Bridge Course.

Department Of Business Administration

NSS College. Rajakumari

Syllabus

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Module 1

Introduction, Definition, Functions, Basic Accounting terms,

When a person starts a business, whether large or small, his main aim is to earn profit. He receives money from certain sources like sale of goods, interest on bank deposits etc. He has to spend money on certain items like purchase of goods, salary, rent, etc. These activities take place during the normal course of his business. He would naturally be anxious at the year end, to know the progress of his business.. Business transactions are numerous, that it is not possible to recall his memory as to how the money had been earned and spent. At the same time, if he had noted down his incomes and expenditures, he can readily get the required information. Hence, the details of the business transactions have to be recorded in a clear and systematic manner to get answers easily and accurately for the following questions at any time he likes.

i. What has happened to his investment?

ii. What is the result of the business transactions?

iii. What are the earnings and expenses?

iv. How much amount is receivable from customers to whom goods have been sold on credit?

v. How much amount is payable to suppliers on account of credit purchases?

vi. What are the nature and value of assets possessed by the business concern?

vii. What are the nature and value of liabilities of the business concern?

These and several other questions are answered with the help of accounting. The need for recording business transactions in a clear and systematic manner is the basis which gives rise to Book-keeping. R.N. Carter says, “Book-keeping is the science and art of correctly recording in the books of account all those business transactions that result in the transfer of money or money’s worth”.

Book-keeping does not present a clear financial picture of the state of affairs of a business. When one has to make a judgement regarding the financial position of the firm, the information contained in these books of accounts has to be analysed and interpreted. It is with the purpose of giving such information that accounting came into being. Accounting is considered as a system which collects and processes financial information of a business. These information's are reported to the users to enable them to make appropriate decisions.

In 1941, The American Institute of Certified Public Accountants (AICPA) had defined accounting as the art of recording, classifying, and summarising in a significant manner and in terms of money, transactions and events which are, in part at least, of financial character, and interpreting the results thereof'. With greater economic development resulting in changing role of accounting, its scope, became broader. In 1966, the American Accounting Association (AAA) defined accounting as 'the process of identifying, measuring and communicating economic information to permit informed judgments and decisions by users of information'

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Objectives

The main objectives of accounting are

i. to maintain accounting records.
ii. to calculate the result of operations.
iii. to ascertain the financial position.
iv. to communicate the information to users.

Functions of Accounting

i. Identifying: Identifying the business transactions from the source documents.

ii. Recording: The next function of accounting is to keep a systematic record of all business transactions, which are identified in an orderly manner, soon after their occurrence in the journal or subsidiary books.

iii. Classifying: This is concerned with the classification of the recorded business transactions so as to group the transactions of similar type at one place. i.e., in ledger accounts. In order to verify the arithmetical accuracy of the accounts, trial balance is prepared.

iv. Summarising : The classified information available from the trial balance are used to prepare profit and loss account and balance sheet in a manner useful to the users of accounting information.

v. Analysing: It establishes the relationship between the items of the profit and loss account and the balance sheet. The purpose of analysing is to identify the financial strength and weakness of the business. It provides the basis for interpretation.

vi. Interpreting: It is concerned with explaining the meaning and significance of the relationship so established by the analysis. Interpretation should be useful to the users, so as to enable them to take correct decisions.

vii. Communicating: The results obtained from the summarised, analysed and interpreted information are communicated to the interested parties.

Basic Accounting Terms

The understanding of the subject becomes easy when one has the knowledge of a few important terms of accounting. Some of them are explained below.

Transactions - Transactions are those activities of a business, which involve transfer of money or goods or services between two persons or two accounts. For example, purchase of goods, sale of goods,

Cash Transaction is one where cash receipt or payment is involved in the transaction. For example, When Ram buys goods from Kannan paying the price of goods by cash immediately, it is a cash

transaction. Credit Transaction is one where cash is not involved immediately but will be paid or received later. In the above example, if Ram, does not pay cash immediately but promises to pay later, it is credit transaction.

Proprietor - A person who owns a business is called its proprietor. He contributes capital to the business with the intention of earning profit.

Capital - It is the amount invested by the proprietor/s in the business.

Assets - Assets are the properties of every description belonging to the business. Cash in hand, plant and machinery etc

Liabilities - Liabilities refer to the financial obligations of a business. These denote the amounts which a business owes to others, e.g., loans from banks or other persons.

Drawings - It is the amount of cash or value of goods withdrawn from the business by the proprietor for his personal use. It is deducted from the capital.

Debtors -A person (individual or firm) who receives a benefit without giving money but liable to pay in future

Creditors - A person who gives a benefit without receiving money but to claim in future, is a creditor.

Purchases -Purchases refers to the amount of goods bought by a business for resale or for use in the production. Goods purchased for cash are called cash purchases. If it is purchased on credit, it is called as credit purchases. Total purchases include both cash and credit purchases.

Purchases Return or Returns Outward - When goods are returned to the suppliers due to defective quality or not as per the terms of purchase, it is called as purchases return. To find net purchases, purchases return is deducted from the total purchases.

Sales - Sales refers to the amount of goods sold. When goods are sold for cash, they are cash sales but if goods are sold and payment is not received at the time of sale, it is credit sales. Total sales includes both cash and credit sales.

Sales Return or Returns Inward - When goods are returned from the customers due to defective quality or not as per the terms of sale, it is called sales return or returns inward. To find out net sales, sales return is deducted from total sales.

Stock - Stock includes goods unsold on a particular date. Stock may be opening and closing stock. The term opening stock means goods unsold in the beginning of the accounting period. Whereas the term closing stock includes goods unsold at the end of the accounting period.

Module 2

Double Entry system, Classification of accounts,

Double Entry System

There are numerous transactions in a business concern. Each transaction, when closely analysed, reveals two aspects. One aspect will be "receiving aspect" or "incoming aspect" or "expenses/loss aspect". This is termed as the "Debit aspect". The other aspect will be "giving aspect" or "outgoing aspect" or "income/gain aspect". This is termed as the "Credit aspect". These two aspects namely "Debit aspect" and "Credit aspect" form the basis of Double Entry System.The double entry system is so named since it records both the aspects of a transaction. In short, the basic principle of this system is, for every debit, there must be a corresponding credit of equal amount and for every credit,there must be a corresponding debit of equal amount.

According to J.R.Batliboi "Every business transaction has a two-fold effect and that it affects two accounts in opposite directions and if a complete record were to be made of each such transaction, it would be necessary to debit one account and credit another account. It is this recording of the two fold effect of every transaction that has given rise to the term Double Entry System".

Account - Every transaction has two aspects and each aspect has an account. It is stated that 'an account is a summary of relevant transactions at one place relating to a particular head'.

Transactions can be divided into three categories.

i. Transactions relating to individuals and firms

ii. Transactions relating to properties, goods or cash

iii. Transactions relating to expenses or losses and incomes or gains.

Therefore, accounts can also be classified into Personal, Real and Nominal.

Personal Accounts : The accounts which relate to persons. (**Natural Persons, Artificial persons)**

Real Accounts: Accounts relating to properties and assets which are owned by the business concern.

Nominal Accounts: These accounts do not have any existence, form or shape. They relate to incomes and expenses and gains and losses of a business concern.

Accounting process starts with identifying the transactions to be recorded in the books of accounts. Accounting identifies only those transactions and events which involve money. They should be of financial character.

Module 3

Accounting equation, Rules for debit and credit,

Accounting Equation

The source document is the origin of a transaction and it initiates the accounting process, whose starting point is the accounting equation. Accounting equation is based on dual aspect concept (Debit and Credit). It emphasizes on the fact that every transaction has a two sided effect i.e., on the assets and claims on assets. Always the total claims (those of outsiders and of the proprietors) will be equal to the total assets of the business concern. The claims are also known as equities, are of two types: i.) Owners equity (Capital); ii.) Outsiders' equity (Liabilities).

Assets = Equities

Assets = Capital + Liabilities (A = C+L)

Capital = Assets – Liabilities (C = A–L)

Liabilities = Assets – Capital (L = A–C)

Rules for Debiting and Crediting

All accounts are divided into two sides. The left hand side of an account is called Debit side and the right hand side of an account is called Credit side. In the abbreviated form Debit is written as Dr. and Credit is written as Cr. If there is an increase or decrease in one account, there will be equal decrease or increase in another account. Accordingly, the following rules of debit and credit in respect of the various categories of accounts can be obtained.

The rules may be summarised as below :-

1. Increases in assets are debits; decreases in assets are credits.
2. Increases in capital are credits; decreases in capital are debits.
3. Increases in liabilities are credits; decreases in liabilities are debits.
4. Increases in incomes and gains are credits; decreases in incomes and gains are debits.

5. Increases in expenses and losses are debits; decreases in expenses and losses are credits.

Rules for Debit and Credit:

1. Personal Accounts – a) Debit the receiver b) Credit the giver
2. Real Accounts – a) Debit what comes in b) Credit what goes out
3. Nominal Accounts – a) Debit all expenses and losses b) Credit all incomes and gains

Books of Original Entry

The books in which a transaction is recorded for the first time from a source document are called Books of Original Entry or Prime Entry. Journal is one of the books of original entry in which transactions are originally recorded in a chronological (day-to-day) order according to the principles of Double Entry System.

Module 4

Journal, Ledger

Journal

Journal is a date-wise record of all the transactions with details of the accounts debited and credited and the amount of each transaction.

Journal

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

The process of analysing the business transactions under the heads of debit and credit and recording them in the Journal is called **Journalising**. An entry made in the journal is called a '**Journal Entry.**

Example 1:

January 1, 2004 – Saravanan started business with Rs. 1,00,000.

Analysis of Transaction

Step 1	Determine the two accounts involved in the transaction.	Cash Account	Capital Account
Step 2	Classify the accounts under personal, real or nominal.	Real Account	Personal Account
Step 3	Find out the rules of debit and credit.	2(a) Debit what comes in.	1(b) Credit the giver
Step 4	Identify which account is to be debited and credited.	Cash A/c is to be debited	Capital A/c is to be credited

Solution : **Journal**

Date	Particulars	LF	Debit Rs.	P.	Credit Rs.	P.
2004 Jan 1	Cash A/c Dr.	12	1,00,000	–		
	To Capital A/c	45			1,00,000	–
	(The amount invested in the business)					

Example 2:

Jan. 3, 2004 : Received cash from Balan Rs. 25,000

Analysis of Transaction

Step 1	Determine the two accounts involved in the transaction.	Cash Account	Balan Account
Step 2	Classify the accounts under personal, real or nominal.	Real Account	Personal Account
Step 3	Find out the rules of debit and credit.	2(a) Debit what comes in.	1(b) Credit the giver
Step 4	Identify which account is to be debited and credited.	Cash A/c is to be debited	Balan A/c is to be credited

Solution :

Journal

Date	Particulars	LF	Debit Rs.	P.	Credit Rs.	P.
2004 Jan 3	Cash A/c Dr.	12	25,000	–		
	To Balan's A/c (Cash received from Balan)	81			25,000	–

LEDGER

In the Journal, each transaction is dealt with separately. Therefore, it is not possible to know at a glance, the net result of many transactions. So, in order to ascertain the net effect of all the transactions relating to a particular account are collected at one place in the Ledger. A Ledger is a book which contains all the accounts whether personal, real or nominal, which are first entered in journal or special purpose subsidiary books. According to **L.C. Cropper**, 'the book which contains a classified and permanent record of all the transactions of a business is called the Ledger'The process of transferring the entries recorded in the journal or subsidiary books to the respective accounts opened in the ledger is called **Posting**.

Procedure of posting.

The procedure of posting is given as follows:

I. Procedure of posting for an Account which has been debited in the journal entry.

Step 1 à Locate in the ledger, the account to be debited and enter the date of the transaction in the date column on the debit side.

Step 2 à Record the name of the account credited in the Journal in the particulars column on the debit side as "To..... (name of the account credited)".

Step 3 à Record the page number of the Journal in the J.F column on the debit side and in the Journal, write the page number of the ledger on which a particular account appears in the L.F. column.

Step 4 à Enter the relevant amount in the amount column on the debit side.

II. Procedure of posting for an Account which has been credited in the journal entry.

Step 1 à Locate in the ledger the account to be credited and enter the date of the transaction in the date column on the credit side.

Step 2 à Record the name of the account debited in the Journal in the particulars column on the credit side as "By...... (name of the account debited)"

Step 3 à Record the page number of the Journal in the J.F column on the credit side and in the Journal, write the page numberof the ledger on which a particular account appears in the L.F. column.

Step 4 à Enter the relevant amount in the amount column on the credit side.

Balancing an Account

Balance is the difference between the total debits and the total credits of an account. When posting is done, many accounts may have entries on their debit side as well as credit side. The net result of such debits and credits in an account is the balance. **Balancing** means the writing of the difference between the amount columns of the two sides in the lighter (smaller total) side, so that the grand totals of the two sides become equal.

Module 5

Trial balance.

TRIAL BALANCE

Trial balance is a statement which shows debit balances and credit balances of all accounts in the ledger. Since, every debit should have a corresponding credit as per the rules of double entry system, the total of the debit balances and credit balances should tally (agree).

Trial Balance of ABC Ltd.
as on ....

Sl.No	Name of Account	L.F	Debit Rs.	Credit Rs.

Advantages

The advantages of the trial balance are

i. It helps to ascertain the arithmetical accuracy of the book-keeping work done during the period.
ii. It supplies in one place ready reference of all the balances of the ledger accounts.
iii. If any error is found out by preparing a trial balance, the same can be rectified before preparing final accounts.
iv. It is the basis on which final accounts are prepared.

Problem

From the following balances extracted from the books of a trader, prepare Trial Balance as on 31st March, 2014. `

Cash in hand 4,200

Cash at Bank 16,800

Bills Receivable 18,000

Bills payable 16,000

Sundry debtors 24,600

Sundry creditors 32,400

Capital 50,000

Drawings 18,000

Sales 1,05,000

Purchases 75,000

Carriage Inward 2,700

Salaries 12,000

Advertisement 2,400

Insurance 1,600

Furniture 7,500

Stock 18,600

Office Rent 2,000

Trial Balance

Name of the Account	*Dr. Balances (₹)*	*Cr. Balances (₹)*
Cash	4,200	
Bank	16,800	
Bills Receivable	18,000	
Bills payable		16,000
Sundry Debtors	24,600	
Sundry creditors		32,400
Capital		50,000
Drawings	18,000	
Sales		1,05,000
Purchases	75,000	
Carriage Inward	2,700	
Salaries	12,000	
Advertisement	2,400	
Insurance	1,600	
Furniture	7,500	
Rent	2,000	
Stock	18,600	
Total	2,03,400	2,03,400