ΣXEMPLAR POINT® PVT. LTD.

A Complete Institute For Students

CREATING AND SETTING EXAMPLES FOR FUTURE...

CLASS XI

ACCOUNTS

THEORY & ASSIGNMENT

ON

INTRODUCTION TO ACCOUNTING

HEAD OFFICE : B-1/30, MALVIYA NAGAR

PH. 26675331, 26675333, 26675334, 8527363750

CENTRES AT: H-36 B, KALKAJI PH. : 26228900, 40601840

E-555, 1ST FLOOR RAMPHAL CHOWK, SEC-7 DWARKA PH. 9560088728-29

Unit	PART – A **(52)**	Marks
1.	**Introduction to Accounting**	**(12a)**
	Lesson – 1 (Introduction to Accounting) Lesson – 2 (Basic Accounting Terms)	
2.	**Theory Base of Accounting**	**(12b)**
	Lesson – 3 (Theory Base of Accounting and Accounting Standards & Ind-AS) Lesson – 4 (Basis of Accounting)	
3.	**Recording of Business Transactions**	**(40a)**
	Lesson – 5 (Accounting Equation) Lesson – 6 (Accounting Procedures – Rules of Debit and Credit) Lesson – 7 (Origin of Transactions – Source Documents and Preparation of Voucher) Lesson – 8 (Journal and Ledger) Lesson – 9 (Ledger) Lesson – 10 (Special Purpose Books I – Cash Book) Lesson – 11 (Special Purpose Books II – Other Book)	
4.	**Preparation of Ledger, Trial Balance and Bank Reconciliation Statement**	**(40b)**
	Lesson – 12 (Bank Reconciliation Statements) Lesson – 13 (Trial Balance)	
5.	**Depreciation, Provision and Reserves**	**(40c)**
	Lesson – 14 (Depreciation) Lesson – 15 (Provisions and Reserves)	
6.	**Accounting for Bills of Exchange Transactions**	**(40d)**
	Lesson – 16 (Accounting for Bills of Exchange)	
7.	**Rectification of Errors**	**(40e)**
	Lesson – 17 (Rectification of Errors)	
	Total	**52**
Unit	PART – B **(28)**	
8.	**Financial Statements of Sole Proprietorship**	**(20a)**
	Lesson – 18 (Final A/c without Adjustments) Lesson – 19 (Final A/c with Adjustments)	
9.	**Accounts from Incomplete Records**	**(20b)**
	Lesson – 20 (Single Entry System)	
10.	**Computers in Accounting**	**(08)**
	Lesson – 21 (Computers in Accounting) Lesson – 22 (Tally)	
	Total	**28**
11.	**Project Work**	**(20)**

	Total	**100**

Lesson – 1 (Introduction to Accounting)

MEANING OF ACCOUNTING

Accounting is the process of collecting, recording, summarising and communicating financial information. Accounting is an information system that provides accounting information to users for correct decision making.

ATTRIBUTES / CHARACTERISTICS OF ACCOUNTING

1) **Accounting is an Art as well as a Science:** Accounting is both science and an art. Like science, accounting also has its own principles, concepts and assumptions, which are universally applicable. Art involves application of theoretical knowledge into practical. Similarly, accounting concepts and principles are used while preparing books of accounts practically in the real life situation.

2) **Accounting Records only those Events and Transactions which are of Financial Character:**

It is a serious limitation of accounting. For example, a quarrel between the Production Manager and the Sales Manager affects the earnings of the business but it is not recorded because it has no financial character, no economic value and no exchange value.

3) **Accounting Records Transactions by Expressing them in Terms of Money:**

This makes the transaction more meaningful. For example, if a business has 10 machines, 20 tons of raw material, 2 buildings, 20 tables and chairs, 20 fans, etc., it is not possible to add them together or know which one is more valuable unless they are expressed in terms of money.

4) **Functions / Process of Accounting:**

(i) Identification of Economic events and measuring them in terms of money.

(ii) Recording of accounting transactions in appropriate books of accounts known as "journal" which may be further sub-divided into various "Subsidiary books".

(iii) Classifying is the process of grouping transaction or entries of one nature at one place. They are to be classified into different heads or account known as Ledger. Such as Cash A/c, Sales A/c, Purchase A/c.

(iv) Summarising: This involves presenting the classified data in a manner which is understandable and useful to internal as well as external and users of accounting statements. This process leads to the preparation of the following statements: a) Trial Balance, b) Trading and Profit & Loss A/c, c) balance Sheet.

(v) Analysis and Interpretation: The final stage in the accounting process is analysing and interpreting the financial data contained in the final accounts so that parties concerned with the business can make a meaningful judgment about the profitability and financial position of the business unit. This helps in planning for the future in a better way.

5) **Service Activity:** Accounting is a service activity designed to produce relevant information of an organisation to be used for decision-making.

BRANCHES OF ACCOUNTING OR TYPES OF ACCOUNTING

1) **Financial Accounting =** Financial Accounting involves preparation of Financial reports which provide summaries of a firm's financial condition. The main task of Financial Accounting is to prepare the Profit & Loss A/c and the Balance Sheet. These Financial statements provide information to several groups of interested parties like Shareholders, Creditors, Employees, Owner, Bank and Financial Institutes.

2) **Cost Accounting =** The main purpose of cost Accounting is to ascertain the cost of production to enable the management fix the price of the product and to ensure cost reduction. Cost Accounting is generally adopted in the business engaged in manufacturing activities.

3) **Management Accounting =** The main purpose of management accounting is, therefore to provide all the relevant information that may be required by the management to take decisions in respect of various aspects of running the business enterprise.

Accounting Process

Accounting is a process of identifying financial transaction, measuring them in money terms, recording them in primary books, classifying, summarising, analysing, interpreting them and finally communicating the results to their users.

Financial Transactions or Events

↓

Recording

↓ & ↓

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

Classifying
(Posting into Ledger)

→

Summarising
1. Trial Balance
2. Trading and Profit & Loss A/c
3. Balance Sheet

↓

Analysis and Interpretation

↓

Communicating to the Users

MEANING OF BOOK KEEPING

Book Keeping is a branch of Knowledge that educates us as to how financial records are to be maintained. Book keeping is a part of accounting and is concerned with the recording of financial data in the books of accounts. It is the process by which a record of financial transactions are maintained.

Accounting is an art of recording, classifying and summarising the financial data and interpreting the results thereof. Accounting is a wider concept than Book Keeping.
It starts where Keeping ends. In other words, Book Keeping is a Part of accounting.

Books Keeping and Accounting differ from each other in the following manner:

Basis	Book Keeping	Accounting
1. Nature	Book keeping is concerned with identifying financial transactions: measuring them in money terms: recording and classifying them.	Accounting is concerned with summarising the recorded transaction, interpreting them and communicating the results.
2. Stage	It is a primary stage	It is a secondary stage, it begins where book keeping ends.
3.Performance	Junior staff performs this function.	Senior staff performs this function.
4. Clerical	This job is clerical and routine in nature	This job is analytical and dynamic in nature
5. Interested Parties	Outsiders do not have any interest in it	Various outside groups are interested in it.
6. Special Skills	Book keeping is mechanical in nature and thus, does not require special skills	Accounting requires special skills and ability to analyse and interpret.

Accountancy refers to a systematic knowledge of accounting. It explains how to deal with various aspects of accounting. It educates us why and how to maintain the books of accounts and how to summarise the accounting the accounting information and communicate it to the users.
In the words of Kohler, accountancy refers to the entire body of the theory and practice of accounting.

OBJECTIVES OF ACCOUNTING

1) **Maintenance of Business Records:** Accounting is the language in which most of the business transactions and events are expressed. Its objective is to keep a systematic record to these financial transactions.

2) **Ascertaining Profit and Loss:** Another objective of accounting is to ascertain whether during the period, the firm earned a profit or suffered a loss. For this purpose, the Trading, Prof it and Loss A/c or Income statement is prepared.

3) **Ascertaining Financial Position:** For a businessman, it is not adequate to only ascertain the profit or loss; it is also necessary to know the financial health of the firm. For this purpose, a statement listing assets, liabilities and the owner's capital is prepared. Such a statement is called a Balance Sheet.

4) **Facilitating Management Control:** The management often requires financial information for decision making, effective control, budgeting and forecasting. Accounting provides financial information to assist the management in discharging this function.

5) **Providing Accounting Information to Interested Parties (Users):** Another objective to accounting is to provide accounting information to users who analyse them as per their individual needs. Like, Owner, Investors, Banker, Govt., and Manager.

6) **Prevention of Frauds:** Maintaining regular and systematic accounting records helps in preventing possible frauds.

ADVANTAGES OF ACCOUNTING

1) **Financial Information about Business:** Accounting makes available financial information, i.e. the profit earned or loss suffered and also what are the assets and liabilities of the enterprise.

2) **Assistance to Management:** The management is responsible for the functioning of the business and has to therefore plan, make decisions and exercise effective control on the affairs of the business.

3) **Replaces Memory:** No businessman can remember everything about his business since human memory has limitations. It is necessary to record transactions in the books of accounts promptly.

4) **Facilitates Comparative study:** A systematic record will enable a businessman to compare one year's results with those of other years and locate significant factors leading to the change.

5) **Facilitates Settlement of Tax Liabilities:** A systematic accounting record immensely helps settlement of income tax, sales tax, VAT and excise duty liabilities.

6) **Facilitates Loans:** Loan is granted by the banks and financial institutions on the basis of growth potential which is supported by the performance.

7) **Evidence in Court:** Systematic record of transactions is often treated by the courts as good evidence.

8) **Facilitates Sale of Business:** If someone desires to sell his business, the accounts maintained by him will enable the ascertainment of the proper purchase price.

9) **Assistance in the Event of Insolvency:** Insolvency proceedings involve explaining many transactions that have taken place in the past. Systematic accounting records assist a great deal in such a situation.

10) **Helpful in Partnership Accounts:** At the time of admission of a partner, retirement or death of a partner and dissolution of the firm, accounting record is or vital importance and use.

LIMITATIONS OF ACCOUNTING

1) **Financial accounting is not fully exact:** Although most of the transactions are recorded on the basis of evidence such as sale or purchase or receipt of cash, yet some estimates are also made for ascertaining profit and loss. Examples of this are estimating the useful life of an asset, possible bad debts, the probable market price of the stock of goods, etc.

2) Accounting Does not indicate the Realisable Value: The Balance Sheet does not show the amount of cash which the firm may realise by the sale of all the assets. This is because many assets are not meant to be sold; they are meant for use and are shown at cost less depreciation that may have been written off.

3) Accounting Ignore the Qualitative Elements: Since accounting is confined to monetary matters only, qualitative elements like quality of management and labour force, industrial relations and public relations are ignored.

4) Accounting May lead to window dressing: The term window dressing means manipulation of accounts in a way so as to conceal vital facts and present the financial statements in a way to show better position than what it is actually.

5) Accounting Ignores the effect of Price level changes: Accounting statements are prepared at historical cost. Money, as a measurement unit, change in value. It does not remain stable.

USERS OF ACCOUNTING INFORMATION

Internal Users:

1) Owners: Owners invest funds in the business. Therefore, they are interested to know about the return on their capital invested, amount of assets and Liabilities etc.

2) Management: Management needs accounting information to take proper decisions regarding fixation of selling price of a product, to increase or reduce the level of production etc..

3) Employees and Workers: They are interested to know the profitability and growth of the business to assess the ability of the business to pay more wages, bonus and other monetary incentives.

External Users:

1) Investors: Investment involves risk and also the investors do not have direct control over the business affairs. They want to know whether their investment is safe and rewarding.

2) Creditors: Creditors are the suppliers of goods and services to the business on credit. They want to be sure that their payments are secure or not. They can do this by studying financial accounts and the recorded financial information.

3) Government and its Authorities: The Govt. makes use of financial statements to compile national income and other information. Govt. needs accounting information's on accounts to assess income tax, sales tax, excise duty

4) Banks and Financial Institutions: They provide loans to the businesses. It is natural that the banks and financial institutions will watch the performance of the business to know, whether it is making to ensure the safety and recovery of the loan advanced.

5) Researchers: Researchers use accounting information in their research work.

Qualitative characteristics of Accounting Information:

Two fundamental characteristics of financial statements are their truth and fairness. An auditor of the enterprise has to make a statement in the audit report whether, in his opinion, the financial statements give a true and fair view.

Besides the above two fundamental characteristics, there are other qualitative characteristics (attributes) of accounting information which are:

1. Reliability: Accounting information must be reliable. Reliability of information means it is verifiable, free from material error and bias. It depends on:

i) Neutrality, (ii) Prudence,
(iii) Completeness, iv) Substance Over Form.

2. Relevance: The accounting information, besides disclosing statutorily required information, should disclose other information, after judging its relevance to the decision making need of its users.

3. Understand ability: Understand ability means that the information provided through the financial statements be presented in a manner that the users are able to understand it in the manner it should be.

4. Comparability: Comparability means that the users should be able to compare the accounting information of enterprise of the period either with that of other periods, known as intra-firm comparison or with the accounting information of other enterprises, Known as inter-firm comparison.

SYSTEMS OF ACCOUNTING

The systems of recording transactions in the books of accounts are two namely:
1) Double Entry System and **2)** Single Entry System

1. DOUBLE ENTRY SYSTEM

Double Entry System: The system which recognises and records both aspects of a transaction.
The Double Entry System has proved to be a scientific and complete system of accounting followed by every enterprise and organisation.
Under the system, every transaction has two aspects Debit and Credit and at the time of recording a transaction, it is recorded once on the debit side and again on the credit side.
For example, at the time of cash purchase, goods are acquired and in return cash in paid.

In the transaction, two aspects are involved, i.e., receiving goods and paying cash and under the Double Entry System, both these aspects are recorded.
One part, i.e., the receipt of goods is debited and the second part, i.e., payment of cash is credited. Thus, on any day, total amount debited is equal to the total amount credited.

FEATURES OF THE DOUBLE ENTRY SYSTEM

1) It maintains a complete record of each transaction.
2) It recognises the two fold aspect of every transaction, viz., the aspect of receiving (value in) and the aspect the giving (value out).
3) In this system, one aspect is debited and other aspect is credited following the rules of debit and credit.
4) Since, one aspect of a transaction is debited and the other is credited, the total of all debits is always equal to total of all credits. It helps in establishing arithmetical accuracy by preparing a Trail Balance.

ADVANTAGES OF THE DOUBLE ENTRY SYSTEM

1) Complete Record of Transactions: this system maintains a complete record of all business Transactions.

2) Ascertainment of Profit or Loss: The profit earned or loss suffered during a period can be ascertained together with details by preparation of the Profit and Loss A/c.

3) Knowledge of financial position of the firm: the financial position of the firm or the institution concerned can be ascertained at the end of each period, through preparation of the Balance Sheet.

4) A check on the Accuracy of Accounts: By the use of this system the accuracy of the accounting work can be established through the device of the Trial Balance.

5) Full details for purposes of Control: This system permits accounts to be kept in as much detail as necessary and, therefore, affords significant information for purposes of control, etc.

6) Helps management in decision making: The management may be able to obtain good information for its work, specially in making decisions.

7) No scope of fraud: The firm is saved from frauds and misappropriations since full information about all assets and liabilities will be available.

8) Scientific System: As a matter of fact, this system is the only scientific system of recording business transactions as compared to other systems of book keeping.

DISADVANTAGES OF THE DOUBLE ENTRY SYSTEM

1) Costly: Maintaining the books of accounts involves specialised knowledge. It thus, requires trained and experienced staff. Such a staff commands higher salaries which makes book keeping under the Double Entry System costly.

2) Not Suitable for Small Business: Double Entry System of book keeping is not suitable for small businesses with few transactions.

3) Complicated Method: This system involves recording both the aspects of a transaction. It also involves application of principles of accounting.

4) Adequate Knowledge of Book Keeping: Maintenance of books of accounts requires adequate knowledge of principles of accounting.

1. SINGLE ENTRY SYSTEM OR ACCOUNTS FROM INCOMPLETE RECORDS

Single Entry System of recording transactions in the books of accounts, may be defined to be an incomplete Double Entry System. In this system, all transactions are not recorded on the double entry basis. Instead of maintaining all the accounts, only personal Accounts and Cash Book are maintained under this system.
The accounts maintained under this system are incomplete and unsystematic and therefore, not reliable.
The Single Entry System is also Known as Accounts From Incomplete Records.
Since all Transactions are not recorded under double entry principle, it is not possible to prepare a trial balance. As a result, the Profit and Loss A/c and the Balance Sheet cannot be prepared.

Examination Problems

Q1. Explain the Meaning and functions of Accounting.

Q2. What are the attributes / Characteristics of Accounting ?

Q3. What is the difference between Book Keeping and Accounting ?

Q4. Explain the objectives of Accounting

Q5. What is the Role of Accounting in Business ?

Q6. Explain in brief Advantages and disadvantages of Accounting.

Q7. Explain the users of Accounting Information.

Q8. Explain the meaning and Advantages of Double Entry System.

Lesson – 2 (Basic Accounting Terms)

1. Business Transaction. A transaction is any event which involves an exchange of goods or services between two or more persons and is recorded in the books of Accounts.

2. Account. It is a summarised record of transactions relating to a particular head at one place. It records not only the amount of transactions but also their effect and direction.

3. Capital. Capital is the amount invested by the proprietor or partner in the business and can claim from it. For the firm, it is liability towards the owner. It is so because the owner is treated separate from the business.

Capital is also known as **Owner's Equity**, proprietorship and **Net Worth**. Owner's Equity means owner's claim against the assets of the business. It will always be equal to assets less Liabilities.

[**Capital = Assets − Liabilities]**

4. Drawings: It is the amount withdrawn or goods taken by the proprietor for his personal or domestic use. Goods so taken by the proprietor are valued at purchase cost. Drawings reduce the investment (or capital) of the owners.

5. Liabilities. Liabilities mean the amount which the business owes(pay) to outsiders, that is, excepting the proprietors. Liability towards the owners (Proprietor) of the business is termed as internal liability. On the other hand, liability towards the outsiders, i.e. other than the owners is termed as external liability. These are the debts and other obligations expressed in money and are payable to outsiders in the future. For Example Creditors, Outstanding expenses, Bank Overdraft. Liabilities can be classified into the following:

a) **Non Current Liabilities** = These are those liabilities which are payable after a period of more than a year. Ex. Long-term Loan, Debentures etc.

b) **Current Liabilities** = These are liabilities which are payable in the near future (generally within a year). Ex. Creditors, Bank Overdraft, Bill Payable etc

6. Assets. Assets are property or legal owned by an individual or business to which money value can be attached. In other words, anything which will enable the firm to get cash or a benefit in the future, is an asset. These are economic resources expressed in monetary terms used for carrying on the business operations. Assets are of different types such as – Fixed, Current, Tangible, Intangible, Fictitious, Wasting, Liquid Assets.

I) **Non Current Assets (Fixed Assets)** are those assets which are purchased for the purpose of operating the business and not for resale. Ex. Land, Building, Machinery, Furniture, etc.

a) **Tangible Assets** are those assets which have physical existence, i.e. they can be seen and touched. Ex. Land, Building, Machinery, Furniture, computer, goods, etc.

b) **Intangible Assets** are those assets which do not have any physical existence, i.e. they can not be seen and touched. Ex. Goodwill, Copyrights, Trademarks, Patents, software. etc.

II) **Current Assets** are those assets of a business which are kept for short term with a purpose to convert them into cash or for resale. Ex. Goods, Debtors, Bills Receivable, Bank, etc.

III) **Fictitious Assets** are those assets which are neither tangible assets nor intangible assets. These are not visible by our naked eyes and have zero market value are known as fictitious assets. They are losses written off not in the year in which they are incurred but in more than one accounting period. For example: Deferred Revenue Expenditure, Advertisement Expenses, Discount or Loss on issue of Debentures, Shares Issue Expenses, Underwriting Commission.

IV) **Wasting Assets** are those assets which are natural resources consumed during the process of use. Ex. Coal & Gold Mines, Oil Fields / Quarries, etc.

V) **Liquid Assets** are those assets which can be converted into cash within a short span of time are known as Liquid Assets. For example: Cash in hand, cash at Bank, Debtors, Bills receivables etc. in other words:
Liquid Assets = Current Assets – (Stock + Prepaid Expenses)

7. Receipts: These are the amounts which a business earns by selling its product or providing service to customers. Revenue means the amount, which as a result of operations, is added to the capital. Ex. Sale of goods, rent, commission, etc.

a. Revenue Receipts: it is amount received or receivable in the normal course of business. For example, amount received against sale of goods or rendering of services. In other words, it is an amount received or receivable against income.

b. Capital Receipts: It is the amount received or receivable against transactions which are not revenue in nature. For example, amount received or receivable for sale of machinery, building, investment etc.

8. Expenditure: The amount spent or a liability undertaken for acquiring an asset, goods or services, etc. is called expenditure. It is the amount spent in exchange of some benefit.

Expenditure are of three types :
i. Capital Expenditure **ii.** Revenue Expenditure. **iii.** Deferred Revenue Expenditure.

a) **Capital Expenditure** is the amount spent in purchasing assets which will give benefits over a number of accounting periods. It means expenditure incurred to acquire fixed assets or its improvement. It is shown on the assets side of the Balance Sheet. It may incurred to acquire tangible or intangible assets. like purchase of machinery to manufacture goods, purchase furniture or computer to carry on business.

b) **Revenue Expenditure** is the amount spent to purchase goods and services that are consumed during the accounting period. Revenue expenditure does not increase the earning capacity but it maintains the earning capacity in the current year. It is shown on the debit side of the Profit and Loss A/c. Like purchase goods, salaries, rent, electricity etc.

c) **Deferred Revenue Expenditure** is revenue expenditure in nature but is written off (charged) in more than one accounting period. For example large advertising expenditure that will give benefit for more than one accounting period is a Deferred Revenue Expenditure.

➲ Expenses are incurred to generate revenue whereas losses do not, e.g., Theft of a machinery is a Loss but depreciation on machine is an Expense.

9. Expense. Expense is the amount spent in order to produce and sell the goods and services which produce the revenue. It is the cost incurred for generating revenue. Ex. Wages, salaries, rent, etc.

a. Prepaid Expenses: Prepaid Expenses are those expenses which have been paid in advance and the benefit of which will be available in the following year or years.

b. Outstanding Expenses: Outstanding expenses refer to those expenses which have become due during the accounting period but which have not yet been paid.

10. Income (Profit). Income is the profit earned during a period of time. In other words, the difference between revenue and expenses is called income. For ex. Goods costing Rs.15,000 are sold for Rs.21,000, the cost of goods Rs.15,000 is expenses, the selling amount Rs.21,000 is revenue and the difference Rs.6,000 is income.

11. Profit. It is the surplus of revenues of business over its costs. Profit is normally categorized into gross profit and net profit.

a) Gross Profit = Gross Profit is the difference between sales revenue or the proceeds of goods sold and/or services rendered over its direct cost.

b) Net profit = Net Profit is the profit made after allowing for all expenses. In case expenses are more than the revenue. It is Net Loss.

12. Gain. The monetary benefit or advantage earned from the incidental transactions, other than from the sale of goods or services, such as, sale of investments or other fixed assets at more than their book value.

13. Losses: Loss is excess of expenses of a period over its related revenues which may arise from normal business activities. It decreases the owner's equity. Losses are of two types:

i. Out of normal business operation: When the firm's expenses exceed over its revenue, it is a normal business loss.

ii. Out of abnormal situations, not within the firm's control: Such as, loss of goods due to fire, theft, accident, decline in the market value of inventories, sale of fixed assets less than their book value, etc.

14. Purchase: The term 'Purchase' is associated with or used for purchase of goods. Goods are articles purchased for resale or for producing the finished products which are also to be sold. The term purchases includes both cash and credit purchases of goods.

15. Purchase Returns or Returns outwards or Returns (Cr.): When the purchased goods are returned to the suppliers it is known as purchase returns. Goods purchased may be returned to the seller for any reason, say, they are not as per the specifications or are defective.

16. Sales: This term Sale is associated with or used for sale of goods by business on credit or cash to its customers. The term 'Sales' includes both cash and credit Sales.

17. Sales Returns or Returns Inward or Returns (Dr.):
When some customers/Purchaser return the goods already sold to them, it is known as Sales Returns.

18. Revenue from Operations: Revenue from operations means revenue earned by an enterprise from its operating activities. The term is defined in Schedule III of the Companies Act, 2013, a format in which Balance Sheet and Statement of Profit and Loss is prepared.

19. Goods. These are the items or things in which the business entity deals, i.e., they are purchased by the firm with the aim of re-selling it at a profit, e.g., a firm dealing in home appliances such as T.V., Fridge, A.C. etc., for them these items are goods. Goods are the physical items of trade.

20. Inventory / Stock. Stock is tangible asset held by an enterprise for the purpose of sale in the ordinary course of business or for the purpose of using it in the production of goods meant for sale. It is amount of goods, spare and other items unsold or not produced fully goods at the end of a period. Stock may be : Opening stock and closing stock.

➲ Opening stock is the stock-in-hand in the beginning of the accounting year. In other words, it is stock in hand at the end of the previous accounting year.

➲ Closing stock is the stock-in-hand at the end of the accounting period.

Stock may be of the following kinds:

a. Stock of goods: Stock of goods in the case of a trading concern comprises stock of goods remaining unsold.

b. Stock of Raw material: it comprises the stock of raw material used for manufacturing of goods lying unused.

c. Work-in-Progress: it is a stock that is in the process of being finished, i.e., they are partly finished goods.

Stock is classified in the Balance Sheet as a Current Asset. The stock is valued on the basis of "cost or net realisable value (market price) whichever is lower" Principle.

21. Trade Receivables: These are those persons who owe money to the business on account of goods sold or services provided to them on credit. It is a sum total of debtors and bills receivables.

a. Debtors: Debtor is a person who owes amount to the enterprise against credit sales of goods or services.

b. Bill Receivable / Accounts Receivables: Bill Receivable means a bill of exchange accepted by a debtor the amount of which will be received on the specified date. The total amount due from 'Debtors' and 'Bills Receivables' is jointly termed as 'Receivables' or 'Accounts Receivables'.

22. Trade Payables: These are those persons who have to be paid by the business for goods and service supplied by them on credit.

a. Creditors: Creditor is a person to whom an enterprise owes amount against credit purchase of goods or services taken.

b. Bill Payable / Accounts Payables: Bill Payable means a bill of exchange, the amount of which will be payable on the specified date. The total amount due by the firm to creditors and for Bills Payables is jointly termed as 'Payables' or 'Accounts Payable'.

23. Cost. It is the amount of expenditure incurred on or attributable to a specified article, product or activity.

24. Voucher. Voucher is an evidence of a business transaction. Ex. Invoice or Bill, Debit/Credit Notes etc

25. Discount. An allowance or a deduction allowed from an amount due, is termed as 'Discount'. When customers are allowed a reduction in the prices of goods by the business, it is known as a discount. Discount may of two types :

i. **Trade Discount:** Trade discount is the rebate allowed by the seller on the basis of sales. A deduction allowed to the buyers from the catalogue price is termed as a "**Trade Discount'.**

ii. **Cash Discount:** A discount allowed to a debtor on prompt payment of cash is termed as a **'Cash Discount'.** It is the rebate allowed for timely payment of due amount.

26. Bad debts. The amount which becomes irrecoverable from a debtor is known as Bad debt. It is a loss for the business and is, thus, debited to Profit and Loss Account.

27. Balance Sheet: It is a statement of the financial position of an individual or enterprise as at a given date, which exhibits its assets, liabilities, capital, reserves and other account balances at their respective book values.

28. Book Value: This is the amount at which an item appears in the books of accounts or financial statements.

29. Books of Accounts: Books of Accounts refer to Journal and Ledgers in which transactions are recorded.

30. Cost of goods Sold: Cost of goods Sold is the direct costs of the goods or services sold.

31. Credit. Credit is the right side of an account. If an account is to be credited, then the entry is posted to the credit side of the account. In such an event, it is said that the account is credited.

32. Debit. An account has two parts, i.e., debit and credit. The left side is the debit side while the right side is the credit side. If an account is to be debited, them the entry is posted to the debit side of the A/c. In such an event, it is said that the account is debited.

33. Depreciation. Depreciation is a fall in the value of an asset because of usage or with passage of time or obsolescence or accident or fall in the market price.

34. Entity: An entity means an economic unit which performs economic activities. Like Reliance Industries, Bajaj Auto, Maruti. A business entity means an enterprise established in accordance with law to engage in business activities.

35. Entry: A transaction and event when recorded in the books of accounts is known as an entry.

36. Insolvent. A person who is not in a position to pay off his debts. It means his liabilities are more than his assets

37. Proprietor: The person who makes the investment and bears all the risks connected with the business is called the proprietor.

38. Rebate: It is reduction in price allowed by the seller of goods after the goods have been sold. Stating differently, rebate is offered and allowed on sales completed in the past. It is allowed for the reasons other than for which trade discount is allowed.

39. Solvent. A person who is in a position to pay off his debts as and when they become due. It means his assets are more than his liabilities.

40. Accounting. It is the art and science of recording, classifying and summarising financial transactions of a period for finding the results of the business and analysing and interpreting the results for making decisions.

41. Ledger: It is a book in which all accounts are maintained.

42. Posting. It is a process of transferring entries from books of original entry to the ledger.

43. Double Entry Book-keeping. It is a system of recording transactions in two accounts in the opposite sides.

44. Accounting Equation. A statement showing equality between debits and credits, denoting that the assets of a business are always equal to total of liabilities and owners equity.

45. Accrued Income: Accrued Income means income which has been earned by the business during the accounting year but has not yet become due and, therefore, has not been received.

46. Income Received in Advance means income which has been received by the business before being earned.

47. Bank Overdraft: It is the drawing out of a Bank A/c of more than what has been deposited in it. Amount withdrawn in excess of its own money in the bank is known as a bank overdraft.

48. Goodwill: Goodwill is the benefit and advantage of the good name, reputation and connection of a business. It is the attractive force which brings in customers.

49. Working Capital: The difference of currents assets and current Liabilities is known as working capital. In other words, working capital is the excess of current assets over current Liabilities.

50. Accounting Year: The entire life of a business is divided into time intervals consisting of 12 months. Such a time period is known as an accounting Year.

51. Balancing of Account: Ascertaining the balance of an account after totalling all the debits and credits for a given period.

52. Provision: It is a known liability, but the amount of which cannot be estimated with accuracy, e.g., provision of depreciation and provision for taxation, repairs, etc.

53. Reserve: It is an amount which is neither a liability nor a provision, but an amount set aside out of profits, meant to strengthen the general financial position of the business.

54. General Reserve: It is a part of profit, which is retained in the business not for any specific purpose, but for the improvement of the overall financial position of the business.

55. Capital Reserve: It is a mode for retaining profits in business which are not available for distribution as dividends. It has always a credit balance.

56. Cash Book: It is a book in which all cash receipts and payments, in spite of their nature are recorded.

57. Purchase Book: It is a book in which all credit purchases of goods dealt in are recorded.

58. Sale Book: It is a book in which all credit sale of goods dealt in are recorded.

59. Purchase Returns Book: It is a book in which returns of good to suppliers are recorded.

60. Sales Return Book: It is a book in which returns of goods from customers are recorded.

61. Financial Statements: These are statements prepared from ledger to present the results of the business, the financial position of the business of a given period.

62. Final Accounts or Financial Statements: they are Trading A/c, Profit and Loss A/c (Statement of Profit and Loss, in the case of companies) and Balance Sheet prepared at the end of accounting process.

63. Trading Account: It is an account prepared to show the results of buying manufacturing and selling of goods during a given period of time.

64. Profit and Loss Account: It is an account prepared to ascertain net profit or loss of business operations of a period.

Examination Problems

Q1. Briefly explain Fixed Assets ?

Q2. Give any examples of Current Assets.

Q3. Briefly explain Tangible Assets ?

Q4. Briefly explain Intangible Assets ?

Q5. Give any examples of Current Liabilities.

Q6. Distinguish between Loss and Expenses.

Q7. Distinguish between Opening Stock and Closing Stock.

Q8. Explain the meaning of any three of the following terms:

(1) Drawings ; (2) Revenue ; (3) Liability and (4) Working Capital

Q9. Explain the meaning of any three of the following terms:

(1) Debtors ; (2) Purchase ; (3) Creditors and (4) Capital

Q10. Explain the meaning of any three of the following terms:

(1) Expenses ; (2) Vouchers ; (3) Goods and (4) Gain

Q11. Explain the meaning of any three of the following terms:

(1) Cost ; (2) Profit ; (3) Sales and (4) Assets

Q12. Explain the meaning of any three of the following terms:

(1) Insolvent ; (2) Balance Sheet ; (3) Inventory and (4) Gain

Q13. Explain the meaning of any three of the following terms:

(1) Depreciation ; (2) Trade Payables ; (3) Bad Debts and (4) Trade Receivables

[Suggested Question Paper Design]

	Form of Question / Units	Objective Type / MCQ (1) Marks	Very Short Ans (3) Marks	Short Ans (4) Marks	Long Ans. (6) Marks	Long Ans. (8) Marks	Total Marks
1.	Remembering	5	1	1	1	….	18
2.	Understanding	5	1	1	1	1	26
3.	Applying	5	….	2	1	….	19
4.	Analysing and Evaluating	5	….	1	….	1	17
	Sub Total	20 × 1 = 20	2 × 3 = 6	5 × 4 = 20	3 × 6 = 18	2 × 8 = 16	80 (32)