Financial accounting is concerned with the recording of financial transactions and analyzing the effect of such transactions to assist in the development ofbusiness decisions. In addition, financial accounting provides information in the form of balance sheets, income statements, and other financial statements to users outside of businesses that are in some way concerned or affected by the performance of the business—stockholders, creditors, lenders, governmental agencies, and other outside users.

Hospitality management accounting is concerned with providing specialized internal information to managers who are responsible for directing and controlling operations within the hospitality industry. Internal information is the basis for planning alternative short- or long-term courses of action and the decision as to which course of action is selected. Specific detail is provided as to how the selected course of action will be implemented. Managers direct the needed material resources and motivate the human resources needed to carry out a selected course of action. Managers control the implemented course of action to ensure that the plan is being followed and, as necessary, modified to meet the objectives of the selected course of action.

GENERAL FINANCIAL ACCOUNTING TERMS

The objective of this text is to provide managers in the hospitality industry with a working knowledge of how an accounting system develops, maintains, and provides financial information. Managerial analysis is enhanced with an understanding of the information provided by an accounting system. Without management's understanding of the information being provided, management effectiveness
will be greatly reduced.
Financial accounting is a common language developed by accountants over time to define the principles, concepts, procedures, and broad rules necessary for management's use in a viable accounting system for making decisions and maintaining an efficient, effective, and profitable business. An **account** is a record in which the current status of each type of asset, liability, owners' equity, sales revenue, and expense is kept. The **balance** is the current status of an account—the amount that is in a particular account at a specific point in time.

An accounting system shows detailed information regarding each of the account categories, and it governs recording, reporting, and preparation of financial statements that show the financial condition of a business entity. The **accounting period** is the time period covered by the financial statements.

CASH VERSUS ACCRUAL ACCOUNTING

The cash and accrual basis are the two methods of accounting. The difference between the two methods is how and when sales revenue and expenses are recognized. The **cash basis** of accounting recognizes sales revenue inflows when cash is received and operating expense outflows to generate sales revenue when cash is paid. Simply put, the cash basis recognizes sales revenue and operating expenses only when cash changes hands. The **accrual basis** of accounting recognizes inflows of sales revenue when earned and operating expense outflows to produce sales revenues when incurred; it does not matter when cash is received or paid. Many small operations use the cash basis of accounting for their type of business; no requirement exists to prepare and report their financial position to external users.

DOUBLE-ENTRY ACCRUAL ACCOUNTING

The analysis of accounting transactions, the recording, posting, adjusting, and reporting economic results and financial condition of a business entity is the heart of **double-entry accrual accounting.**
For an accounting transaction to occur, at least one element of the balance sheet equation or the income statement elements must be created or changed. An exchange between a business entity where services are rendered or goods are sold to an external entity for cash or on credit, or where services are received or goods are purchased creates a transaction. Following the transaction, adjusting entries must be made to adjust the operating accounts of the business entity at the end of an operating period to recognize internal accruals and deferrals. Such transactions will recognize sales revenues earned but not yet received or recorded, and expenses incurred but not yet paid or recorded. To complete the accounting period, a requirement also exists to close the temporary
income statement operating accounts (sales revenue and expenses) to bring them to a zero balance and transfer net income or net loss to the capital account(s) or the retained earnings account. Note that this requirement means that an entry is made on both sides of the equation—thus, the name *double-entry accounting.*

Type of Accounts:-

1. Personal Accounts 2. Real Accounts 3. Nominal Accounts

Golden Rules for Debit and Credit:

1. Personal Accounts –	a) Debit the receiver
	b) Credit the giver
2. Real Accounts –	a) Debit what comes in
	b) Credit what goes out
3. Nominal Accounts –	a) Debit all expenses and losses
	b) Credit all incomes and gains

Books of Original Entry

The books in which a transaction is recorded for the first time from a source document are called *Books of Original Entry* or *Prime Entry*. *Journal* is one of the books of original entry in which transactions are originally recorded in a chronological (day-to-day) order according
to the principles of Double Entry System.

Journal

Journal is a date-wise record of all the transactions with details of the accounts debited and credited and the amount of each transaction.

Journal

S.No.	Date	Particulars	L.F.	Debit	Credit

Explanation:

1. Date : In the first column, the date of the transaction is entered. The year and the month is written only once, till they change. The sequence of the dates and months should be strictly maintained.

2. Particulars : Each transaction affects two accounts, out of which one account is debited and the other account is credited. The name of the account to be debited is written first, very near to the line of particulars column and the word **Dr.** is also written at the end of the particulars column. In the second line, the name of the account to be credited is written, starts with the word '**To**', a few space away from the margin in the particulars column to the make it distinct from the debit account.

3. Narration : After each entry, a brief explanation of thetransaction together with necessary details is given in the particulars column with in brackets called **narration**. The words 'For' or 'Being' are used before starting to write down narration. Now, it is not necessary to use the word 'For' or 'Being'.

4. Ledger Folio (L.F): All entries from the journal are later posted into the ledger accounts. The page number or folio number of the Ledger, where the posting has been made from the Journal is recorded in the L.F column of the Journal. Till such time, this column remains blank.

5. Debit Amount : In this column, the amount of the account being debited is written.

6. Credit Amount : In this column, the amount of the account being credited is written.

Capital and Drawings

It is important to note that business is treated as a separate entity from the business man. All transactions of the business have to be analysed from the business point of view and not from the proprietor'spoint of view. The amount with which a trader starts the business is known as

Capital. The proprietor may withdraw certain amounts from the business to meet personal expense or goods for personal use. It is called **Drawings**.

Bank Transactions

Bank transactions that occur often in the business concerns are cash paid into bank, cheques and bills received from customers paid into bank for collection, payment of cheques for expenses and cheques issued to suppliers or creditors. When a cheque is received treat it as cash.

Compound Journal Entries

Compound or Combined Journal Entry is one where more than one transactions are recorded by passing only one journal entry instead of passing several journal entries. Since every debit must have the corresponding equal amount of credit, special care must be taken in posting the compound journal entry, where there may be only one debit aspect but many corresponding credit aspects of equal value or vise versa.

Ledger

In the Journal, each transaction is dealt with separately. Therefore, it is not possible to know at a glance, the net result of many transactions. So, in order to ascertain the net effect of all the transactions relating to a particular account are collected at one place in the Ledger. A Ledger is a book which contains all the accounts whether personal, real or nominal, which are first entered in journal or special purpose subsidiary books.

Ledger is a principal or main book which contains all the accounts in which the transactions recorded in the books of original entry are transferred. Ledger is also called the **'Book of Final Entry'** or **'Book of Secondary Entry'**, because the transactions are finally incorporated in the Ledger. The following are the advantages of ledger.

i. Complete information at a glance:

All the transactions pertaining to an account are collected at one place in the ledger. By looking at the balance of that account, one can understand the collective effect of all such transactions at a glance.

ii. Arithmetical Accuracy

With the help of ledger balances, Trial balance can be prepared to know the arithmetical accuracy of accounts.

iii. Result of Business Operations

It facilitates the preparation of final accounts for ascertaining the operating result and the financial position of the business concern.

iv. Accounting information

The data supplied by various ledger accounts are summarised, analysed and interpreted for obtaining various accounting information.

Name of Account

Dr. **Cr.**

Date	Particulars	J.F	Amount	Date	Particulars	J.F	Amount

Explanation:-

i. Each ledger account is divided into two parts. The left hand side is known as the debit side and the right hand side is known as the credit side. The words ‘Dr.’ and ‘Cr.’ are used to denote Debit and Credit.

ii. The name of the account is mentioned in the top (middle) of the account.

iii. The date of the transaction is recorded in the date column.

iv. The word ‘To’ is used before the accounts which appear on the debit side of an account in the particulars column. Similarly, the word ‘By’ is used before the accounts which appear on the credit side of an account in the particulars column.

v. The name of the other account which is affected by the transaction is written either in the debit side or credit side in the particulars column.

vi. The page number of the Journal or Subsidiary Book from where that particular entry is transferred, is entered in the Journal Folio (J.F) column.

vii. The amount pertaining to this account is entered in the amount column.

Posting :-

The process of transferring the entries recorded in the journal or subsidiary books to the respective accounts opened in the ledger is called **Posting**. In otherwords, posting means grouping of all the transactions relating to a particular account at one place. It is necessary to post all the journal entries into various accounts in the ledger because posting helps us to know the net effect of various transactions during a given period on a particular account.

Procedure of posting:-

The procedure of posting is given as follows:

I. Procedure of posting for an Account which has been debited in the journal entry.

Step 1 à Locate in the ledger, the account to be debited and enter the date of the transaction in the date column on the debit side.
Step 2 à Record the name of the account credited in the Journal in the particulars column on the debit side as “To..... (name of the account credited)”.

Step 3 à Record the page number of the Journal in the J.F column on the debit side and in the Journal, write the page number of the ledger on which a particular account appears in the L.F. column.
Step 4 à Enter the relevant amount in the amount column on the debit side.

II. Procedure of posting for an Account which has been credited in the journal entry.

Step 1 à Locate in the ledger the account to be credited and enter the date of the transaction in the date column on the credit side.
Step 2 à Record the name of the account debited in the Journal in the particulars column on the credit side as “By...... (name of the account debited)”
Step 3 à Record the page number of the Journal in the J.F column on the credit side and in the Journal, write the page number of the ledger on which a particular account appears in the L.F. column.
Step 4 à Enter the relevant amount in the amount column on the credit side.

Balancing an Account

Balance is the difference between the total debits and the total credits of an account. When posting is done, many accounts may have entries on their debit side as well as credit side. The net result of such debits and credits in an account is the balance.

Balancing means the writing of the difference between the amount columns of the two sides in the lighter (smaller total) side, so that the grand totals of the two sides become equal.

Significance of balancing

There are three possibilities while balancing an account during a given period. It may be a debit balance or a credit balance or a nil balance depending upon the debit total and the credit total.

i. Debit Balance : The excess of debit total over the credit total is called the **debit balance**. When there is only debit entries in an account, the amount itself is the balance of that account, i.e., the debit balance. It is first recorded on the credit side, above the total. Then it is entered on the debit side, below the total, as the first item for the next period.
ii. Credit Balance : The excess of credit total over the debit total is called the **credit balance**. When there is only credit entries in an account, the amount itself is the balance of that account i.e., the credit balance. It is first written in the debit side, as the last item, above the total. Then it is recorded on the credit side, below the total, as the first item for the next period.

Balancing of different accounts

Balancing is done periodically, i.e., weekly, monthly, quarterly, halfyearly or yearly, depending on the requirements of the business.
i. Personal Accounts : These accounts are generally balanced regularly to know the amounts due to the persons (**creditors**) or due from the persons (**debtors**).
ii. Real Accounts : These accounts are generally balanced at the end of the financial year, when final accounts are being prepared.

However, cash account is frequently balanced to know the **cash on hand**. A debit balance in an asset account indicated the **value of the asset** owned by the business. Assets accounts always show debit balances.
iii.Nominal Accounts : These accounts are in fact, not to be balanced as they are to be closed by transfer to final accounts. A debit balance in a nominal account indicates that it is **an expense or loss**. A credit balance in a nominal account indicates that it is **an income or gain**.

All such balances in personal and real accounts are shown in the Balance Sheet and the balances in nominal accounts are taken to the Profit and Loss Account.

Q.1 Journalise the following transactions of Mr.Ravi and post them in the ledger and balance the same.

2004, June 1 Ravi invested Rs.5,00,000 cash in the business
3 Paid into Bank Rs.80,000
5 Purchased building for Rs.3,00,000
7 Purchased goods for Rs.70,000
10 Sold goods for Rs.80,000
15 With drew cash from bank Rs.10,000
25 Paid electric charges Rs.3,000
30 Paid Salary Rs. 15,000

2. Record the following transactions in the Journal of Mr.Radhakrishnan and post them in the ledger and balance the same.

2004, Jan. 1 Radhakrishnan commenced business with cash, Rs.15,00,000.
3 Paid into Bank Rs.5,00,000
5 Bought goods for Rs.3,60,000
7 Paid travelling charges Rs.5,000
10 Sold goods for Rs.2,50,000
15 Sold goods to Balan Rs.2,40,000
20 Purchased goods from Narayanan Rs.2,10,000
25 Withdrew cash Rs.60,000

3. Journalise the following transactions in the Journal of Mr.Shanmugam, post them in the ledger and balance them.,

2003, Aug. 1 Started business with Rs.4,50,000
3 Goods purchased Rs.70,000
5 Goods sold Rs.51,000
10 Goods purchased from Rangasamy Rs.2,00,000
16 Goods returned to Rangasamy Rs.5,000
23 Drew from bank Rs.30,000
26 Furniture purchased Rs.10,000
27 Settled Rangasamy’s account
31 Salaries paid, Rs.12,000

4. Journalise the following transactions in Tmt.Rani's Journal and post them to ledger and balance them.

Rs.

2003, Sept. 1	Tmt. Rani started business with 3,00,000
5	Opened a current account with Indian Overseas Bank 50,000
12	Bought goods from Tmt.Sumathi 90,000
18	Paid to Tmt. Sumathi 90,000
20	Sold goods to Tmt.Chitra 1,26,000
28	Tmt.Chitra settled her account

<u>Type of Subsidiary Books</u>:-

i. **Purchases Book** records only credit purchases of goods by the trader.
ii. **Sales Book** is meant for entering only credit sales of goods by the trader.
iii. **Purchases Return Book** records the goods returned by the trader to suppliers.
iv. **Sales Return Book** deals with goods returned (out of previous sales) by the customers.
v. **Bills Receivable Book** records the receipts of bills (Bills Receivable).
vi. **Bills Payable Book** records the issue of bills (Bills Payable).
vii.**Cash Book** is used for recording only cash transactions i.e., receipts and payments of cash.
viii. **Journal Proper** is the journal which records the entries which cannot be entered in any of the above listed subsidiary books.

<u>Type of Discount:-</u>

A. **Trade Discount :- Trade discount** is an allowance or concession granted by the seller to the buyer, if the customer purchases goods above a certain quantity or above a certain amount. The amount of the purchase made, is always arrived at after deducting the trade discount, ie., onlythe net amount is considered. For example, if the list price (price prescribed by the manufacturers or wholesalers) of a commodity is Rs.100, and trade discount granted by manufacturer to the wholesaler is 20% then cost price of the commodity to the wholesaler is Rs.80.Trade discount is not recorded in the books. They are used for determining the net price.
B. **Cash Discount:-** Sale of goods on credit is a common phenomenon in any business. When goods are sold on credit the customers enjoy a facility of making payment on some date in the future. In order to encourage them to make the payment before the expiry of the credit period a deduction is offered. The deduction so made is known as **cash discount**. For example, If Ram purchases goods worth Rs.5,000 on 30 days credit then, as per the terms of contract, he is authorized to make payment 30 days after the date of purchase. If he is offered a cash discount of 2% on payment within 10 days and if he does so, he is entitled to deduct Rs.100 from the invoice price and pay Rs.4,900. In this case Rs.100 is cash discount. But if he does not choose to make payment within 10 days then he will not get any cash discount. In this case he will pay Rs.5,000 after 30 days.

Kinds of Cash Book:-

A. **Single Column Cash Book:-** Single column cash book (simple cash book) has one amountcolumn in each side. All cash receipts are recorded on the debit side and all cash payments on the credit side. In fact, this book is nothing but a Cash Account. Hence, there is no need to open cash account in the ledger. The format of a single column cash book is given below.

DATE	PARTICULARS	R.L.	L.F.	AMOUNT	DATE	PARTICULARS	V.N.	L.F.	AMOUNT

B. Double Column Cash Book

The most common double column cash books are
i. Cash book with discount and cash columns
ii. Cash book with cash and bank columns.

C. Triple Column Cash Book

Large business concerns receive and make payments in cash and by cheques. Where cash discount is a regular feature, a Triple Column Cash Book is more advantageous. This cash book has three amount columns (cash, bank and discount) on each side. All cash receipts, deposits into bank and discount allowed are recorded on debit side and all cash payments, withdrawals from bank and discount received are recorded on credit side.

1. From the following particulars, prepare single column cash book of Ms.Kokila.

2002
Mar.1 Cash in hand Rs.20,000.
4 Cash purchases Rs.4,000.
7 Cash sales Rs.8,000.
8 Paid to Balan Rs. 5,000
9 Received cash from Cheran Rs.10,000.
13 Paid into bank Rs.10,000.
14 Cash withdrawn from bank Rs.4,000.
18 Paid salaries Rs.1,000.
20 Bought furniture Rs.3,000.
28 Rent paid Rs. 1,000.
(Answer : Cash balance Rs. 18,000)

2.Enter the following transactions in cash book with cash and discount column of Mr.Nandakumar.

2003
Jan 1 Cash in hand Rs.60,000.
3 Bought goods from Premnath Rs.10,000.
4 Opened a current account with bank Rs.15,000.
7 Withdraw from bank Rs.5,000.
8 Sold goods to Kandan for Rs.10,000 credit on terms 2% cash discount if payable within two weeks.
10 Paid cash to Premnath, less 1% C.D.

14 Received a cheque from Arul Rs.3,400, allowed him discount Rs.100.
15 Kandan settled his account.
(Answer : Cash balance Rs.53,300)

3. Record the following transactions in Sujatha's cash book with cash and bank columns.
2002
Mar 1 Cash Balance Rs.45,000.
Bank Balance Rs.42,000.
3 Cash paid into bank Rs.5,000.
5 Purchases by cheque Rs.9,000.
8 Cash sales, deposited in the bank Rs.13,500.
10 Furniture purchased Rs.600.
14 Cheque received from Ramu Rs.2550.
17 Ramu's cheque deposited in the bank for collection.
18 Cash withdrawn for personal use by cheque Rs.750.
20 Cash withdrawn from bank Rs.3,000.
26 Ramu's cheque was returned by bank as dishonoured.
(Answer : Cash balance Rs.42,400; Bank Balance Rs.47,750)

4. Enter the following transactions in the Three Column Cash Book of Mr.Albert.
2002
May 1 Cash in hand Rs.30,000.
Cash at bank Rs.2,000
3 Received cheque for goods sold to Arun and banked it Rs.1000.
5 Paid into bank Rs.4,000.
9 Paid cash to David from whom goods worth Rs.6,000 were purchased for credit on 1st May on term 2% cash discount within two weeks.
10 Paid to Robert by cheque Rs.2,400 in full settlement of his account of Rs.2,500.
12 Received cash from Nathan Rs.4,750. Discount allowed Rs.250.
19 Interest allowed by bank Rs.200.
20 Robert to whom we have issued a cheque has reported that our cheque is dishonoured.
22 Roshan got exchange a five hundred rupee note.
31 Paid into bank all cash in excess of Rs.5,000.
(Answer : Cash balance Rs.5,000. Bank balance Rs.27,070.
Deposited into bank Rs.19,870)

Trial balance:-

"**Trial balance** is a statement, prepared with the debit and credit balances of ledger accounts to test the arithmetical accuracy of the books"

Objectives

The objectives of preparing a trial balance are:

i. To check the arithmetical accuracy of the ledger accounts.
ii. To locate the errors.

iii. To facilitate the preparation of final accounts.

Methods

A trial balance can be prepared in the following methods.

i. **The Total Method :** According to this method, the total amount of the debit side of the ledger accounts and the total amount of the credit side of the ledger accounts are recorded.

ii. **The Balance Method :** In this method, only the balances of an account either debit or credit, as the case may be, are recorded against their respective accounts.

Trial Balance of ABC Ltd.
as on ....

DATE	PARTICULAR	L.F.	DEBIT	CREDIT

1. The following balances were extracted from the ledger of Rahul on 31st March, 2003. You are requested to prepare a trial balance as on that date in the proper form.

	Rs.		Rs.
Salaries	36,320	Purchases	1,44,670
Sales	1,73,500	Sundry Debtors	1,430
Plant & Machinery	34,300	Travelling Expenses	2,630
Commission Paid	1,880	Carriage Inward	240
Stock on 1.4.2002	11,100	Sundry Creditors	14,260
Repairs	1670	Capital, 1.4.2002	62,500
Sundry Expenses	460	Drawings	3,500
Returns Inward	1,000	Cash at Bank	1,090
Discount Allowed	1,150	Returns Outward	400
Rent and Rates	3,220	Investments	6,000

(Ans. Rs. 2,50,660)

FINAL ACCOUNTS

Parts of Final Accounts

The final accounts of business concern generally includes two parts. The first part is Trading and Profit and Loss Account. This is prepared to find out the net result of the business. The second part is Balance Sheet which is prepared to know the financial position of the business. However manufacturing concerns, will prepare a Manufacturing Account prior to the preparation of trading account, to find out cost of production.

A. Trading Account

Trading means buying and selling. The trading account shows the result of buying and selling of goods.

Items appearing in the debit side

1. **Opening stock:** Stock on hand at the begining of the year is termed as opening stock. The closing stock of the previous accounting year is brought forward as opening stcok of the current accounting year. In the case of new business, there will not be any opening stock.

2. **Purchases:** Purchases made during the year, includes both cash and credit purchases of goods. Purchase returns must be deducted from the total purchases to get net purchases.

3. **Direct Expenses:** Expenses which are incurred from the stage of purchase to the stage of making the goods in saleable condition are termed as direct expenses. Some of the direct expenses are:

   i. **Wages:** It means remuneration paid to workers.

   ii. **Carriage or carriage inwards:** It means the transportation charges paid to bring the goods from the place of purchase to the place of business.

   iii. **Octroi Duty:** Amount paid to bring the goods within the municipal limits.

   iv. **Customs duty, dock dues, clearing charges, import duty etc.:** These expenses are paid to the Government on the goods imported.

   v. **Other expenses :** Fuel, power, lighting charges, oil, grease,waste related to production and packing expenses.

Items appearing in the credit side

i. **Sales:** This includes both cash and credit sale made during the year. Net sales is derived by deducting sales return from the total sales.

ii. **Closing stock:** Closing stock is the value of goods which remain in the hands of the trader at the end of the year. It does not appear in the trial balance. It appears outside the trial balance. (As it appears outside the trial balance, first it will be recorded in the credit side of the trading account and then shown in the assets side of the balance sheet).

Trading Account
for the year ending 31st March 2003

Dr. Cr.

Particulars	Rs.	Rs.	Particulars	Rs.	Rs.
To Opening Stock		xxx	By Sales	xxx	
To Purchases	xxx		Less : Returns		
Less: Returns			Inward	xxx	xxx
outward	xxx	xxx	By Closing stock		xxx
To Wages		xxx	By Gross Loss c/d		xxx
To Freight		xxx	(transferred to		
To Carriage			P&L A/c)		
Inwards		xxx			
To Clearing charges		xxx			
To Packing charges		xxx			
To Dock dues		xxx			
To Power (factory)		xxx			
To Octroi Duty		xxx			
To Gross Profit c/d		xxx			
(transferred to					
P&L A/c)					
		xxx			xxx

Profit and Loss Account

After calculating the gross profit or gross loss the next step is to prepare the profit and loss account. To earn net profit a trader has to incur many expenses apart from those spent for purchases and manufacturing of goods. If such expenses are less than gross profit, the result will be net profit. When total of all these expenses are more than gross profit the result will be net loss.

Profit and Loss Account
for the year ended ....

Dr. Cr.

Particulars	Rs.	Particulars	Rs.
To Trading A/c (Gross Loss)	x x x	By Trading A/c (Gross profit)	x x x
To Salaries	x x x	By Commission earned	x x x
To Rent & rates	x x x	By Rent received	x x x
To Stationeries	x x x	By Interest received	x x x
To Postage expenses	x x x	By Discount received	x x x
To Insurance	x x x	By Net Loss (Transferred to Capital A/c)	x x x
To Repairs	x x x		
To Trading expenses	x x x		
To Office expenses	x x x		
To Interest paid	x x x		
To Bank charges	x x x		
To Sundry expenses	x x x		
To Commission paid	x x x		
To Discount allowed	x x x		
To Advertisement	x x x		
To Carriage outwards	x x x		
To Travelling expenses	x x x		
To Distribution expenses	x x x		
To Repacking charges	x x x		
To Bad debts	x x x		
To Depreciation	x x x		
To Net Profit (transferred to Capital A/c)	x x x		
	x x x		x x x

Items appearing in the debit side

Those expenses which are chargeable to the normal activities of the business are recorded in the debit side of profit and loss account.They are termed as **indirect expenses**.

i. **Office and Administrative Expenses :** Expenses incurred for the functioning of an office are office and administrative expenses – office salaries, office rent, office lighting, printing and stationery, postages, telephone charges etc.

ii. **Repairs and Maintenance Expenses :** These expenses relates to the maintenance of assets - repairs and renewals, depreciation etc.

iii. **Financial Expenses :** Expenses incurred on borrowings – Interest paid on loan.

iv. **Selling and Distribution Expenses :** All expenses relating to sales and distribution of goods - advertising, travelling expenses, salesmen salary, commission paid to salesmen, discount allowed, repacking charges etc.

Items appearing in the credit side

Besides the gross profit, other gains and incomes of the business are shown on the credit side. The following are some of the incomes and gains.

i. Interest received on investment
ii. Interest received on fixed deposits.
iii. Discount earned.
iv. Commission earned.
v. Rent Received

Balance Sheet:

This forms the second part of the final accounts. It is a statement showing the financial position of a business. Balance sheet is prepared by taking up all personal accounts and real accounts (assets and properties) together with the net result obtained from profit and loss account. On the left hand side of the statement, the liabilities and capital are shown. On the right hand side, all the assets are shown. Balance sheet is not an account but it is a statement prepared from the ledger balances. So we should not prefix the accounts with the words 'To' and 'By'.

Balance sheet is defined as 'a statement which sets out the assets and liabilities of a business firm and which serves to ascertain the financial position of the same on any particular date'.

The Balance sheet of a business concern can be presented in the following two forms

i. Horizontal form or the Account form
ii. Vertical form or Report form

i) Horizontal form of Balance Sheet:

The right hand side of the balance sheet is asset side and the left hand side is liabilities side. All accounts having debit balance will appear in the asset side and all those having credit balance will appear in the liability side.

Balance Sheet of ....
as on ....

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Sundry creditors		xxx	Cash in hand		xxx
Bills payable		xxx	Cash at bank		xxx
Bank overdraft		xxx	Bills receivable		xxx
Outstanding expenses		xxx	Sundry debtors		xxx
Mortgage loans		xxx	Investments		xxx
Reserve fund		xxx	Closing stock		xxx
Capital	xxx		Prepaid expenses		xxx
Add: Net profit (or)			Furniture & fittings		xxx
Less: Net loss	xxx		Plant & machinery		xxx
	xxx		Land & buildings		xxx
Less: Drawings	xxx		Business premises		xxx
	xxx		Patents & trade marks		xxx
Less: Income tax	xxx	xxx	Good will		xxx
		xxx			xxx

ii) Vertical form of Balance Sheet

In this, Balance Sheet is presented in a statement form.

In this, Balance Sheet is presented in a statement form.

Balance Sheet as on ....

Particulars	Rs.	Rs.
Current Assets:		
Stock-in-Trade	xxx	
Sundry Debtors	xxx	
Prepaid Expenses	xxx	
Accrued Income	xxx	
Bills Receivable	xxx	
Cash at Bank	xxx	
Cash in Hand	xxx	
Total Current Assets		xxx
Less: Current Liabilities:		
Sundry Creditors	xxx	
Bills Payable	xxx	
Bank Overdraft	xxx	
Outstanding Expenses	xxx	
Total Current Liabilities		xxx
Net Working Capital:		xxx
Add: Fixed Assets:		
Goodwill	xxx	
Land and Building	xxx	
Plant and Machinery	xxx	
Furniture	xxx	
Investment	xxx	
Total Fixed Assets		xxx
Capital Employed		xxx
(Both owner's and outsiders)		
Less: Long Term Liabilities		
Debentures	xxx	
Loans	xxx	
Total Long Term Liabilities		xxx
Net Assets		xxx
Represented by:		
Owner's Capital	xxx	
Reserves and surplus	xxx	
Shareholders Funds		xxx

Classification of Assets and Liabilities

Assets

Assets represents everything which a business owns and has money value. In other words, asset includes possessions and properties of the business. Asset are classified as follows:
Assets
Tangible Intangible Fictitious
Fixed Current

a) Tangible Assets:

Assets which have some physical existence are known as tangible assets. They can be seen, touched and felt, e.g. Plant and Machinery
Tangible assets are classified into

i. Fixed assets :

Assets which are permanent in nature having long period of life and cannot be converted into cash in a short period are termed as **fixed assets**.

ii. Current assets :

Assets which can be converted into cash in the ordinary course of business and are held for a short period is known as **current assets**. This is also termed as **floating assets**. For example, cash in hand, cash at bank, sundry debtors etc.

b) Intangible Assets

The assets which have no physical existence and cannot be seen or felt. They help to generate revenue in future, e.g. goodwill, patents, trademarks etc.

c) Fictitious Assets

These assets are nothing but the unwritten off losses or non-recoupable expenses. They are really not assets but are worthless items. For example, Preliminary expenses.

Liabilities

The amount which a business owes to others is liabilities. Credit balance of personal and real accounts together with the capital account are liabilities.
Liabilities
Long Term Current Contigent

a) Long Term Liabilities

Liabilities which are repayable after a long period of time are known as **Long Term Liabilities**. For example, capital, long term loans etc.

b) Current Liabilities

Current liabilities are those which are repayable within a year. For example, creditors for goods purchased, short term loans etc.

c) Contingent liabilities

It is an anticipated liability which may or may not arise in future. For example, liability arising for bills discounted. Contigent liabilities will not appear in the balance sheet. But shown as foot note.

Marshalling of Assets and Liabilities

The term '**Marshalling**' refers to the order in which the various assets and liabilities are shown in the balance sheet. The assets and liabilities can be shown either in the order of liquidity or in the order of permanence.

a) In order of liquidity

Liquidity means convertability into cash. Assets will be said to be liquid if it can be converted into cash easily, they are placed at the top of the balance sheet. Liabilities are arranged in the order of their urgency of payment. The most urgent payment to be made is listed at the top of the balance sheet.

b) In order of permanence

This order is exactly the reverse of the above. Assets and liabilities are recorded in the order of their life in the business concern.

Balance Sheet Equation

An important thing to note about the Balance Sheet is that, the total value of the assets is always equal to the total value of the liabilities. This is because the liability to the owner - capital, is always made up of the difference between assets and liabilities. Thus,

$$\begin{aligned}
\text{Assets} &= \text{Equities} \\
\text{Assets} &= \text{Capital} + \text{Liabilities}\ (A = C+L) \\
\text{Capital} &= \text{Assets} - \text{Liabilities}\ (C = A-L) \\
\text{Liabilities} &= \text{Assets} - \text{Capital}\ (L = A-C)
\end{aligned}$$

While preparing the trial balance in case it does not tally the difference is transferred to an imaginary account called as suspense account. In case the suspense account is not closed before the preparation of the final accounts then it has to be placed in the balance sheet, so that it can be rectified later. If suspense account has a debit balance it will appear as the last item in the asset side. In case it shows a credit balance it will appear as the last item in the liability side.

From the following balances extracted from the books of Mrs.Mala, prepare final accounts for the year ending 31st March 2003. Closing stock as on 31.03.2003 was Rs.72,500.

Particulars	Debit Rs.	Credit Rs.
Mrs.Mala's Capital		95,000
Plant & Machinery	37,000	
Repairs to Machinery	9,150	
Wages	42,000	
Salaries	6,000	
Income tax	750	
Cash and bank balances	3,000	
Land and building	1,11,750	
Purchases	1,80,000	
Purchase Returns		3,000
Sales		3,75,000
Interest	2,250	
Bills receivable	15,000	
Bills payable		4,500
Commission (Cr)		6,000
Debtors	52,500	
Creditors		40,650
Opening Stock as on 1.4.2003	55,500	
Drawings	12,000	
Suspense account		2,750
	5,26,900	5,26,900

[Answers : Gross profit Rs.1,73,000; Net profit Rs.1,61,600; Balance sheet Total Rs. 2,91,750]