in value ,e.g. Copyrights,trademarks,goodwill,patents,etc

7) **Business:** A **business**, also known as an **enterprise** or a **firm**, is an organization involved in the trade of goods, services, or both to consumers. Whenever business takes place, it results in a change in the value of some of the assets, liabilities or capital.

8) **Capital:** It is the amount invested by the proprietor in business enterprises.
Capital=Assets-liabilities.

9) **Debtors:** The term 'Debtors' represents those persons or firms **to whom** goods have been sold or service rendered on credit and payment has not been received from them. They still owe some amount to the business .for example ,if goods worth Rs 10,000 have been sold to Mohan on credit ,he will continue to remain the debtors of business so long as, he does not make full payment. Or

Debtor is the person who owes money to business. The amount due from him as per books of account is called debts. The amount due from him as per books of accounts is called debtors.

10) **Liabilities:** It refers to the amount which the firm owes to outsiders. **E.g.** When a firm purchases goods on credit from A ,the amount owing to A is a liability likewise when a bank account is overdrawn the amount owing to bank (i.e. Bank Overdraft) is knows as liability, like wise bills payable ,creditors ,unpaid wages. Etc.

11) **Wasting Assets:** Wasting assets are those assets which are consumed through being worked or used, such as mines. As soon as all the minerals have been extracted the mine becomes valueless. Wasting assets also include assets which get exhausted with the lapse of time, such as Patents, Trademarks, and Leasehold Properties etc.

12) **Credit note**: When goods are received back from a customer a credit note is sent to him indicating that the customer account has been credited in our books. A duplicate copy of the credit note is retained for the record purpose.

13) **Debit note:** When we return goods to a supplier**, we** prepare a debit note and send it to the suppliers with the returned goods. It's a document which indicates that supplier's account is being debited.

14) **Goodwill**: Arises when one company acquires another, but pays more than the fair market value of the net assets (total assets - total liabilities). It is classified as an intangible asset on the balance sheet.

15) **Transaction:** Any exchange of values for value involving money or money's worth between two or more parties is known as transaction. Value may be goods or services which can be expressed in terms of money, i.e. purchase and sale of goods for cash or credit, payment of salaries or wages, receipts of dividend, interest, etc.

16) Outstanding Expenses: If business enterprises are to be left with some expenses which are yet to be paid at the end of the accounting year due to one reason or another. Such expenses are termed as outstanding expenses.

17) **Contra Entry:** There are certain transactions which affect the cash and bank balance at the same time. These transactions are recorded in both the account on the debit and the credit side of the cash book. E.g. Deposits Rs 500 in Bank.

18) **Imprest:** The fixed amount of money, so held at the beginning of every week or fortnight, is the same amount as originally advanced and is called imprest amount.

19) **Depreciation:** It is the decrease in the value of an asset due to wear and tear and passage of time. It is an expense/loss for business.

20) **Ledger Folio:** It is a column where the page number of the ledgers on which the debit and credit accounts are posted is recorded.

21) Deferred Revenue Expenditure: Deferred Revenue Expenditures are those expenditures which have been incurred in an accounting period and they do not create any assets but their benefit is spread in more than one accounting period

- It is incurred during a particular accounting period but is applicable either wholly or in part to future accounting periods.
- Example: When a new firm enters into market, it undertakes special advertising campaign on which it spends a very heavy amount, i.e. Rs 5, 00,000 in 2003 and its benefit is expected over next 5 years. This expenditure will be written off over 5 years @Rs 100,000 per year.
- **Examples are Preliminary expenses ,**
  1) Discount on issue of shares and debentures,
  2) Heavy expenditures on marketing of product,

22) **Journal:** Journal is derived from the French word Jour which means a day. Journal means daily record. So it may be defined as a book in which transactions are recorded in the order of occurrence i.e. chronological order.

23) **Trial Balance:** Trial Balance is a statement of debit and credits totals or balance extracted from the various accounts in the ledger, and is done with a view to test the arithmetical accuracy of the books of accounts. It is made periodically, either at the end of each month or quarter. It has two sides Debit and credit.

24) **Balance sheet:** It is a statement of assets and a liability which is prepared on a particular date to ascertain the financial position of the business. It is the classified summary of the balances of Real and Personal accounts.

Assets: In financial accounting, an **asset** is an economic resource. Anything tangible or intangible that is capable of being owned or controlled to produce value and that is held to have positive economic value is considered an asset. Simply stated, assets represent value of ownership that can be converted into cash (although cash itself is also considered an asset).

25) **Stock:** The term 'stock includes the value of those goods which are lying unsold at the end of accounting period. The stock may be of two types:

- **Opening Stock**: It means value of goods lying unsold at the beginning of the accounting period
- **Closing Stock:** It means value of goods which are lying unsold at the end of accounting period.

26) **Creditor:** The term 'Creditors' represents those persons or firms **from whom** goods have been purchased or service rendered on credit and payment has not been made from them. Some money is still owing to them .for example ,if goods worth Rs5000 are purchased from Govind on credit, he will continue to remain the creditor of the firm so long as, the full payment is not made to him **or**

Creditor is the person to whom the business owes money.

27) **Drawings:** Any cash or value of goods withdrawn by the owners for personal use made out of business funds is called drawings

28) **Purchase:** The term purchase is used only for the purchase of 'Goods' in which the business deals. In case of a manufacturing concern'goods'means acquiring of raw material for the purpose of conversion into finished product and then sale. In case of trading concern 'goods' are those things which are purchased for resale.. For example, if a cloth dealer purchase cloth for sale, the cloth so purchased will be called 'goods'. However, if the same cloth dealer purchases furniture for seating the customer ,such furniture will not be termed as goods, but a separate account named as 'Furniture Account' will be opened for it. It includes both cash purchases and credit purchases of goods.

29) **Goods:** An inherently useful and relatively scarce tangible item (article, commodity, material, merchandise, supply, wares) produced from agricultural, construction, manufacturing, or mining activities.

30) **Cash Discount:** Credit is the soul of business .All big business concerns are based on credit transactions. When we sell goods on credit, we wish that our money is returned back at an early date. For this purpose when a businessman provides the discount to debtors regarding taking back the money at an early date it is called cash discount.

31) **Account:** An **account** (in bookkeeping) refers to assets, liabilities, income, expenses, and equity, as represented by individual ledger pages, to which changes in value are chronologically recorded with debit and credit entries.

32) **Bills Receivables:** Amount due from Debtors and Bills Receivable B/R is jointly termed as 'Receivables 'or Accounts Receivable'.

33) **Revenue:** Amount received from sale of goods is called 'Revenue.

34) **Trade Discount:** The objective of providing this discount is simply to increase the sale. Such discount is deducted from the invoice; hence it is not shown in the cash book**.**

35) **Capital Expenditure:** Capital expenditure includes costs incurred on the acquisition of a fixed asset and any subsequent expenditure that increases the earning capacity of an existing fixed asset. The cost of acquisition not only includes the cost of purchases but also any additional costs incurred in bringing the fixed asset into its present location and condition (e.g. delivery costs).Capital expenditure, as opposed to revenue expenditure, is generally of a one-off kind and its benefit is derived over several accounting periods.

36) **Cash Memo:** Details regarding the items, quantity, rate and the total price is mention in the cash memo. When a trader sells goods for cash he gives cash memos and when his purchase goods for cash he receives cash memos.

37) **Revenue Expenditure:** Revenue expenditure incurred on fixed assets includes costs that are aimed at 'maintaining' rather than enhancing the earning capacity of the assets. These are costs that are incurred on a regular basis and the benefit from these costs is obtained over a relatively short period of time. For example, a company buys a machine for the production of biscuits. Whereas the initial purchase and installation costs would be classified as capital expenditure, any subsequent repair and maintenance charges incurred in the future will be classified as revenue expenditure. This is so because repair and maintenance costs do not increase the earning capacity of the machine but only maintains it.

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