UNIT – 4

(4)

Accounting

Accounting is the process of recording financial transactions pertaining to a business. The accounting process includes summarizing, analysing and reporting these transaction to oversight agencies, regulators and tax collection entities.

Accounting concepts and conventions

Accounting concepts are the basic ideas, the theories on how and why certain categories of transactions should be treated in a particular maner.

Accounting concepts

⇒ (1) **Business entity concept** :-

A business and its owner should be treated separately as for as their financial transactions are concerned.

→ (2) **Money measurement concept** :-

only business transaction that can be expressed in terms of money are recorded accounting, thoug records of other types of transactions may be kept separately.

⇒ (3) **Dual aspect concept** :=

For every credit, a corespanding debit is made. the recording of a transaction is complete only with this dual acepect.

Ex:= purches the machin pay the Amount atteatime. [Purches machin — Amount paying at same times.]

⇒ ⑤ Cost concept :=

The fixed assets of a business are recorded on the basis of their original cost in the first year of acounting subsequently, these assets are recorded minus depreciation.

Ex:= 10 years back Purcheasing the goods, enter the cost return in the book.

⇒ ⑤ Accounting year concept

each business a specific time period to complet in a cycle of the accouniting process –

Ex:= Exam montly, quarterly, or anually – as per a fiscal or calendar year.

⇒ ⑥ Matching concept :=

This principle dictated that for every entry of revenue recorded in a given accounting period, an equal expense entry has to be recorded for correctly calculatahg profit or loss a given period.

Ex:– income more + Expends are less.

⇒ ⑦ Realisation concept :=

According to this concept, Profit it is recognised only when it is earned. An advance or fee paid is not considered a profit until the goods or services have been delivered to the buyer.

8) Going concern Concept

In accounting, a business is expected to continue for a fairly long time and carry out its commitments and obligations.

Accounting Conventions

There are four main conventions in practice in accounting.

conservatism :- is the conventions by which, when two values of a transaction are available, the lower- value transaction is recorded. by this convention. Profit should never be overestimated and there should always be a provision for losses.

Consistency :- Prescribes the use of the same accounting principles from one period of an accounting cycle to the same standards are applied to calculate profit and loss. (2016, 2017, 2018 etc same years)

Materiality :- means that all material facts should be recorded in accounting. Accountants important data and leave out insignificant information.

full disclosure :- is the revelation of all Information, both favourable and detrimental to a business enterprise, and which are of material value to creditors and debtors.

⇒ Account equation :=

Accounting equation on describes that the total value of a business is always equal to its liabilities plus owner's equity.

The equation is the foundation of modern double entry system of accounting being used by small proprietors to large multinational corporations. other names used for accounting equation are balence sheet equation and fundamental or basic accounting equation.

$$\boxed{\text{Assets} = \text{Liabilities} + \text{owner's equity}}$$

⇒ Rules maintaining books of Accounts

Personal Accoun :=

these are the account of natural persons such as ram account, gopal Account etc...

→ Artificial such as udayltd, syndicate back.

And representative personal account.

Rule := " Debit :- The Receiver
credit :- The Giver "

→ Debit - Receiver

Ex:- Cash paid to John Rs 20000

* John's a/c Dr
To cash a/c

→ credit – Giver

Ex:= Amount recieved from bank Rs 1000 where bank is the Giver. Giver is nothing but creditor.

" cash a/c Dr
To bank a/c "

⇒ Real Account :=

These are accounts opened in the name of assets such as land and building, plant and machinary furniture and fixtures etc....

Rule:= debit – what comes in
credit – what goes out.

Ex:- debit – what comes in

→ Purchesed Machinary Rs 20,000/–

* Machinary a/c Dr
To cash a/c

Ex:- Credit – what goes out

sold furniture Rs 10,000/–

* cash a/c Dr
To furniture a/c

⇒ Naminal Accounts

This is also called fictious account. it exists only for namesake. Naminal account canont be seen.

Nominal accounts are those which are opned in the name of Expenses. losses. profits, incomes and agains.

Rule :- debit - All Expenses and loses.
credit - all income and gains.

Ex :- debit - All expenses and loses.

Rent paid RS 2000/-

Rent a/c Dr
To cash a/c

credit - all income and gains.

discount received RS 500

cash a/c Dr
To discount a/c

=> double entry := Double -entry book - keping is a scintific way of recording transaction based on the fact that for every debit, there is a corresponding credit. under double entry system. There are (3) types entry's

=> Journal entry
=> Ledger's
=> Trail balance.

(1) Journal entry := Journal means a daily record of busine transactions. Journal being a book of original entry. The transaction is first written in the Journal from which it is posted to the ledger. bellow Proforma.

Date	Particular	L.F	Debit	credit

① Journalise the following transaction in the book of kapil

① 2018 June 1 - started business with 45000/-

② June 1 - paid in to bank - 25,000/-

③ June 2 - Goods Purchased for cash - 15000/-

④ June 3 - Purchased of furniture & payment by cheque 5000/-

⑤ June 5 - Sold goods for cash - 8,500/-

⑥ " 8 - Sold goods to Aravind - 4000/-

⑦ June - 10 - Goods purchesed from Amrit - 7,000/-

⑧ June - 12 - Goods returned to Amrit - 1000/-

⑨ June - 15 - Goods returened by Arvind - 200/-

⑩ June - 18 - Cash receved from Aravind - 3760 & discount Allowed him 40/- (discount - recived credit)

⑪ June - 25 - paid Telphone Rent - 400/-

⑫ June - 30 - paid for salary - 2500/-

sol:-

Book of Kapil

Date	Particulars	L.F	Amount (Dr)	Amount (cr)
2018 June 1	Cash a/c Dr To capital a/c (Being capital Contributions)		45,000/	45000
June 1	Bank a/c Dr To Cash a/c [Being amnt paid in to bank]		25000	25000

Date	Particulars	L.F	Amount	
June-2	Purchases a/c Dr To cash a/c [Being goods purchsed for cash]		15000	15000
June-5	cash a/c Dr To sales a/c (Being goods sold for cash)		8500	8500
June-8	Aravind a/c Dr To Sales a/c (Being goods sold for cash)		4000	4000
June-10	purchese a/c Dr To Amrit's a/c (Being goods purchesd or credit)		7000	7000
June-12	cash a/c Dr To purchese Returnes a/c (Being goods returns)		1000	1000
June-15	sales Retura/c Dr To cash a/c (being good returns)		200	200
June-25	T. Rent a/c Dr. To cash a/c (being Rent paid)		400	400
June-30	salaries a/c Dr To cash a/c (being salaries paid)		2500	2500

	Cash a/c Dr	3760	
June-18	Discount a/c Dr	40	
	To Aravind a/c		3800
	(being cash recieved bank discount)		
June-3	Furniture a/c Dr		
	To bank sale		
	(being furniture purcheses)	5000	5000
		Total :-	Total :-

Ledger

Ledger is a book in which various account such as personal, real and nominal account are opened. every transaction is first recording in the journal and from it transaction to the concerned. every account in the ledger. This process of transfering the transaction from the journal to the ledger posting. The bellow proforma.

Dr | Cr

Date	Particuler	JF	Amount	Date	Particulor	JF	Amount

Dr – meance debit saide   Cr – meance credit said.

⇒ Journalise the following transaction in the books of values and prepare necesary ledger accounts.

2014 January – 1 Purchese goods for cash – 50,00
– 2 Sold goods for cash – 8000
– 3 Recived cash from Depak – 25000
– 4 paid Rent – 5000
– 5 Depositer in bank – 40,000
– 6 sold goods to Hari – 2500

sol:-

Journalisation

Date	Particular	L.F	Amount (Dr)	Amount (Cr)
2014 Jan 1	Purches a/c Dr		5000	
	To cash a/c			5000
Jan 2	cash a/c Dr		8000	
	To salese a/c			8000
Jan 3	cash a/c Dr		2500	
	To Deepak a/c			2500
Jan 4	Rent a/c Dr		5000	
	To cash a/c			5000
Jan 5	Bank a/c Dr		40,000	
	To cash a/c			40,000
Jan 6	Harish a/c Dr		25000	
	To sales a/c			2500

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Cash A/C

Dr | | | | | | | Cr

Date	Particuler	JF	Amount	Date	Particuler	JF	Amount
Jan-2	To sales a/c		8000	Jan-1	By purches a/c		5000
Jan-3	" Deepak a/c		2500	Jan-4	By Rent a/c		5000
				Jan-5	" bank a/c		40,000
							50,000 ✓
Jan-31	To balenced c/d		39,500				
			50,000	Feb-1	by balenced b/d		39,500

Purches A/c

Dr | | | | | | | Cr

Date	Particuler	JF	Amount	Date	Particuler	JF	Amount
Jan-1	To cash a/c		5000	Jan-31	by balence c/d		5000
			5000 ✓				5000
Feb-1	To balence b/d		5000				

Sals A/c

Dr | | | | | | | Cr

Date	Particuler	JF	Amount	Date	Particuler	JF	Amount
Jan-31	To balenced c/d		10,500	Jan-2	by cash a/c		8000
				Jan-6	" Hari a/c		2500
							10,500
				Feb-1	by balence b/d		10,500

Deepak a/c

Date	Particuler	JF	Amount	Date	Particuler	JF	Amount
Feb-31	To bale c/d		2500	Jan-3	By cash a/c		2500
			2500	Feb-1	by balenced b/d		2500
							2500

Dr Rent a/c Cr

Date	Particuler	JF	Amount	Date	Particuler	JF	Amount
Jan-4	To cash a/c		5000	Jan-31	by balence c/d		5000
			5000				5000
Feb-1	To balence ~~c/d~~ b/d		5000				

Dr Harish a/c Cr

Date	Particuler	JF	Amount	Date	Particuler	JF	Amount
Jan-6	To sales a/c		2500	Jan-31	by balence c/d		2500
			2500				
Feb-1	To balence b/d		2500				

Dr Bank a/c Cr

Date	Particuler	JF	Amount	Date	Particuler	JF	Amount
Jan-5	To cash a/c	✓	40,000	Jan-31	by balence c/d		40,000
			40,000				40,000
Feb-1	To balence b/d		40,000				

TRIAL Balance

Introduction to trail balance :- The trial balance is a worksheet used in book keeping. in this, the balance of every ledger is combined into credit and debit account totals that are always equal. A business will prepared trial balances on a periodic basis. it is generally done once the reporting period concludes.

⇒ Preparation of trail balance.

For preparing trail balance, first of all, it should be understood, which are the accounts that goes under debit and credit balances.

Role of the trail balence following.

Debit – Expen Losses and / Assets.
credit – Incomes Gains & Liability

* Accounts showing debit balances

→ Debtors accounts
→ Asset account such as plant, furniture etc....
→ Expenses accounts, such as rent paid.
→ Losses accounts such as goods destroyed in fire.
→ purchese accounts
→ sales return account
→ Drawing account.

* The following accounts show credit balance

- creditors account
- Liabilities account
- Incomes account
- Gains account
- profit account
- Loan account
- bank overdraft account
- Sales account
- purchase returns account
- Provision accounts such as provision for doubtful debts provision for discount on debtors.
- Reserves & funds accounts such as General Reserve or Reserve fund, workmen's compensation fund etc.......

*

⇒ ① For the Trail Account prepared for the month ending January 31, 2014.

Particulars	Particulars	(Rs) Amount	(Rs) Amount
cash account	Rent account	10,600	1000
Madhu capital	salaries accounts	15,000	400
Interest from bank account	entertainment account	750	50
discount account		100	2000
Sales account	purchases account	11,000	100
Don account	sales return account	3,400	
purchase returns account		200	27,050 = Total
Bank account		9,500	

Sol:-

For the month ending January 31, 2014

Particular	Debit balance (Rs)	Credit balance (Rs)
Cash account	10,600	
Madhu capital account		15,000
Interest from bank account		750
Discount account (Received)		100
Sales account		11,000
Dorn account	3400	
Purchase return account		200
Bank account	9,500	
Rent account	1000	
Salaries accounts	400	
Entertainment a/c	50	
Purcheses account	2,000	
Sales returns a/c	100	
	Total = 27,050/-	Total = 27,050/-

(2) Questions :- Period ending 2013 from following information.

Particular	(Rs)	Particular	(Rs)
Sundry debtors	32,000	Salaries	2,225
Stock (1.1.2010)	22,000	[Carriage outwards]	400
Cash in hand	35	Rent	900
Cash at bank	1,545	Bills payable	7,500
Plant and machin	17,500	Purchase	2,18,870
Sundry creditors	10,650	Discounts (Dr)	1,100
Trade Expense	1,075	Capital	79,500
Sales	2,34,500	Business premises	34,500

Sol:-

Trial Balance for the Period ending 2013

Particular	Debit (Rs)	Particular	Credit (Rs)
Sundry debtors	32,000		
Stock (1-1-2013)	22,000		
Cash in hand	35		
Cash at bank	1,545		
Plant and machinery	17,500	Sundry creditors	10,650
Trade Expenses	1,075	Sales	2,34,500
Salaries	2,225		
Carriage outwards	400		
Rent	900	Bills payable	7,500
Purchases	2,18,870		
Discounts (Dr)	1,100	Capital	79,500
Business Premises	34,500		
Total	3,32,150		3,32,150

Significance of Trial balance

Trial balance provides a basis for the preparation of final accounts. It ensures that the transactions recorded in the books of accounts recorded in the books of accounts have identical debit and credit amount. It shows that the balance of each ledger account has been computed correctly.

Final Accounting :-

In every business, the business man is interested in knowing whether the business has resulted in profit or loss and what the financial position of the business is at a given time. in brief he wants to know

(i) The profitability of the business and

(ii) The soundness of the business.

The trader can ascertain this by preparing the final accounts. The final account are prepared. from the trial balance.

* Hence the trial balance is said to the link b/n the ledger accounts and the final accounts. The final accounts of a firm can be divided in to two stages. The first stage is preparing the trading and profit and loss account and the second stage is preparing the balence sheet.

Their are three types.

1. Trading account
2. Profit and loss a/c
3. Balance sheet.

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Trading Account :-

Trading accounts shows gross profit or grass loss for the end of a given accounting period. Gross profit or gross loss is the excess of sales revenue over the cost of goods sold.

$\Rightarrow$ Gross profit = Net sales – cost of goods sold.

If the cost of goods sold in more than the sales revenue, it results in gross loss.

Items to be considered in trading account etc..

(a) opening stok

(b) purchases less purchase returns (return out wads)

(c) Total wages.

(d) carriage inwards

(e) fuel and power.

(f) Sales less sales returns.

(g) any other direct expenses such as freight, spent on raw materials.

(h) Closing stock given as additional Information (adjust

while preparing trading account for a manufacturing concern, consider only such factory manufactur expenses that increase the cost of goods such as fuel and power, heating and lighting etc. – In other words, gross profit is arrived at after considering all factory expenses.

The format of trading account is as follows;-

Trading Account for the year ending..... 31st March.

Dr | | | Cr

Particular	Amount	Particular	Amount
To opening stock	xxxx	By sales xxxx	[redacted]
To purchase xxxx		Less; sales return's xxxx	xxxx
Less: purchase returns xxxx	xxxx		
		By closing stock	xxxx
To carriage inwads	xxxx		
To wages	xxxx		
To freight, duty cleaning charges (Tax)	xxxx		
To fuel and power	xxxx		
To coal, gas and water	xxxx		
To motive power	xxxx		
To factory rent	xxxx		
To manufacturing expe	xxxx		
To direct expencess	xxxx		
To factory lighting	xxxx		
To gross profit	xxxx		
Total	xxxxxx	Total	xxxxxx

Example

from the following extract of trail balance, from the books of Kamal, for the year ending December 31, 2013 prepare a trading accounts.

Trail ~~Trading~~ Balance for the period ending 2013

Particulers	(Rs)	(Rs)
Sales		3,25,000
purchase	2,40,000	
freight	5,000	
Sales returns	5,000	
Purchese retorns		5,600
wages	40,000	
salariese	20,000	
carriag in wards	10,000	
opening Stock (1.12.13)	25,000	

Adjustment : stock on 31-12-2013 was RS 40,000

Sol :-

Trading balence for the Period ending 2013.

Dr | | | Cr

Particuler	(Rs)	particuler		(Rs)
To opening stock	25,000	By sales	3,25,000	
To purchases 2,40,000 Less; purchase retuns 5,600	2,34,400	Less : sales returns	5000	3,20,000
To wages	40,000	By closing stock		40,000
To carriage inwards	10,000			
freight	5,000			
To grass profit transfered To profit and loss account	45,600			
Total	3,60,000	Total		3,60,000

Note:- salaries given in trail balence is not consider here. salaries is office expense and hence it is transferred to P&L account

⇒ From the following Trial balance of vikram foundry works prepare trading account and profit and loss account for the year ending March 31, 2014. Also prepare a balance sheet as on that date.

Trial Balance as on March 31, 2014

Debit balance (Dr)	Rs.	credit balance	Rs
Electricity	14,000	Interest	16,000
Land	1,401 000	Discount	6,000
Interest	16,000	Sales	8,00,000
wages	50,000	Returns	10,000
opening stock	20,000	sundry creditors	60,000
Rent	24,000	capital	3,02,000
purchese	3,001,000	Bills payable	15,000
office expenses	30,000		
Building	4,100,000		
salaries	90,000		
Power gas and water	30,000		
Returns	20,000		
furniture	15,000		
sundry debtors	60,000		
total	12,09,000		12,09,000

Adjustments :-

1. outstanding salaries Rs 10,000
2. closing stock Rs 80,000
   Depreciate buildings @ 10 per cent annum.
3. Interest received in advance Rs 2000
4. write off bad debts Rs 10,000
5.

Sol:-

(In the books of vikram foundry works)

Trading Account for the year ending march (31, 2014)

Dr | | | Cr

Particulars	Amount	Particulars	Amount
To opening stock	20,000	By sales 8,00,000	
To purchases 3,00,000	~~3,00~~	Less: returns 20,000	7,80,000
Less: returns 10,000	2,90,000	By closing stock	80,000
To power, gas and water	30,000		
To wages	50,000		
To gross profit transer			
To profit and loss account	4,70,000		
Total	8,60,000	Total	8,60,000

⇒ Profit and Loss Account :-

Profit and Loss Accounts shows net Profit or net
given period from the gross
loss for the end of a
Profit (or gross loss) transfered from trading account
deduct expenses relating to office, selling and distribu-
department. Add all non- operating income such as
commision or rent received, interest recieved etc....

Profit and loss account consider only revenue
expenditure such as those incurred in:

* maintaining the capital asset
* runing business from time to time
* selling and distributing the goods of the

business they deals in.

The details of expenses and income entered in Profit
and loss account are furnished in the following form
of Profit and loss account. The format shows the
accounting treatment also.

Dr Profit and loss Account for the year ending ...... Cr

Particular	Amount	Particular	Amount
To salaries	xxxx	By gross profit	xxxx
To rent	xxxx	By discount received	xxxx
To insurance	xxxx	By commission received	xxxx
To carriage outwods	xxxx	By reduction in provision for bad debts	xxxx
To telephones	xxxx	By profit on sale of fixed asset	xxxx
To Provision for depreciati	xxxx		
To bad debts written off xxx			
Add: increase in bad debts xxxx			
To cost of sample	xxxx		
To advertising	xxxx		
To heating and lighting	xxxx		
To interest on loan.	xxxx		
To discount allowed	xxxx		
To net profit transferred capital a/c	xxxx		
Total	xxxxx	Total	xxxxx

→ To put it this brief, $\boxed{\text{Net profit = Gross profit + other Income − Expensses.}}$

→ Here all expenses relating to office, selling and distribution are considered.

From the given information Prepare Profit & loss Account Trail b/n. 31.3.2013

	Rs	Rs
Salaries	2,300	
Bad debts	18,000	
~~By~~ Grass profit		20,000
Rent	5000	
Loss by accident	15,00	
Interest on capital	12,00	
Discount allowed	200	
Depriciation on Mechinory	1000	
Gross profit	20,000	

sol:-

Profit and loss Account for the year ending 31.3.2013

~~deb~~ Dr Cr

Particulers	RS	Particulers	Rs
To salaries	2,300	By Gross profit	20,000
To Rent	5,000		
To Loss by accident	1500		
To bad debts	1800		
To Interest on capital	12,00		
To depreciation on Machinory	1000		
To General expenses	2,800		
To Discount allowed	200		
Net profit	4,200		
Total	20,000	total	20,000

Balance sheet

Balance sheet is a statment of assets and liabilities of business as on a given data. It shows a true and fair view of financial position of a business as on a given date.

* Balance sheet is a statement.
[(It is not an account. hence, it does not have debit side or credit side].

* It has two sides; Liabilities side and Assets side, wherein Balance sheet portrays accounting equation

Assets = equity (owner's equity or capital and creditor's equity or outside liabilities).

* In other words, under doubleentry system, assets must always be equal to capital and. liabilities.

The format of balance sheet is given below ;=

Dr | | | Cr

Liabilities	RS	Assets	RS
Long-term liabilities xxxx		Fixed Assets xxxx	
owner's capital xxxx		Less: provision for depreciation xxx	
Add: net profit from profit and loss account xxx	xxxx	Furniture and fixtures xxxx	
Less: drawings	xxxx	Less: provision for depreciation xxxx	
bank overdraft			
current Liabilities:=	xxxx	current Assets:	
sundry creditors	xxxx	stock	
Bills payable		sundry debtors	
outstanding expensess	xxxx	Less: provision for bad and doubtful debs xxx	xxxx
		Bills recpivables	xxxx
Total	xxxx	cash at bank	xxxx
		cash in hand	xxxx
		pre paid expenses	xxx
		Total	

⇒ Preparing Balance sheet of Krishna for the year ending March 31st 2020

Particuler Assets / Liabilities	Amount
Machinary	2,00,000
Depreciation	2,000
capital	35,000
Netprofit	13,428
Furniture	16,00
closing stock	16,800
Interest on capital	17,150
debtors	~~3403~~ 9,880
outstanding salar	400
Prepaid Rent	201
cash at bank	8,000
creditors	3903

sol:-

Liabilities		Rs	Assets		Amount
capital	3,5000		cash At bank		8,000
(+) Net profit	13,428				
(+) Intrest on capital	1750	50178	Machinery	2,00,00	
			(-) depreciation	2000	18,000
creditors		3903			
out standing salaries		400	Furniture		1600
			closing stock		16,800
			debtors		9,880
			Prepaid Rent		201
Total		54,481	Total		54,481

⇒ Accounting cycle :=

Accounting cycle covers all the important stages in accounting. They include the process of preparing journal ledger, trial balance and final accounts.

The moment transaction take place in business, these are recorded in the first book called journal. from journal entries are posted into ledger accounts. on the basis of balances shown by ledger accounts. a statment showing debit and credit balance. is prepared to ensure arithmetic accuracy of the account. This statment is called trial balance. from the information available in trial balance, final accounts are prepared final account comprise trading account, profit and loss account for the end of given accounting period and balance sheet as on the given data.

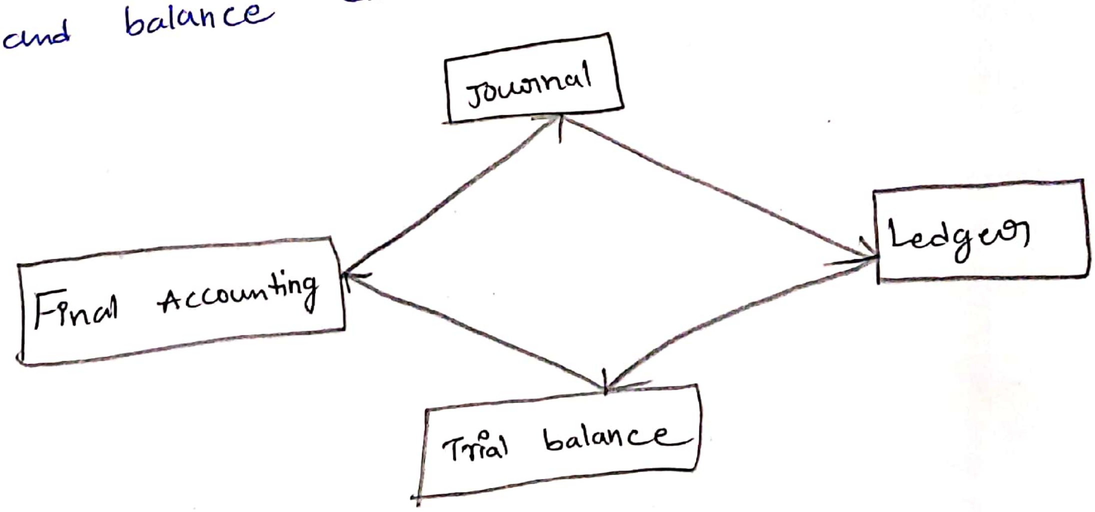

fig: Accounting cycles

* Accounting Terminology :-

The following are the terms used frequently in accounting process.

Double-entry book-keeping

This is a system of book-keeping where for every debt, there is a corresponding credit.

Account :- This is financial record in T shaped format under double entry book-keeping dealing with financial transaction.

Debit :- The left hand side of the account,

Credit :- The right hand side of the account,

Accounting period :- Accounting period refers to the period for which accounts are maintained. Normally it is a period of one year.

Transaction :- Transaction involves exchange of money or money's worth b/w two prices. Transaction may be of two types. (Cash transaction or credit transactions)

* cash transactions involves cash. receipt of cash for cash. In this transaction

Ex:- sold goods worth 5000 Gopal for cash to it is clear that the goods are sold for cash to Gopal.

credit transaction does hot involve cash. it involves a promise to pay cash at a future data. foor example. purchased goods worth RS. 30,000 from Gopal. Here Gopal supplies goods worth RS. 30,000 or we purchase goods on credit. cash is to be paid at a future data. not immediatly. So it is called a credit transaction.

=> **Assets**

All such items that have value are know as assets It refers to what a business owns, namely its plant, machinary, furniture, land and so, on.

=> **Tangible fixed Assets :=**

Tangible fixed Assets can be touched and seen.

Ex:= plant, machinary, etc...

=> **In Tangible fixed Assets :=**

such fixed Assets that canot be seen or toched are called intangible fixed Assets. They can be felt. Ex:= good will, tradmark. brand. etc.

=> **stock / Inventory :=**

stock or inventory refers to the goods in which the firm deals. A large business may have three of stock. raw meterial, work is progress. and finished goods.

⇒ **Current Assets** :-

Current Assets are Expected to be realised in cash or consumed during business operations. Examples for current assets are cash in hand, cash at bank. stock, debtor's, expenses paid in advance (prepaid expen) income yet to be received, short-term investment, bills receivable and so on.

⇒ **Debtors and creditor's** :-

Debtor's are those who owe to the business money. these arise during credit sales. debtor's are part of current assets. creditor's are those to whom the business owes money. for instance, when the firm sells goods to say x on credit, x is the debtor and the firm is the creditor.

⇒ **Bills Receivable** :-

These refer to the acceptances received from the customer or business parties to pay an agreed amount of money. Acceptances received are called bills receivable. Bills receivable form part of current Assets.

capital

capital refers to the difference b/n assets and liabilities (capital = Assets – Liabilities)

⇒ Liabilities :=

what the firm has to pay legally, they are called liabilities, in other words. it refers to what the firm owes to outsiders.

⇒ Bills Payable :=

The acceptances given to the suppliers of goods or other business parties to pay an agreed amount of money are called bills payable. Acceptances given are called bills payble. constitute part of current liabilities.

⇒ overdraft :-

The facility sanctioned by a banker to a customer to draw more than what is deposited in the account subject to a maximum limit of money is called overdraft It may be for a short period or for a long period.

⇒ Accured or outstanding Expenses :=

These refer to the expenses yet to be paid.

Example :- are outstanding salaries and rent.

⇒ current Liability :=

current liabilities are those which are payable in the near future say less than an year.

Ex := creditors, bills payable, bank overdraft and outstanding or accrued Expenses.

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Sales :- Sales refer to the value of goods or services sold during a given accounting period. Sales may be cash or credit sales. In credit sales, the debtor promises to pay the firm at a future data.

⇒ Sales Returns (Returns inwards)

These refer to the goods returned by customer with a complaint about damage or defects - sales return are also called return inwards.

⇒ Net sales :=

Net sales refer to sales minus Sales return

(Net sales = sales - sales returns)

⇒ purchases :-

purchases refer to the value of goods or services purchased during a given accounting period. purchases may be cash purchases or credit purchases. In credit purchase, the firm agress the supplier (creditor) at to pay the amount to the a future date.

⇒ purchase Returns

These are goods returned by the firm to the supliers of goods with a complaint purchasing returns also called returns outwads.

⇒ Net purchase

purchase minus purchase returns constitute net purchases. (Net purchase = pur- chages - purchase Returns).

⇒ Drawings :- This refers to the money drawn by the owner from his funds invested as capital in the business or firm. It may also refer to have value of goods used by the owner for his personal use.

⇒ Revenue expenditure :=

Revenue expenditure refers to the expenditure incurred on running the business. It also refers to maintain the assets of the business.

Example :-

for revenue Expenditure are wages and salaries. rent for factory. or office, insurance paid. depreciation on plant or any other fixed assets. purcheses of raw meterials etc----

Revenue Receipts

Revenue recipts are those receipt from customers for the goods supplied or fee received from them towards the services Providing to them in the ordinary course of business. Ex:- sales proceds, rent received, Commition

Capital Expenditure :=

Capital Expenditure is the expenditure incurred to acquire a fixed asset tangible or intangible.

Ex :- Capital Expenditure are purchase of plant and furniture, good will, etc....

Capital Receipts

Capital receipts are the receipts from sale of fixed assets such as machinary or furniture. The asset may be sold as and when it is old or is to be replaced.