Sub – Book Keeping & Accountancy

Unit-1

Book Keeping

Meaning:- Bookkeeping is the process of collecting, recording, organizing and analyzing all the financial transactions of a business. Bookkeeping is an essential part of accounting, and it focuses mainly on tracking a company's day-to-day financial transactions. All the transactions are recorded in the books of accounts, including sales revenue, tax payments, interest earned, payroll as well as other operational expenses, investments, loans and so on. The accuracy of the total accounting process in a business is determined by how well bookkeeping is managed. As a result, bookkeeping guarantees that financial transaction records are up to date and, more crucially, accurate.

Need of Book keeping

Bookkeeping holds significant importance for individuals, businesses, and organizations. Here are some of the main reasons why accounting is important:

- It allows for systematic recording and monitoring of financial transactions, enabling the tracking of income and expenses over time.
- Provides essential data for making informed financial decisions and strategies.
- Ensures accurate tax reporting and helps prevent potential legal issues with tax authorities.
- Promotes transparency by creating a clear record of all financial activities.
- Helps assess the financial health and performance of a business or organization.
- Accurate financial records enhance an entity's credibility with investors, creditors, and stakeholders.
- Facilitates preparation for financial audits and regulatory inspections.
- Assists in efficient management of resources, budgeting, and cash flow management.
- Creates a historical record of financial transactions, aiding in future planning and analysis.

1.3 Difference between Book keeping and Accounting

S.no.	Basis	Book keeping	Accounting
1	DEFINITION	Bookkeeping involves identifying, measuring, and recording financial transactions.	Accounting involves summarizing, interpreting, and communicating financial data which were classified in the ledger account
2	MANAGEMENT DECISIONS	Management cannot make decisions based on just the data provided by bookkeeping.	The management can take critical business decisions based on the data provided by financial reports and analysis.
3	OBJECTIVE	The sole objective of bookkeeping is to maintain chronological and accurate records of all financial transactions in a proper and systematic manner.	The purpose of accounting is to analyse the financial position of the business and further communicate the information to the relevant authorities.
4	FINANCIAL STATEMENTS	The process of bookkeeping does not involve preparation of financial statements.	The process of accounting involves preparation of financial statements.
5	SKILL SET	Bookkeeping is a simple process and does not require any special skill set.	Due to its analytical and complex nature, accounting requires a special skill set.
6	ANALYSIS	Analysis is not a part of the process of bookkeeping	The information provided by bookkeeping is used by accounting to prepare financial statements and other reports

7	TYPES	The two methods of bookkeeping are Single entry and double entry bookkeeping	There are two types of accounting- financial and managerial.

Generally Accepted Accounting Principles (GAAP)

The generally accepted accounting principles (GAAP) are a set of accounting rules, standards, and procedures issued and frequently revised by the Financial Accounting Standards Board (FASB) and the Governmental Accounting Standards Board (GASB). These principles ensure consistency, accuracy, and transparency in financial reporting across various industries in the United States. Public companies must follow GAAP when preparing their financial statements, which is also widely used in governmental accounting.

Why is GAAP Important?

Generally Accepted Accounting Principles make financial reporting standardized and transparent, using commonly accepted terms, practices, and procedures. The consistency of presentation of financial reports that results from GAAP makes it easy for investors and other interested parties (such as a board of directors) to more easily comprehend financial statements and compare the financial statements of one company with those of another company.

What are the Principles of Accounting?

Accounting principles refer to the rules and guidelines followed by companies while reporting their financial data. Through these rules, experts can examine the financial data by standardizing accounting methods. These principles ensure that the quality of the financial information reported by companies is improved.

Following are the twelve widely adopted principles in accounting:

1. Accrual Principle

It is one of the important accounting concepts and principles that mandate the recording of transactions in the time period in which they occur. It is regardless of the time when actual cash flows for the transactions are received. Through accrual principle, one can gain an accurate insight into the financial status of a business. Most large-scale businesses adopt an accrual

system to determine the cash flow of the business operations. Along with this, revenues and related expenses are recorded in the same time period of reporting. Both IFRS and GAAP support this concept. In case, a business has more than $5 million in revenue, then such businesses must adopt this system for the purpose of taxation.

2. Consistency principle

According to this principle, when an organisation adopts a specific accounting method of reporting or documentation, then it should stay consistent with the method. The aim of this basic accounting principle is to make financial statements comparable across industries and companies. This principle has two issues associated with it. First, the principle is not properly followed when many people are recording data and compiling reports. To combat this issue, organizations need to have a set method internally. The second issue is related to switching between the financial reporting methods. Some organizations do this in order to manipulate the data to their advantage.

3. Conservatism Principle

The Conservatism principle gives you a realistic perspective of unexpected situations. According to this principle, one should recognize expenses and liabilities at the early stages even if there is uncertainty about the outcome. However, the principle recognizes revenues and assets when there is an assurance of its receival. This principle can be applied to recognizing the estimates. The conservatism principle is the foundation of lower cost or market rule. As per this rule, one should record inventory at a lower end of its current market value or at its acquisition cost.

4. Cost Principle (historical Cost)

The Historical Cost principle is another name for the cost principle. Whenever a business acquires an asset, its initial value is recorded in its financial reports of the business. This value might not be improved in the market value of inflation. It is also not updated to reflect any depreciation or even appreciation. This value is known as the cost principle. As per the principle, companies keep a record of their tangible assets without reflecting the market value. Through this principle, companies can assess the actual cost of using financial services for calculating the historical cost principles of the assets of the company.

5. Economic Entity Principle

This principle is a basic of accounting that requires businesses to be treated as a separate financial and legal entity. This means that the recorded activities of the business entity must be

kept separate from the recorded activities of the owner and other entities. These may include either a sole trader, limited liability partnership, or general partnership.

. Matching Principle

The matching principle is a concept in accounting that states that companies must report their expenses and revenues simultaneously. The revenues and expenses are matched on income statement for a specific time period. It is a part of the accrual accounting method that provides an accurate representation of operations on the income statement. This principle is quite useful for investors as investors can match revenue and expenses to get a better sense of the finances of a business. Along with the income statement, there is a need to assess the cash flow statement as well.

7. Materiality Principle

As per the materiality principle, any item that may impact the decision-making process of an investor must be recorded. These details must be recorded in length in the financial statements using Generally Accepted Accounting Principles (GAAP). The material principle states that the accounting standard can be ignored if the end result is small. It is an important principle for deciding if a transaction should be recorded as a part of closing process.

. Full Disclosure Principle

In the Full Disclosure principle, each piece of information should be included in the financial statement of an entity. This is necessary since it might affect the reader's perspective of understanding the statement. It is important to only disclose information about events that have a material impact on the financial position of an entity. As per the full disclosure principle, it may also include those items that cannot be quantified. Businesses are also liable to report existing accounting policies and any changes in them as well.

9. Going Concern Principle

According to this accounting principle, a company will complete its recent plans, meet its financial obligations and use its existing assets. This process of continuing operations indefinitely must go on until the company has any evidence on the contrary. Through this principle, the company continues to make money to avoid going bankrupt. In case, the company is unable to adopt this principle properly, the chance of liquidation and bankruptcy increases.

Going concern concept is also known as the continuing concern concept. A company continues to be a going concern till the time the sale of assets does not hamper its operations. If a company

is no longer a continuing concern, it needs to start reporting specific information on financial statements. Through this principle, accountants can make decisions related to which information should be reported on financial statements.

10. Monetary Unit Principle

According to this principle, business transactions should be recorded only when they can be expressed as currency. Accountants should avoid recording non-quantifiable entities in the financial accounts. Whenever a transaction or an event occurs, it is first converted into money. After that, it is recorded in the financial accounts of a business. It ensures that every accounting record is measurable in monetary terms by currencies.

11. Reliability Principle

This principle ensures that every transaction, business activity, event, etc is reliable when presented in the financial statement. Information should be associated with objective evidence and it can be checked, reviewed, and verified. This makes the information more reliable. Along with this, the information should be accurate and have a transparent representation. This makes the information reliable for its users. This principle ensures every financial statement and business accounting records are accurate.

12. Time Period Principle

There are two main regulatory bodies that develop the principles based on accounting concepts. GAAP and IFRS develop these principles. US-based companies follow GAAP principles whereas, outside the US, most countries follow IFRS guidelines. GAAP is static in comparison with the IFRS. IFRS builds principles to address the evolving financial condition in the world.

1.7 1.8 Double Entry System

Definition: Double Entry System refers to the system of bookkeeping that is prevalent at present. According to this system, every transaction has equal and opposite effects, in a minimum number of two accounts. **For Example**:

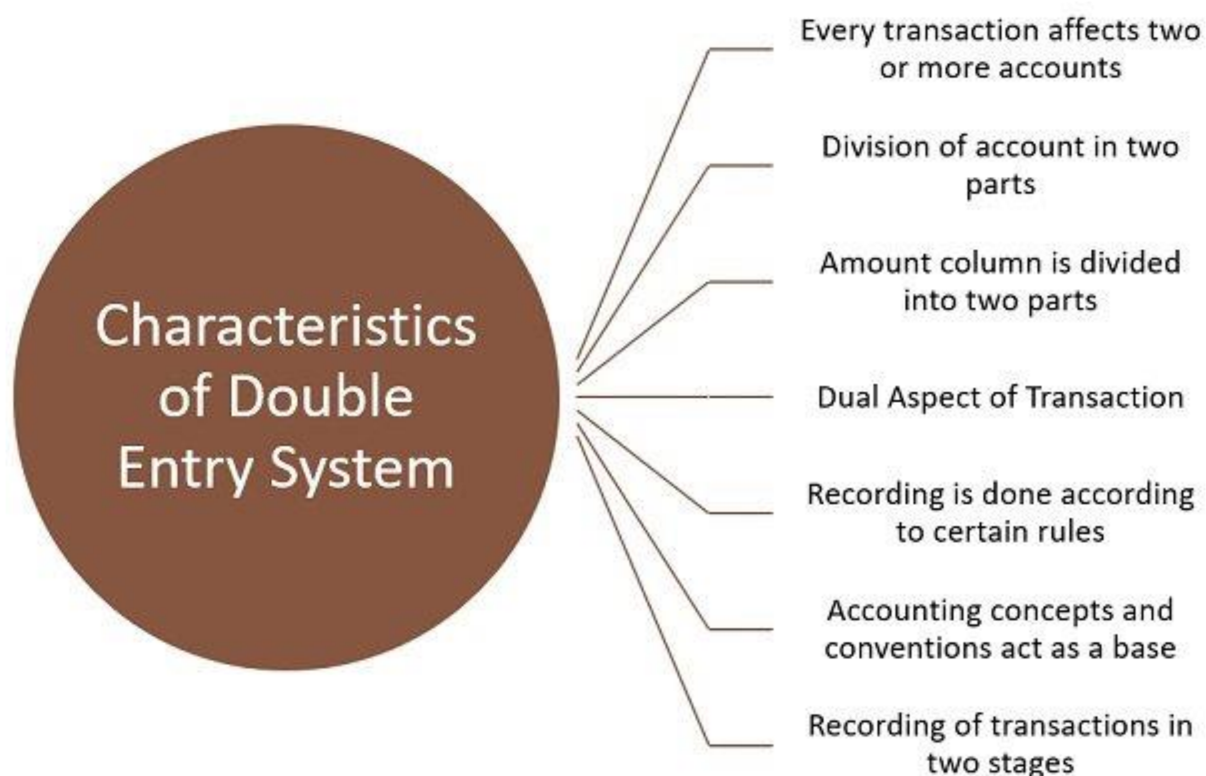
Suppose a firm purchased a laptop for cash Rs. 70,000. The two aspects of this transaction are that the amount of cash is reduced and assets, i.e. laptop comes into the organization.

Hence, in the double-entry system, both aspects of the transaction are entered into the financial books. It is also termed a complete entry system.

Therefore, the transactions are entered in the financial books as regards debit and credit, wherein debit in a particular account is counterbalanced by the credit in another account. It requires that for different transactions that have occurred during the course of business, the amount entered in the debit, of a particular account must tally with the amount entered in the credit of the corresponding account.

Characteristics of Double Entry System

Double Entry System is characterized by:



Every transaction affects two or more accounts: In every business transaction two accounts are involved, wherein one is debited while the other is credited. When one transaction affects multiple accounts, the amount of the accounts which are debited and credited are always equal.

Division of account in two parts: The basis of preparation of ledger accounts are journal and subsidiary books. Each of them has two sides wherein the left side is debit and the right-hand side is credit.

Amount column is divided into two parts: There is a division of the amount column into debit and credit.

Dual Aspect of Transaction: It is based on the notion that every debit has an equivalent credit. That is why they are recorded simultaneously on the debit and credit sides.

Recording is done according to certain rules: There are golden rules of accounting on the basis of which the recording of transactions is made in the books of accounts. These are basically rules for debit and credit.

Accounting concepts and conventions act as a base: Double Entry System of bookkeeping relies on the universally accepted conventions and concepts, which are required to be followed while maintaining accounting books.

Recording of transactions in two stages: It enables the recording of transactions at two stages – initially in a detailed manner and then in a summarized manner, which brings correctness of recording and generating accounting information.

Advantages of Double Entry System

- It keeps a complete record of every transaction and classifies them as assets, liabilities, expenses, revenue, capital, etc.
- A systematic record of the business transaction is maintained which provides relevant information in just one glance.
- It facilitates proper scrutiny and verification of the records, based on documentary proofs and vouchers.

- Preparation of final accounts helps in ascertaining the profit or loss for the accounting year, as well as the company's position of assets and liabilities.
- Comparison between current years' financial statements with those of the previous year, as well as actual and desired performance can also be compared. Also, the financial statements of the two companies can be compared.
- A systematic record of business transactions based on a double-entry system helps in the identification of fraud, errors, and embezzlement.

Disadvantages of Double Entry System

- Due to the two-fold recording of every transaction, the overall work of bookkeeping increases.
- It is a bit costly to keep detailed accounts.
- It requires the maintenance of a number of books which becomes cumbersome.
- A person with good knowledge and experience in accounting can prepare and maintain accounts.

What are Accounts?

An account is a record of all the transactions related to a particular item or category. For example, if you buy a laptop for your business, you will record this transaction in an account called "Laptop." An account shows the balance or the net amount of the item or category at any point in time. An account can also show the changes or movements in the balance over a period. You can classify accounts into three main categories: personal, real, and nominal. These categories depend on the nature and characteristics of the items or categories they represent. Let us understand each type of account in detail.

Different Types of Account

Here is a detailed explanation of the three types of accounts.

1. Personal Account

A personal account is a type of account that relates to a person or an entity that has a legal personality. A person or entity with a legal personality can engage in contracts, possess property, initiate lawsuits, face legal actions, and so on. Examples of this type of account in commerce are:

- Customers
- Suppliers
- Employees
- Banks
- Shareholders
- Partners
- Government

You can further classify this type of account in accounting into three types: natural, artificial, and representative persons.

- Natural persons are humans with the legal capacity to enter into contracts and transactions. For example, Ram, Shyam, Geeta, etc.
- Artificial persons are entities created by law and have a legal personality separate from their owners or members. The most common examples are ABC Ltd., the State Bank of India, and the Government of India.
- Representative persons are accounts that represent a group of natural or artificial persons or a specific aspect of their transactions. Some typical examples include- agents, attorneys, and executors

The rule for recording transactions in personal accounts is:

- Debit the receiver
- Credit the giver

This means that when a person or an entity receives something from another person or an entity, you debit the receiver's account and credit the giver's account. For illustration, suppose Ram sells goods worth ₹ 10,000 to Shyam on credit. In this case, Ram is the giver, and Shyam is the receiver. Therefore, you will debit Shyam's account and credit Ram's account as follows:

Account	**Debit (₹)**	**Credit (₹)**

Shyam's A/c	**10,000**	
Ram's A/c		**10,000**

2. Real Account

This type of account relates to an asset or a property with a physical existence or something you can measure in terms of money. Examples of this type of account in accounting are:

- Cash
- Bank
- Inventory
- Machinery
- Land
- Building
- Investments

You can further classify real accounts into two types: tangible and intangible.

- **Tangible real account:** This type of account relates to assets or properties that have a physical existence, and you see or touch them. For example, Cash A/c, Furniture A/c, Building A/c, Stock A/c, etc.
- **Intangible real account:** It relates to assets or properties that do not have a physical existence but have a value based on their rights or benefits—for example, Goodwill A/c, Patent A/c, Trademark A/c, etc.

The rule for recording transactions in real accounts is:

- Debit what comes in
- Credit what goes out

That means when you acquire an asset or a property, you debit its account. And when you dispose of an asset or a property, you credit its account.

For illustration, suppose Ram purchases furniture worth ₹ 50,000 in cash. In this case, furniture is coming in, and money is going out. Therefore, you will debit Furniture A/c and credit Cash A/c as follows:

Account	Debit (₹)	Credit (₹)
Furniture A/c	**50,000**	
Cash A/c		**50,000**

3. Nominal Account

A nominal account is a type of account that relates to an income, an expense, a loss, or a gain that does not have a physical existence but affects the profit or loss of the business. Examples of nominal accounts are:

- Sales
- Purchases
- Rent
- Salary
- Interest
- Depreciation
- Bad debts

You can further classify this type of account into the following types:

- **Income accounts** are those that record the inflow of money or benefits from the sale of goods or services or other sources. For example, Sales A/c, Interest Received A/c, Commission Received A/c, etc.

- **Expense accounts:** These types of accounts record the outflow of money or benefits for purchasing goods, services, or other purposes. For example, Purchase A/c, Salary A/c, Rent A/c, etc.
- **Gain accounts:** These types of accounts relate to the increase in the value of an asset or a decrease in the value of a liability due to favorable changes in market conditions or other factors. For example, Profit on Sale of Asset A/c, Discount Received A/c, etc.
- **Loss accounts:** These types of accounts record the decrease in an asset's value or an increase in the value of a liability due to unfavorable changes in market conditions or other factors. Examples include Loss on Sale of Asset A/c or Discount Allowed A/c.

The rule for recording transactions in nominal accounts is:

- Debit all expenses and losses
- Credit all incomes and gains

That means when you incur an expense or suffer a loss, you debit its account. And when you earn an income or make a gain, you credit its account

For illustration, suppose Ram pays one of his employees a salary of ₹ 20,000. In this case, salary is an expense for Ram. Therefore, you will debit Salary A/c and credit Cash A/c as follows:

Account	Debit (₹)	Credit (₹)
Salary A/c	**20,000**	
Cash A/c		**20,000**

Unit-2

Primary Books- Journal & Ledger

Meaning of Journal

Journal is a concept of recording transactions in accounting, and it is a very important concept in accounting because further accounting processes are done on the basis of journal/journal entries. Journal works according to the double entry system (under which every transaction has a debit side and a credit side) and rules of debit and credit (which states what will be debit and what will be credit). All the recordings made through the concept of journal are considered as primary recording data as it is the first stage of recording.

The recording stage of the accounting process is accomplished through the concept of journal. Entries of transactions passed with the help of the concept of journal are called journal entries and the book in which it is recorded is called journal book. The journal book is further divided into several parts called subsidiary books. When journal entries are passed the ledger accounts are prepared as the journal entries are recorded in the ledger accounts.

Definition of Journal

According to Eric. L. Kohler – *"A journal is a book of original entry in which recorded transactions are not provided for in special journals."*

According to Carter – *"The journal, as originally used, is a book of principal entry in which the transactions are copied, in order of date, from a memorandum or waste book."*

Example of Journal Entry

Date	Particulars	L.F.	Debit Amount	Credit Amount
23.04.2024	EFG Company Pvt. Ltd. Dr.	80	15,00,000/-	
	To Bank A/c	37		15,00,000/-
	Narration – Being bill paid through			

	bank.			
	–			
24.04.2024	Cash A/c Dr.	43	10,000/-	
	To LML Company Pvt. Ltd.	95		10,000/-
	Narration – Being cash received.			
	Total		**15,10,000/-**	**15,10,000/-**

Features of Journal

Following are the features of the Journal:

1. Concept:

The first feature of a journal is that it is a concept of recording transactions in accounting. With its use, the recording stage of the accounting process is completed. In the recording stage of the accounting process, the transactions are recorded in the book using the concept of journal and this is where the recording of transactions in the book starts.

2. Double Entry System:

Another feature of the journal is that it is based on the double entry system due to which each transaction is divided into a debit side and a credit side. For example, if purchase transaction is done on cash then the purchase will be on one side and cash will be on the other side. Further processing is done when the debit side and credit side of the transaction are separated.

Debit Side	Credit Side

3. Rule of Debit and Credit:

All journal entries in the journal are passed according to the rules of debit and credit. This rule helps to determine what is to be credited and what is to be debited. This rule applies along with the double entry system because without both, journal entries cannot be passed.

Personal Account	Debit the receiver. Credit the giver.
Real Account	Debit what comes in. Credit what goes out.
Nominal Account	Debit all expenses/losses. Credit all income/gains.

4. Primary Data:

All transactions recorded through the concept of journal are considered as primary data of recording as the source documents are directly recorded in it. Once the source document is identified and measured in the relevant currency, it is directly recorded in the journal book as per the concept of the journal.

5. First Stage:

Another feature of the journal is that it is the first stage of recording as the recording of transactions starts from the journal. Once the source documents have been identified and measured, they are entered directly into the journal book with the concept of a journal. This step is done very carefully as it is the primary data of recording and if any error occurs here then further processing may be hampered.

6. Systematic:

In the journal, all the transactions are recorded systematically which makes the management of transactions easier like all the economic transactions happening in the business are recorded in

the journal book in chronological order, like date, nature etc. To manage the journal book more systematically, it is divided into several parts. This division can be in many ways like according to the nature of the transaction, according to the period, etc.

What is Ledger ?

Meaning : A ledger in accounting refers to a book that contains different accounts where records of transactions pertaining to a specific account is stored. It is also known as the book of final entry or principal book of accounts. It is a book where all transactions either debited or credited are stored.

A ledger account is a combination of all the ledgers and contains information related to all the accounting activities of an organization. It is regarded as the most important book in accounting as it helps in creating a trial balance that acts as a precursor to the preparation of financial statements.

The information stored in a ledger account contains both starting and ending balances which are adjusted during the course of the accounting period with respective debits and credits.

A ledger contains different components which include the various transaction elements such as date, amount, particulars and l.f (ledger folio). Individual transactions are contained within a ledger account and are identified by a transaction number or any other type of notation.

Features of Ledger Accounts

Ledger accounts possess several key features that make them essential in accounting:

- **Detailed Record Keeping:** Ledger accounts are like a financial diary for a business. They record every financial transaction, providing a clear history of what the company has been up to financially.
- **Classification of Transactions:** Transactions are organized into different accounts within the ledger. This categorization helps us understand where money is coming from and where it’s going.

- **Double-Entry System:** Ledger accounts follow the double-entry accounting system. For every debit, there's a corresponding credit, ensuring that the books always balance. This accuracy is crucial for financial integrity.
- **Individual Account Tracking:** Each ledger account represents a specific financial aspect, like cash, assets, or expenses. This separation makes it easier to monitor and analyze different financial components.
- **Summarization:** Ledger accounts summarize transaction information from various journals. This condensation simplifies creating financial statements like the balance sheet and income statement.
- **Historical Record:** Ledger accounts maintain a historical record of financial activity. This historical data is invaluable for making informed decisions, tracking trends, and meeting regulatory requirements.
- **Trial Balance Preparation:** Ledger accounts play a key role in preparing the trial balance, a crucial step in ensuring accurate accounting records.
- **Audit Trail:** Ledger accounts provide a clear audit trail for external auditors or internal reviewers to verify the company's financial transactions and statements.
- **Business Analysis:** By examining ledger accounts, businesses can gain insights into their financial health, profitability, and areas that may require attention.
- **Legal Compliance:** Maintaining accurate ledger accounts is often a legal requirement. It ensures transparency and compliance with financial regulations.

Ledger Format

The ledger consists of two columns prepared in a T format. The two sides of debit and credit contain date, particulars, folio number and amount columns. The ledger format is as follows.

Name of the Account

Dr. **Cr.**

Date	*Particulars*	*J.F.*	*Amount* ₹	*Date*	*Particulars*	*J.F.*	*Amount* ₹

Ledger Account Example

Following are some examples of ledger accounts

1. Accounts receivable
2. Cash
3. Depreciation
4. Accounts payable
5. Salaries and wages
6. Revenue
7. Debt
8. Inventory
9. Stockholders' equity
10. Office expenses

Ledger Posting

The process of transferring entries from a journal to the respective ledger accounts is known as ledger posting. For this process, first, the entries are recorded in journals and then transferred to their respective ledger accounts.

Posting-

1. Every journal entry will have to be posted into all separate and respective Accounts which have been debited and credited in the journal entry. For example, for purchase machinery, machinery a/c is debited and purchases a/c is credited in the journal. When this entry is posted in the Ledger, it must be posted in machinery a/c and as well as in Sales Account.

2. Posting will be done on the debit side of the Account which has been debited in the journal book, and the credit side of the Account which has been credited in the journal book. In the case of the above example of the machinery purchase, posting will be made on the debit side of the machinery a/c Account, as it has been debited in a journal and the credit side of Purchases a/c as it had been credited in the journal.

3. The date of the transaction has to be put in the date column. The method of recording the data in the Ledger is the same as in a journal.

4. While posting on the debit side of an Account, in the particulars column we should write the name of the Account which had been credited in the journal and add the word 'To' before the name.

5. Similarly while posting on the credit side of an Account, we should put the name of the Account which has been debited in the journal and add the word 'By' before the name. In the case of the above example, we shall write 'To purchases A/c' in the particulars column on the debit side of the Cash Account; and 'By Machinery A/c' in the particulars column on the credit side of the Sales Account.

6. Posting in both sides, debit and credit should have entries then only a Ledger Account is complete.

7. In the folio column, we have to mention the page number of the journal where the concerned journal entry is recorded. At the same time, the page number of the Ledger Accounts will be entered in the Ledger folio.' column in the journal to complete the cross-reference. 8. The amount is written in the journal entry must be entered in both the amount columns of the Ledger Account.

Format of Ledger Accounts

Ledger accounts are organized in a table format, and here is the proper format of the ledger account.

Date	**Particulars**	**LF**
2023-09-01	Opening Balance	

2023-09-05	Sales	Sales A/c
2023-09-10	Purchase	Purchase A/c
2023-09-15	Rent Expense	Rent Expense A/c
2023-09-30	Closing Balance	

Here are the details about each of these columns:

- **Date:** This column records the transaction's date. It helps in chronologically organizing transactions.
- **Particulars:** Here, you describe the nature of the transaction, such as Sales, Purchase, or Rent Expense. It's essential for identifying the purpose of each entry.
- **LF (Ledger Folio):** The Ledger Folio column refers to the page number in the ledger where the corresponding journal entry is recorded. It aids in cross-referencing.
- **Debit (Dr.):** Money going out of the account is recorded on the debit side. The example above includes the Opening Balance, Purchases, and Rent Expenses.
- **Credit (Cr.):** Money coming into the account is recorded on the credit side. In the example, it includes Sales and Closing Balance.
- This format adheres to the double-entry system, ensuring debits and credit balances. The Opening Balance represents the initial amount in the account, and the Closing Balance shows the remaining balance after all transactions for the period.
- Moreover, the ledger accounts can vary based on the specific needs of a business, but the fundamental structure, as shown above, remains consistent. It helps maintain a clear and organized record of a company's financial transactions.

Types of Ledger Accounts

Ledger accounts come in different types, which vary based on the specific transactions they document:

1. **Sales Ledger:** The Sales Ledger, also known as the Accounts Receivable Ledger, is where a business records all transactions related to sales on credit. It includes entries for goods or services provided to customers who have not yet paid. This ledger helps track amounts receivable from customers.
2. **Purchase Ledger:** The Purchase Ledger, or Accounts Payable Ledger, is where a company records all purchases made on credit. It contains entries for goods or services received but not yet paid for. This ledger is essential for monitoring outstanding payments to suppliers.
3. **General Ledger:** The General Ledger is like a big financial diary for a business. It records all the money that the business owns (assets), what it owes (liabilities), how much money it started with (capital), what it spends (expenses), and what it earns (revenue).
4. **Assets Ledger:** This ledger records company's possessions, including cash, real estate, structures, machinery, and investments. It offers a complete overview of the organization's assets.
5. **Liabilities Ledger:** The Liabilities Ledger tracks transactions involving the company's debts and obligations, including loans, accounts payable, and accrued expenses. It helps in managing and settling these financial obligations.
6. **Income Ledger:** The Income Ledger or the Revenue Ledger, is dedicated to recording revenue-related transactions. It comprises of fees, entries for sales, interest income, and any other sources of income for the business.
7. **Expense Ledger:** The Expense Ledger is responsible for recording all the company's expenditures, encompassing items such as electricity bills, employee salaries, rent, office supplies, and various other daily operational expenses.
8. **Capital Ledger:** The Capital Ledger, also known as the Equity Ledger, is tasked with keeping detailed records related to the company's financial capital, which includes owner investments and any alterations in ownership equity.

9. **Cash Ledger:** A Cash Ledger monitors all cash transactions within a business. It helps ensure that cash inflows and outflows are accurately recorded.
10. **Bank Ledger:** The Bank Ledger is specific to tracking transactions involving the company's bank accounts. It includes deposits, withdrawals, checks issued, and bank charges.
11. **Inventory Ledger:** Businesses that deal with inventory maintain an Inventory Ledger to record stock movements, purchases, and sales of goods.
12. **Expenses Ledger:** This ledger focuses exclusively on recording various expenses incurred by the business, providing detailed insights into where the company's funds are spent.

Unit-3

Subsidiary & Cash Book

In big organizations there are numerous transactions going on, in the midst of these transactions, it is not possible to keep and maintain a record of each and every business affair. While non-recording any minute transaction can be a havoc which the business will never resort to. This is when the subsidiary books come into the action and play as a saviour.

Subsidiary books are nothing but an order of maintenance of recording similar natured transactions. Subsidiary books are the subdivisions of Journal. In this content, we will know in detail about these books and types of subsidiary books with its function.

Define Subsidiary Books Subsidiary Books are the books that record the transactions which are similar in nature in an orderly manner. They are also known as special journals or Daybooks. In big business institutions, it is not easy to record all the transactions in one journal and post them into various accounts. So, for the easy and accurate recording of all the transactions, the journal is subdivided into many subsidiary books. For every type of transaction, there is a separate book.

Types of Subsidiary Books

There are basically 8 types of subsidiary books that are used for recording different types of transactions. So, let us know the types.

The 8 Subsidiary books are as follows:

1. Cash Book
2. Purchase Book
3. Sales Book
4. Purchase Return Book
5. Sales Return Book
6. Bills Receivable Book
7. Bills Payable Books
8. Journal Proper

Set of Subsidiary Books – A Brief Study

1. **Cash Book**

The first and most important subsidiary book is the cash book. It records all the transactions related to cash and bank receipts and payments. There are 3 types of cash books that are maintained by an organization. They are:

Single Column Cash Book: A single column cash book is like a ledger account. It contains a debit side and a credit side. All Cash receipts are recorded on the debit side, and all the cash payments are recorded on the credit side of the cash book.

Format of Cash Book

Date	Particulars	L.F.	Cash	Bank	Discount Allowed	Date	Particulars	L.F.	Cash	Bank

Purchases book

A firm records all its credit purchases of goods in Purchase Book or Purchase Day Book. While it records all the cash purchases of goods in the Cash Book.

We do not record Purchases of assets in Purchase Book. Thus, they are recorded in the Journal Proper.

Purchase Book Format

Date	Name of the Supplier and details of purchases	Invoice ref.	L.F.	Amount (₹)	Remarks

Sales Book

A firm records all credit sales of goods in the Sales Book or Sales Day Book. It records cash sales of goods in the Cash Book. We do not record the sale of assets in the Sales Book.

Thus, we shall record them in the Journal Proper. In this case, also we record entries from the source documents. Also, we record entries with the net amount of the invoice.

Sales Book Format

Date	Particulars	Invoice ref.	L.F.	Amount (₹)	Remarks

Purchase Return or Return Outward Book

We record the return of goods purchased in the Purchase Return Book. A Debit Note is prepared for every return of goods in duplicate.

It contains the name of the supplier, details of goods returned and reason thereof. It needs to be dated and serially numbered.

Purchase Return Book

Date	Particulars	Debit Note No.	L.F.	Details	Totals	Remarks

Sales Return or Return Inwards Book

We record the return of goods sold in the Sales Return Book. A Credit Note is prepared for every return of goods in duplicate.

The Credit Note contains the name of the customer, details of goods returned and reason thereof. It also needs to be dated and serially numbered.

Sales Return Book

Date	Particulars	Outward invoice	L.F.	Details	Totals	Remarks

Bills Receivable Book

We record all the acceptance of the bills in our favor in the Bills receivable book. We need to post the total of bills receivable book to the Bills receivable A/c. Also, we need to post the individual accounts of the customers.

No. of bills	Daye of receipt	From whom	Name of the receiver	Name of the drawer	Name of acceptor	Date of bill	Due date	L.F.	Amount of bill	How disposed off

Bills Receivable Book Format

Bills Payable Book

We record all the acceptance of the bills that we issue in favor of others in the Bills payable book. We need to post the total of bills payable book to the Bills payable A/c. Also, we need to post the individual accounts of the suppliers.

No. of bills	Daye of acceptance	To whom	Name of drawer	Name of the payee	Where payable	Date of bill	Term	Due date	L.F.	Amount of bill how disposed of

Bills payable Book Format

Journal Proper

It includes transactions relating to credit purchase and sale of assets, depreciation, outstanding and pre-paid expenses, accrued and unearned income, opening and closing entries, adjustment entries and rectification entries.

Unit-4

What is a Trial Balance?

A Trial Balance is a statement that keeps a record of the final ledger balance of all accounts in a business. It has two columns – debit and credit. Trial Balance is prepared at the end of a year and is used to prepare financial statements like Profit and Loss Account or Balance Sheet. The main objective of a Trial Balance is to ensure the mathematical accuracy of the business transactions recorded in a company's ledgers.

Preparing a Trial Balance:

There are three methods by which you can prepare a Trial Balance. They are as follows:

- **Total Method** – Total Method records each ledger account's debit and credit columns to the Trial Balance. Both the columns should be equal as this method follows the double-entry bookkeeping method.
- **Balance Method** – This method uses each ledger account's final debit/credit balance in the Trial Balance. Once the balance figures of all accounts are listed, the Trial Balance (both on the debit and credit side) helps check the accuracy of all transactions. The Balance Method of preparing Trial Balance is more popular compared to its alternatives.
- **Total cum Balance Method** – This method is a combination of both the Total Method and Balance Method. The Trial Balance has four columns – two for the credit and debit totals of a ledger account and two for that account's credit/debit balances.

Objectives of Trial Balance:

The main objectives of a Trial Balance are as follows:

- It helps in ascertaining arithmetic errors that occur while preparing accounts. Accountants can make mistakes while recording financial transactions under the double-entry bookkeeping system. When the debit and credit sides of a Trial Balance do not match, it means one of two things. One, there was an error in either recording the account balance. Or two, there is an accounting mistake made while recording the transaction in the ledgers.
- It helps in preparing the financial statements of a company at the end of a financial year. The final balance of expenses and revenue accounts is taken from the Trial Balance and used in the Profit and Loss Account. Similarly, the accounts related to Assets, Liabilities and Capital gets recorded in the Balance Sheet.
- A Trial Balance helps in summarising the financial transactions done while running a business. It is a consolidated summary of the financial transactions that have taken place within a financial year. It can help the management in making business decisions as well.

Limitations of a Trial Balance

The main limitations of a Trial Balance are as follows:

- It may hide errors of omission. Some transactions are not journalised at all. Even a correctly balanced Trial Balance cannot reveal this mistake.
- If a journal entry with an incorrect amount gets recorded in both accounts, the Trial Balance will not detect that error.
- A journal entry may have the right amount, but the accountant may have entered it under the wrong accounting heads. The Trial Balance cannot identify such mistakes.
- If a journal entry is missing in the ledger, it will not reflect in the Trial Balance.

How to Prepare Trial Balance?

The statement for trial balance can be prepared at any time in the business like at the end of a financial year, for half yearly, at the end of a quarter, or at the end of every month. But most often trial balance is prepared at the end of the financial year so that it can be ensured that books of accounts are maintained with complete accuracy. The statement for trial balance is

not prepared as such for a particular period rather it is prepared on a set date. Following are the three methods for preparing the statement for trial balance:

1. Balance Method

While preparing the statement of trial balance under this method, all the ledger accounts with the debit balances are carried forward to the debit side of the trial balance and all the ledger accounts with the credit balances are carried forward to the credit side of the trial balance. As the name suggests, it is a method related to the balances, so the balances are available in the ledger account at the end after all the adjustments are carried forward to the trial balance. Also, if any of the ledger accounts do not show any balance i.e. the total on both the debit and the credit side is the same, then there is no need to carry it to the trial balance. So, in the end, if the debit and credit side of the trial balance matches, it can be said that the trial balance has been well prepared.

2. Total Amount Method

While preparing the statement of trial balance under this method, unlike the balance method, not only balances rather the total amount on the debit side of the ledger account is transferred to the debit side of the trial balance and the total amount on the credit side of the ledger account is transferred to the credit side of the trial balance. Under this method, the statement for trial balance can be prepared promptly after posting all the entries to ledger accounts before any adjustments are made to them.

3. Total-cum-Balances method

Under this method, two methods – 'Balance Method' and 'Total Amount Method' are combined to prepare the statement of trial balance. It implies that in total, four columns are prepared, two columns are for recording the debit and credit balances of ledger accounts and two columns are for recording the debit and credit totals of various ledger accounts. This method is rarely used and not so frequently used while making the statement for the trial balance.

Format of Trial Balance (According to Balance Method)

Name of Business
Trial Balance
as on date _______

Particulars	L.F.	Dr. Balance(₹)	Cr. Balance (₹)
Cash A/c		xxxx	
Capital A/c			xxxx
Drawings A/c		xxxx	
Purchases A/c		xxxx	
Sales A/c			xxxx
Machinery A/c		xxxx	
Rent A/c		xxxx	
Salaries A/c		xxxx	
Purchase Return and so on			xxxx
Total		**XXXX**	**XXXX**

Example of Trial Balance

Following are the ledger balances of Ram Das Pvt. Ltd. as on the date 31 March, 2022. Prepare the Trial Balance using the following balances.

Name of the Account	Amount(₹)	Name of the Account	Amount(₹)
Opening Stock	20,000	Rent	1,200
Furniture	6,000	Bills Payable	2,500
Purchases	85,000	Salaries	5,700
Machinery	62,000	Cash	5,220
Purchase Returns	5,000	Advertisement	880
Debtors	36,000	Bank Overdraft	10,000
Sales	1,60,000	Commission Received	1,440
Creditors	12,750	Interest on Bank Overdraft	1,800
Sales Returns	6,200	Discount (Cr.)	710
Bills Receivables	4,600	Capital	50,000
Drawings	7,800		

Solution:

Ram Das Pvt. Ltd.
Trial Balance
as on 31st March 2022

Particulars	L.F.	Dr. Balance(₹)	Cr. Balance (₹)
Opening Stock		20,000	
Furniture		6,000	
Purchases		85,000	
Machinery		62,000	
Purchase Returns			5,000
Debtors		36,000	
Sales			1,60,000
Creditors			12,750
Sales returns		6,200	
Bills Receivables		4,600	
Drawings		7,800	
Rent		1,200	
Bills Payable			2,500
Salaries		5,700	
Cash		5,220	
Advertisement		880	
Bank Overdraft			10,000
Commission Received			1,440
Interest on Overdraft		1,800	
Discount (Cr.)			710
Capital			50,000
Total		**2,42,400**	**2,42,400**

Unit-5

Bank Reconciliation Statement

ank Reconciliation Statement (BRS)

A BRS or bank reconciliation statement is prepared by a company to compare their bank account balance with the accounting records. It helps identify discrepancies between the two data, such as unrecorded transactions, errors, or fraud.

A bank reconciliation statement is an important financial document that helps in tax and financial reporting. It includes details such as deposits, withdrawals and any other transactional activities related to the bank account for a specific period.

Check details on what is bank reconciliation statement, BRS format and the method to prepare a BRS on this page.

Format of Bank Reconciliation Statement

A Bank Reconciliation Statement helps identify and explain the differences between the bank's records and the company's records, ensuring accurate financial reporting. It generally consists of the following components:

- Name of the Company or Account Holder.
- Date of the Statement.
- Bank Balance as per Bank Statement.
- Additions to Bank Statement Balance: This includes deposits in transit, interest earned but not yet recorded by the bank and any other credits not yet recorded by the bank.
- Deductions from Bank Statement Balance: This includes outstanding cheques, bank service charges or fees and any other debits not yet recorded by the bank.

- Adjusted Bank Statement Balance.
- Bank Balance as per Company's Records.
- Any deposits or credits recorded in the company records but not mentioned on the bank statement.
- Deductions from Company's Record Balance.
- Signature of the responsible person who prepared the reconciliation statement.

One can refer to the image below to get a proper understanding of the bank reconciliation statement format.

Bank Reconciliation Statement
as on ...

	Particulars	Plus(₹)	Minus(₹)
Dr. Balance (Favourable Balance) as per Cash Book		XXXX	
Add:	1. Cheque issued or drawn but not yet presented for payment	XXX	
	2. Interest allowed by the bank not recorded in Cash Book	XXX	
	3. Amount directly deposited by the customers in our Bank Account	XXX	
	4. Interest and Dividends collected by bank on investments	XXX	
	5. Cheque paid into bank but omitted to be entered in the Cash Book	XXX	
	6. Any wrong credit given by the bank in the Pass Book	XXX	
Less:	1. Cheque paid into the bank for collection but not yet credited by the bank		XXX
	2. Cheque paid into the bank for collection but dishonored by the bank		XXX
	3. Direct payment made by the bank according to prior instructions		XXX
	4. Bank Charges and commission charged by the bank		XXX
	5. Cheque issued but omitted to be recorded in the Cash Book		XXX
	6. Any wrong debit given by the bank in the Pass Book		XXX
		XXXX	**XXXX**
Cr. Balance (Favourable Balance) as per Pass Book			XXX
		XXXX	**XXXX**

Image source: Geeksforgeeks

Method to Prepare a Bank Reconciliation Statement

To do the bank reconciliation, one should have their bank statements and accounting records, including chequebooks, receipts, and any deposit slips. Here are the detailed steps to prepare a bank reconciliation statement:

- List outstanding checks: Make a list of any outstanding cheques that have been issued by you but haven't been cleared by the bank.
- Identify deposits in transit: Find any deposits that were made by you but haven't appeared on your bank statement yet. Record these as deposits in transit.
- Compare records: Compare your list of outstanding checks and deposits in transit with the transactions on your bank statement.
- Adjustments: This includes adding deposits in transit to your bank statement balance, deducting outstanding checks from your bank statement balance and considering any bank fees, interest, or errors in your records.
- Reconcile: Calculate the adjusted bank balance and compare it to your own records' balance. They should now match.
- Identify discrepancies: If there are any unresolved discrepancies, investigate and document them. You can contact your bank or review your records to detect any errors.
- Update records: Make any necessary adjustments in your own accounting records to reflect the reconciled balance.

Benefits of Bank Reconciliation Statement (BRS)

A Bank Reconciliation Statement (BRS) offers several benefits. Some of the major importance of BRS is mentioned below:

- It helps identify discrepancies between the company's records and the bank statement, such as accidental errors, omissions, duplications or unauthorized transactions.

- A BRS can uncover fraudulent activities, like unauthorized withdrawals or altered check amounts.
- It ensures the accuracy of a company's financial records, which is important for financial and tax reporting.
- BRS serves as a reference to resolve disputes with the bank regarding fees, interest, or discrepancies in account balances.
- It helps to demonstrate transparency to investors or auditors by showing that financial records are regularly reviewed and reconciled.