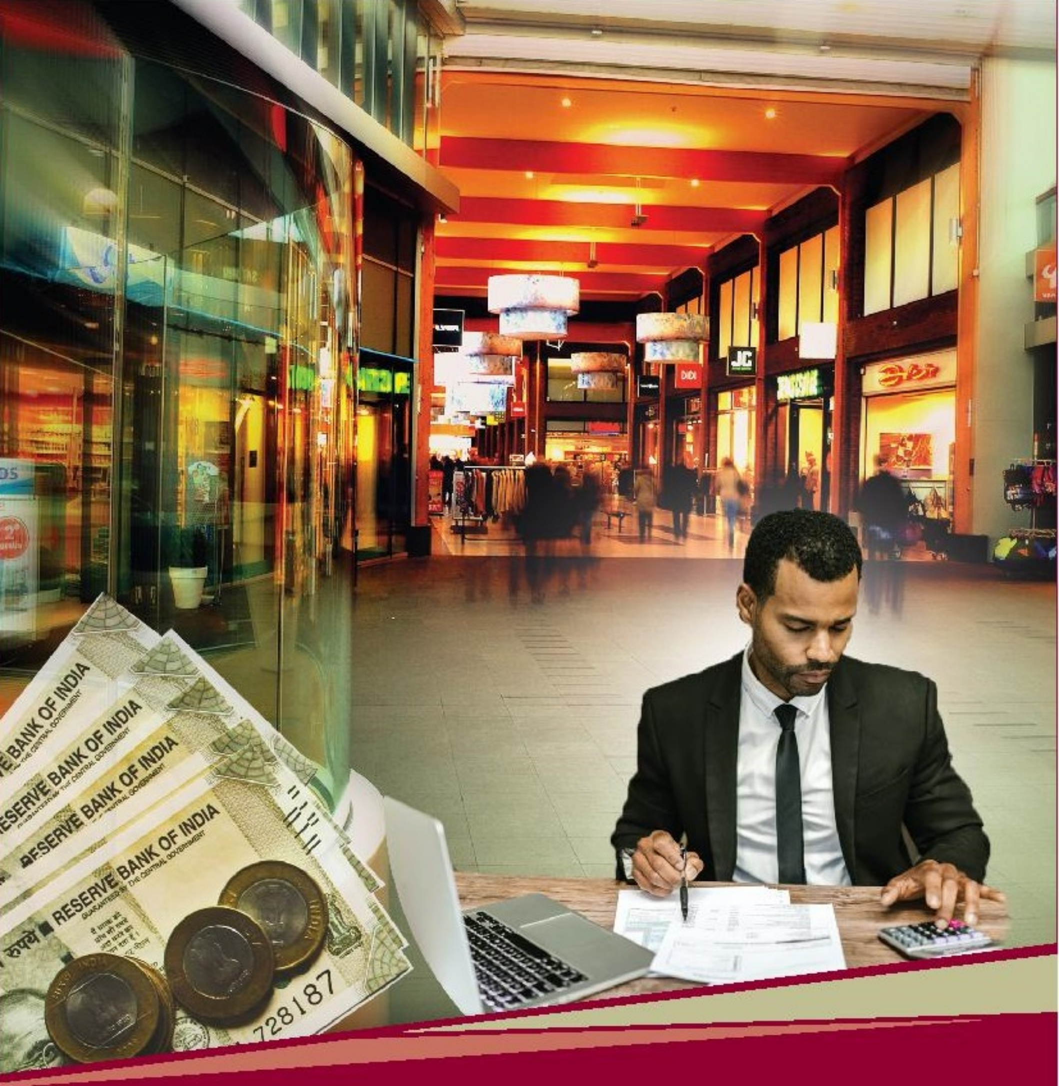

ACCOUNTING For Everyone

Ramachandra D

ACCOUNTING FOR EVERYONE

Open Elective Course, First Semester.

For Undergraduate Students.

As per New National Education policy (N.E.P)

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PREFACE

This textbook is specially designed in compliance with the syllabus of the open elective course "**Accounting for Everyone**", for undergraduate students of Mangalore & other Universities in Karnataka State. The prime motive is to help readers comprehend how the American approach to documenting accounting data makes accounting simple. Despite the fact that the American system has been adopted at the pre-university level, it has not yet been fully implemented at the degree level. In fact, this approach makes learning the debit and credit aspects of business transactions easier and more convenient in the teaching-learning process.

I do not claim any originality in the subject matter of this book. I have taken immense of material from many standard books on the subject. Some of the basic accounting ideas I have presented here come from my experience of teaching. Specifically, the teaching experience of Cambridge University's O-level program in the Republic of Maldives.

I express my sincere gratitude to colleagues, friends and some of my students, and well-wishers for their constant support and encouragement to bring out this book. I would like to thank Edwise Publishers, Mangalore for publishing this book and making it available to students. If the book lives up to the readers' expectations, I will be well rewarded. Any suggestions to improve the book's utility are welcome and greatly appreciated.

December, 2021 **Ramachandra D.**

SYLLABUS

Module No. 1: Introduction to Accounting 8 hrs.

Meaning, Importance and Need, Its objectives and relevance to business establishments and other organizations, and individuals. Accounting information: meaning, users and utilities, sources of accounting information. Some Basic Terms –Transaction, Account, Asset, Liability, Capital, Expenditure & Expense, Income, Revenue, Gain, Profit, Surplus, Loss, Deficit. Debit, Credit, Accounting Year, Financial Year.

Module No. 2: Transactions and Recording of Transactions 8 hrs.

Features of recordable transactions and events, Basis of recording – vouchers and another basis. Recording of transactions: Personal account, Real Account and Nominal Account;

Rules for Debit and Credit; Double Entry System, journalizing transactions; Preparation of Ledger, Cash Book including bank transactions. (Simple Problems)

Module No. 3: Preparation of Financial Statements 10 hrs.

Fundamental Accounting Equation; Concept of revenue and Capital; Preparation of financial statements. (Simple problems)

Module No. 4: Company Accounts 8 hrs.

Explanation of certain terms – Public Limited Company, Private Limited Company, Share, Share Capital, Shareholder, Board of Directors, Stock Exchange, Listed Company, Share Price, Sensex - BSE, NSE; Annual report, etc. Contents and disclosures in Annual Report, Company Balance Sheet and Statement of Profit and Loss. Content Analysis based on annual report including textual analysis.

Module 5: Management Reports 8 hrs.

Reports on Management Review and Governance; Report of Board of Directors - Management discussion analysis- Annual Report on CSR – Business responsibility report – Corporate governance report – Secretarial audit report.

Contents

CHAPTER-II

Journal Ledger And Cash Book

Journal:

Journal is the book of original entry as it's the first place where transactions are recorded. In this book, transactions are recorded in the chronological order, as and when they take place. The entries in an accounting journal are used to create the ledger accounts, The ledger accounts balances are then used to create the financial statements of a business.

Apart from the general journal, accountants maintained various other journals including purchases and sales journal, cash book (receipts journal and cash disbursements journal) return inward and outward journals.

Let us discuss how the transactions are recorded in journal.

For Example: 1st January 2021. Purchased Goods on credit for ₹50,000 from Mr. Akshay.

Remember! You are an accountant in the business. This transaction relating the business. It is a credit transaction. It involves two accounts: (a) Purchases A/c (b) Mr. Akshay A/c (Creditor).

In the Books of Business

Journal Entries

Date	Particulars	LF	Dr. (₹)	Cr. (₹)
1st Jan 2021	Purchases A/c Dr.		50,000	
	To Mr. Akshay's A/c			50,000
	(Bought goods on credit from Akshay)			

Note that transaction increases the stock, but the account debited is purchases instead of stock. In fact, the value of the stock is affected when a business purchases or sells the goods. But we need to assess the actual purchases and actual sales made during the financial period. Therefore, we take Purchases account or sales account instead of stock account. Which is why we have debited the Purchases Account.

Secondly Mr. Akshay is a supplier to whom the business agreed to pay the purchase price ₹50,000 in future. (Maybe after two months) Therefore, Akshay is a creditor (liability) of the business. Hence Akshay's Account credited because of increased liability.

Determination of Debit and Credit and Recording Journal Entries

Journal Entriesin the books of Mr. Pramod					Impact of Transactions on Assets, Capital, Liability, Expenses and Incomes		
Date	**Particulars**	**LF**	**Dr(₹)**	**Cr(₹)**			
	Mr. Pramod started business with cash ₹ 5,00,000						
Jan.1	Cash A/c. Dr. To Capital A/c.		500000	5,00,000	Cash (Asset) ↑	Capital (Liability) ↑	
	Brought furniture and fixtures with cash ₹40,000						
Jan.2	Furniture & fixtures A/c. Dr. To Cash A/c.		40000	40000	Furniture & fixtures (Asset) ↑	Cash (Asset) ↓	
	Deposited ₹70000 cash into bank						
Jan.3	Bank A/c. Dr. To Cash A/c.		70000	70000	Bank (Asset) ↑	Cash (Asset) ↓	
	Bought goods paying by cheque ₹20000						
Jan.4	Purchases A/c. Dr. To Cash A/c.		20000	20000	Stock (Asset) ↑	Bank (Asset) ↓	
	Bought goods for cash ₹25000						
Jan.4	Purchases A/c. Dr. To Cash A/c.		25000	25000	Stock (Asset) ↑	Cash (Asset) ↓	
	Paid salary by cheque ₹10000						
Jan.4	Salary A/c. Dr. To Bank A/c.		10000	10000	Salary (Expense) ↑	Bank (Asset) ↓	
	Paid Rent by cash ₹15000						
Jan.5	Rent A/c. Dr. To Cash A/c.		15000	15000	Rent (Expense) ↑	Cash (Asset) ↓	
	Owner takes goods from his business for personal use ₹2000						
Jan.5	Drawings A/c.Dr. To Purchases A/c.		2000	2000	Drawing (Asset) ↑	Stock (Asset) ↓	
	Sold goods to Mr. Ashok on credit ₹4000						
Jan.7	Ashok A/c. Dr. To Sales A/c.		4000	4000	Debtor (Asset) ↑	Stock ↓	

	Sold goods on credit to Mr. Ankith ₹6000						
Jan.8	Ankith A/c. Dr. To Sales A/c.		6000	6000	Debtor (Asset) ↑	Stock (Asset) ↓	
	Returned goods by Ankith ₹1000						
Jan.9	Returned inward A/c.Dr. To Ankith's A/c.		1000	1000	Debtor (Asset) ↓	Stock (Asset) ↑	
	Received cash from Ankith ₹4800 in full settlement of his account ₹5000						
Jan.9	Cash A/c. Dr. Discount A/c. Dr. To Ankith's A/c.		4800 200	5000	Debtor (Asset) ↓	Cash (Asset) ↑	Discount ↑ (Expense)
	Received commission by cash ₹500						
Jan.10	Cash A/c. Dr. To Commission A/c.		500	500	Cash (Asset) ↑	Commission (Income) ↑	
	Bank charges ₹200 charged by the Bank						
Jan.11	Bank charges A/c. Dr. To Bank A/c.		200	200	Bank charge (Expense) ↑	Bank (Asset) ↓	

Determination of Debit and Credit and Recording Journal Entries

Journal Entriesin the books of the Business					Impact of Transactions on Assets, Capital, Liability, Expenses and Incomes		
Date	**Particulars**	**LF**	**Dr.(₹)**	**Cr.(₹)**			
	Started business with cash ₹50,000						
Jan.1	Cash A/c. Dr. To Capital A/c.		50000	50,000	Cash ↑	Capital ↑	
	Brought Machinery on credit from Classic Enterpriser₹20,000						
Jan.2	Machinery A/c. Dr. To Classic Enterprise A/c.		20000	20000	Machinery (Asset) ↑	Creditor (Liability) ↑	
	Deposited ₹10000 cash into bank						
Jan.3	Bank A/c. Dr. To Cash A/c.		10000	10000	Bank (Asset) ↑	Cash (Asset) ↓	
	Bought a motor van by paying cheque ₹8000						
Jan.4	Motor Vehicle A/c.Dr To Bank A/c.		8000	8000	Vehicle (Asset) ↑	Bank (Asset) ↓	

	Owner pays more capital into the business bank A/c. ₹40000					
Jan.4	Bank A/c. Dr. To Capital A/c.	40000	40000	Bank (Asset) ↑	Capital (Asset) ↑	
	Brought goods on cheque ₹10000					
Jan.5	Purchases A/c. Dr. To Bank A/c.	10000	10000	Stock (Expense) ↑	Bank (Asset) ↓	
	Paid classic enterpriser by cheque ₹5000					
Jan.5	Classic enterprisers A/c. Dr. To Cash A/c.	5000	5000	Creditor (Liability) ↓	Cash (Asset) ↓	
	Owner takes money out of the business bank account for personal use ₹2000					
Jan.5	Drawings A/c. Dr. To Bank A/c.	2000	2000	Drawing (Asset) ↑	Bank (Asset) ↓	
	Classic enterpriser (a Creditor) is paid from private money outside the firm ₹4000					
Jan.7	Classic enterprisers A/c. Dr. To Capital A/c.	4000	4000	Creditor (Liability) ↓	Capital (Liability) ↑	
	Brought goods on credit from Mr. Pushparaj ₹6000					
Jan.8	Purchase A/c. Dr. To Pushparaj' s A/c.	6000	6000	Stock (Asset) ↑	Creditor (Liability) ↑	
	Returned some damaged goods to Pushparaj ₹1000					
Jan.9	Pushparaj's A/c. Dr. To Return Outward A/c.	1000	1000	Creditor (Liability) ↓	Stock (Asset) ↓	
	Paid ₹4900 to Pushparaj in full settlement of his A/c. ₹5000					
Jan.9	Pushparaj' s A/c. Dr. To Bank A/c. To Discount received A/c.	5000	4900 100	Creditor (Liability) ↓	Bank (Asset) ↓	Discount ↑ (Income)
	Sold goods to Dhanraj on Credit ₹8000					
Jan.10	Dhanrraj's A/c. Dr. To Sales A/c.	8000	8000	Debtor (Asset) ↑	Stock (Asset) ↓	
	Dhanraj returned goods ₹500					
Jan.11	Sales Return A/c. Dr. To Dhanraj's A/c.	500	500	Stock (Asset) ↑	Debtor (Asset) ↓	

Determination of Debit and Credit aspects under Personal, Real and Nominal Account principles

An account is the systematic presentation of all the transactions related to a particular head. An account shows the summarized records of transactions related to a concerned person or thing.

For Example: when the entity deals with various suppliers and customers, each of the suppliers and customers will be a separate account.

An account may be related to things which can be tangible as well as intangible. For example, land, building, furniture, etc. are things.

An account is expressed in a statement form. It has two sides. The left-hand side of an account is called a Debit side whereas right-hand side is called as Credit side. The debit is denoted as 'Dr' and credit is denoted as 'Cr'.

Classification of Accounts in Accounting:

1. Personal Account
2. Real Account
    - Tangible Real Account
    - Intangible Real Account
3. Nominal Account

Personal Account

These accounts types are related to persons. These persons may be natural persons like Raj's account, Rajesh's account, Ramesh's account, Suresh's account, etc.

These persons can also be artificial persons like partnership firms, companies, bodies corporate, an association of persons, etc.

For example – Rajesh and Suresh trading Co., Charitable trusts, XYZ Bank Ltd, C company Ltd, etc.

There can be personal representative accounts as well.

For example – In the case of Salary, when it is payable to employees, it is known how much amount is payable to each of the employee. But collectively it is called as 'Salary payable A/c'.

Rule for Personal Account

- Debit the receiver.
- Credit the Giver.

For Example – Goods sold to Suresh. In this transaction, Suresh is a personal account as being a natural person. His account will be debited in the entry as the receiver.

Real Accounts

These account types are related to assets or properties. They are further classified as Tangible real account and Intangible real accounts.

Tangible Real Accounts

These include assets that have a physical existence and can be touched. For example – Building A/c, cash A/c, stationery A/c, inventory A/c, etc.

Intangible Real Accounts

These assets do not have any physical existence and cannot be touched. However, these can be measured in terms of money and have value. For Example – Goodwill, Patent, Copyright, Trademark, etc.

Real Account Rules

- Debit what comes into the business.
- Credit what goes out of business.

For Example – Furniture purchased by an entity in cash. Debit furniture A/c and credit cash A/c.

Nominal Account

These accounts types are related to income or gains and expenses or losses. For example: – Rent A/c, commission received A/c, salary A/c, wages A/c, conveyance A/c, etc.

Rules for Nominal Account

- Debit all the expenses and losses of the business.
- Credit the incomes and gains of business.

For Example – Salary paid to employees of the entity. Salary A/c will be debited when the expenses are incurred. Whereas, when an entity receives any interest, discount, etc these are credited whenever these are received by the entity.

Financial Accounting Process/ cycle

(a) **Recording of Transaction:** As soon as a transaction takes place it is at first recorded in subsidiary books such as General journal, Purchase journal, sales journal, Cash book, return inward and outward journals.

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