INTORDUCTION TO THE ACCOUNTING CONCEPTS AND CONVENTIONS
II YEAR D. Pharm

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DOUBLE ENTRY BOOK KEEPING, KINDS OF ACCOUNTS

- Personal Accounts

  (Name of Person institutions and firm)

- Non- Personal Accounts

  i)Real Account

  (Assets and liabilities)

  ii)Nominal Accounts

  (Expenses and Losses)

RULES OF ACCOUNTS

i)Personal Accounts:
Debit the Receiver,
Credit the giver

ii)Real Accounts:
Debit What comes in ,
Credit what goes out

iii)Nominal Accounts:
Debit all the expenses and losses,
credit all gains and profits

INTRODUCTION TO THE ACCOUNTING

- He may be have personal knowledge or may acquire it through someone who is working there. Most of the people can acquire such knowledge only to the extent the balance sheet of the company or the profit or loss account permit
- Preparing the Accounts
- Maintaining all the transaction recorded and shown the profit and loss account and balance sheet .

FUNDAMENTAL CONCEPTS AND PRINCIPLES OF ACCOUNTING

i) BUSINESS ENTITY CONCEPTS

ii) MONEY MEASUREMENT CONCEPT

iii) HISTORICAL RECORD CONCEPT

iv) COST OR OBJECTIVITY CONCEPT

v) LEGAL ASPECTS CONCEPTS

vi) DUAL CONCEPT OR ACCOUNTING EQUATION

BUSINESS ENTITY CONCEPTS

- This concept means that a dis function must be maintained between the proprietor or proprietors and the firm. In law, only in the case of companies are the shareholders treated as distinct from the companies, but the personalities of the partners or the proprietors are merged with the form itself. In accounting, however in every case the distinction is maintained an account is kept for the proprietors like other persons.

MONEY MEASUREMET CONCEPT

- Only such transaction or events as can be interpreted in terms of money are recorded in the books of account. Other events, however important, cannot be recorded if a money value cannot be put on them. Suppose the sales manager and production manager are quarrelling; this will certainly damage the interest of the company but the damage cannot be measured in terms of money; hence it cannot be recorded.

HISTORICAL RECORD CONCEPT

- Transactions are recorded in the books of account on the basis. Of actual happenings and not sincerely on the basis of their possibilities. When goods are actually sold then only sale is recorded – not when there is merely a probability of the sale, if this principle is not followed, the balance sheet and the profit and loss account will merely reflect wishes and hopes rather than actual performance. This does not mean that no estimate will be prepared – they must be prepared

COST OR OBJECTIVITY CONCEPT

- The amounts recorded in the books of account are those which should be acceptable to an impartial person. This means that the amount recorded should to an this means that the amount recorded should not depend on the wishes or whims of any particular individual – it should be based on objective evidence.
- This is fully realized when the amounts recorded in respect in respect of transactions are those which have been agreed upon by the two parties , the seller and buyer

LEGAL ASPECTS CONCEPT

- As far as practicable the accounting record should reflect the legal position: where it is not possible to do so there should bean appropriate qualifying note.
- I cannot treat someone as my debtor unless he is legally liable to pay me the amount concerned. But if I purchase a truck on the hire-purchase system and I still have to pay some instalments on the truck is mine.
- In the balance sheet. I must make the position clear- position clear- that instalments are still be paid

DUAL CONCEPT OR THE ACCOUNTING EQUATION

- Always the total claims (those of outsiders and of the proprietors) will equal the total assets of the firm. The claims, also known as equities are of two types:
- Owner's capital or equity ; and
- Liabilities or amounts due to outsiders.
- We can say

Assets = Equity (total claims) ;or

Assets = Liabilities + capital ; or

Assets – Liabilities =Capital

- The above is known as the accounting equation or the balance sheet equation. In ordinary meaning is that at any point of time the total assets of a firm will be equal to the claims and that the owners claims against the firm can be ascertained by deducting the amounts due to against the firm can be ascertained by deducting the amounts due to outsiders from the total of assets.
- If there is any changes in the amount of assets or of the liabilities. The owners claim or the capital is bound to change correspondingly.

- If assets increase and liabilities do not the capital will also increase ; a reduction in the amount of assets or an increase in the amount off liabilities will mean a reduction in the amount of capital
- Example

Rakesh starts business and the following successive changes :

EXAMPLE 1
HE COMMENCES HIS BUSINESS WITH RS. 20,000 AS CAPITAL

- This means that the firm has assets totalling Rs.20,000 in the form of cash and the clais against the form are also Rs.20,000 in the form of capital.

  - Assets = Liabilities + Capital

    Rs.20,000 = 0 + Rs.20,000

EXAMPLE 2

THE BUSINESS PURCHASES FURNITURE FOR RS.500 CASH. THE EFFECT OF THIS TRANSACTION IS THE AMOUNT OF CASH IN HAND IS LOWER BY RS. 500 BUT A NEW ASSET OF THE SAME AMOUNT HAS BEEN ACQUIRED, LEAVING THE TOTAL OF THE ASSETS UNCHANGED. THE EQUATION NOW WILL APPEAR AS FOLLOWS:

	Assets		= Liabilities	+ Capital
	Cash + Furniture		=	
Old Balance	20000	0	0	20000
New Transaction	- 500	+500	0	0
Net Balance	19,500 +	500	0 +	20000

- It will be seen that the total of assets remains equal to liabilities + capital

EXAMPLE 3

THE BUSINESS PURCHASES GOODS FOR RS. 1,000 FOR AND ANOTHER ASSET .VIZ.,STOCK OF GOODS, HAS COME INTO EXISTENCE BUT THE TOTAL OF ASSETS REMAINS UNCHANGED. THE EQUATION WILL BE AS FOLLOWS:

Assets				=	Liabilities + Capital
	Cash +	Furniture +	Goods		
Old Balance	19,500	500	0	0	20000
New Transaction	- 1000	0	1000	0	0
New Balance	18,500	500	1000	0	20000

EXAMPLE 4

THE BUSINESS PURCHASES GOODS FOR RS.2,000 ON CREDIT. BECAUSE OF THIS TRANSACTION THE STOCK OF GOODS INCREASES BY RS. 2,000, MAKING THE TOTAL ASSETS RS. 22,000, NOW

RS. 2,000 IS DUE TO BE PAID OF THE GOODS. THE EQUATION WILL BE AS FOLLOWS :

Assets				= Liabilities + Capital	
	Cash +	Furniture	+ Goods		
Old Balance	18,500	500	1,000	0	20,000
New Transaction	----	----	2,000	2,000	----
New Balance	18,500	500	3,000	2000	20,000

EXAMPLE 5

THE BUSINESS SELLS GOODS ON CREDIT FOR RS. 4,000: THE COST OF THE GOODS IS RS.2,500

BY THIS TRANSACTIONS ANOTHER ASSETS ,VIZ ., DEBTORS, HAS COME INTO EXISTENCE TO THE EXTENT OF RS. 4,000. BUT THE STOCK OF GOODS WILL BE REDUCED ONLY BY RS.2,500 THE COST OF GOODS SOLD. THE NET INCREASE IN ASSETS RS. 1,500, I.E., RS.4,000 – RS.2,500 WILL BE ADDED TO THE CAPITAL. THE POSITION NOW WILL BE SHOWN BELOW:

Assets					= Liabilities +	Capital
	Cash +	Furniture+	Goods +	Debtors =	Creditors +	Rakesh's Capital
Old Balance	18,500	500	3000	0	2,000	20,000
New Transactions	0	0	- 2,500	4000	0	1,500
New Balance	18,500	500	500	4000	2000	21,500

EXAMPLE 6

THE BUSINESS PAYS RS.100 FOR RENT AND RS. 200 FOR SALARIES. THE CASH BALANCE WILL NOW BE REDUCED BY RS. 300; THERE IS NO ASSET TO SHOW FOR THIS HENCE THE CAPITAL WILL BE REDUCED BY THIS AMOUNT AS SHOWN BELOW;

Assets				= Liabilities +Capital		
Cash+ Furniture + Goods + Debtors				= Creditors +Rakesh's Capital		
Old Balance	18,500	500	500	4000	2000	21,500
New Transaction	-300	0	0	0		-300
New Balance	18,200	500	500	4000	2000	21,200

- It will have been noted that at any stage the total of assets will be equal to the total of liabilities and the capital. The last equation stated above can also be presented in the form of a statement called the balance sheet

BALANCE SHEET OF THE BUSINESS AS AT

Liabilities + Capital	Rs	Assets	Rs
Creditors	2,000	Cash	18,200
Capital	21,200	Furniture	500
		Goods	500
		Debtors	4,000
Total	23,200	Total	23,200

- The balance sheet shown the sources from which the funds have been obtained – the left hand side does that : the above case Rs.2,000 have been obtained from outsiders and Rs. 21,200 have been contributed by the proprietor. the other side shows how the funds stand invested

ILLUSTRATION:

Illustration:		
No.	Particulars	Amount (Rs.)
1	Ram Started business with	50,000
2	Purchased goods on credit	4,000
3	Purchased goods for cash	1,000
4	Purchased Furniture	500
5	withdrew for private use	700
6	Paid rent	200
7	Received interest	100
8	Sold goods on credit for (cost Rs.500)	700
9	Paid to creditors	400
10	Paid Salaries	200

SOLUTION

S. No	Transaction	Assets	Liabilities	Capital
1	Ram starts business with cash Rs. 50,000	50,000	0	50,000
2	Purchases goods on credit for Rs. 4,000	4,000	4,000	0
	New Equation	54,000	4,000	50,000
3	Purchases goods for cash for Rs.1,000	(+)1,000 (-)1,000	0	0
	New Equation	54,000	4,000	50,000
4	Purchases furniture for cash for Rs. 500	(+) 500 (-) 500	0	0
	New Equation	54,000	4,000	50,000
5	Withdraws cash for private use Rs. 700	(-) 700	0	(-) 700
	New Equation	53,300	4,000	49,300
6	Pays for rent Rs. 200	(-) 200	0	(-) 200
	New Equation	53,100	4,000	49,100
7	Receives interest Rs.100	(+) 100	0	(+) 100
	New Equation	53,200	4,000	49,200
8	Sells goods costing Rs. 500 for Rs. 700 in Cash	(-) 500 (+) 700	0	(+) 200
	New Equation	53,400	4,000	49,400
9	Paid to creditors Rs. 400	(-) 400	(-) 400	0
	New Equation	53,000	3,600	49,400
10	Pays Salaries Rs. 200	(-) 200	0	(-) 200
	New Equation	52,800	3,600	49,200

- The statement given above again shows the double sided effect of transactions.
- In Book –keeping normally both the effect are recorded: the system which does that is called Double Entry System.

- There are some conventions or principles which are particularly relevant to the preparation of the profit and loss account and the balance sheet. We shall deal with them when we take up final account.
- Hence we make a mention them

PREPARATION OF PROFIT AND LOSS ACCOUNT AND THE BALANCE SHEET

- Going Concern Concept or Long –run Concept;
- Accounting year Concept ;
- Realisation Concept;
- Matching Concept;
- Accrual Concept;
- Conservatism
- Consistency; and
- Full Disclosure Convention

LIMITATIONS OF FINANCIAL ACCOUNTING

DOUBLE ENTRY SYSTEM

Meaning :

In the Western World the double entry system was developed in the 15th century in Italy Lucas Pacioli (It should however be noted that the Indian system of accounting is also based on the double entry system, through its origin is not known.)

- Ever transaction has two aspects and , according to this system , both the aspects are recorded

Definitions

- The Double entry system is that system which recognises and records both the aspects of transactions. This system has been proved to be systematic and has been found of great use for recording the financial affairs of all institutions requiring use of money

ADVANTAGES OF DOUBLE ENTRY SYSTEM

- By the use of this system the accuracy of the accounting work can be established through the device of the trial balance
- The profit earned or loss suffered during a period can be ascertained together with details.
- 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

DOUBLE ENTRY SYSTEM

- This system permits accounts kept in as much detail as necessary and therefore affords significant information for purposes of control etc.
- Results of one year may be compared with those of previous years and reasons for the change may be ascertained
- The management may be able to obtain good information for its work, specially for making decisions.

DOUBLE ENTRY SYSTEM

- The firm is saved from frauds and misappropriations since full information about all assets and liabilities will be available

It is because of these advantages that the system has beer used extensively in all countries.

OTHER SYSTEMS OF BOOK-KEEPING

- Besides the Double Entry System ,there are also the single entry system and the Indian system of accounting.
- The single Entry system is incomplete since under it there is no particular system which has to be followed.
- In case of some transactions both aspects may be recorded; some transactions may be omitted altogether and only one aspect of other transactions may be needed.

BOOK KEEPING

- Usually accounts are maintained about cash , credit customers and credit suppliers.
- Accounts regarding expenses and incomes and assets are not kept. Therefore the detail about profit earned or loss suffered are not available.
- Through the single entry system sounds economical it is full of defects.
- The Indian system of accounting has been in use for a very long time and is based on the double entry system.

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Thank you