ACCOUNTING CYCLE

The Series of business transactions which occur from the beginning of an accounting period to the end of an accounting period is referred any specific period of time for which a summary of business's transaction is prepared.

Steps in Accounting Cycle:-

1. Journalizing (Recording)
2. Posting to Ledger (Classifying)
3. Final Account (Summarizing)

Now Explain Steps:-

1 Recording:- This is the basic function of accounting. All business transaction, as evidenced by some documents such as Sale bill, Pass book, Salary Slip ect are recorded in the books of account. This is called recording process.

2. Classifying:- All entries in the Journal or books of Original Entry should be posted to the appropriate ledger accounts to find out at a glance the total effect of all such transactions in a particular account.

3. Summarizing:- It is concerned with the preparation and presentation of the classified data in a manner useful to the Internal a well as the external users of financial statements. This process leads to the preparation of the following financial statements:-

a) Trial Balance
b) Profit & Loss Account
c) Balance Sheet
d) Cash flow Statement.

DIFF. BETWEEN BOOK KEEPING AND ACCOUNTING

BOOK KEEPING	ACCOUNTING
1. It is a Process concerned with recording of transaction. 2. It is the basic of accounting. 3. Person responsible for book-keeping are called book keeper. 4. It does not required any special skill or Knowledge. 5. Personal judgment of the book-keeper is not required. 6. Financial statement are not prepared from	1. It is a process concerned with Summarizing of the recorded transaction. 2. It is the basic for business language. 3. Personal responsible for accounting are called accountant. 4. It required special Skill & knowledge. 5. Personal Judgment of the accountant is essential. 6. Financial statement are prepared from accounting record.

book-keeping record.	
7. It does not give the complete picture of the financial condition of the business unit.	7. It gives the complete picture of the financial conditions of the business unit.
8. It does not help complying with legal formalities.	8. Legal formalities can be complied with help of accounting.
9. It does not provide any information for talking managerial decision.	9. It provides Information for talking managerial decision.
10. It has no Branches.	10. It has several branches like Financial accounting, cost accounting, Management accounting ect.

DOBULE ENTRY SYSTEM

Under this system a proper and full record of all transaction is made every transaction has a double or dual aspect. It is based upon the principal that every receiver implies giver and every giver implies receiver. This method writhing every transaction in two accounts is given debit side and the other account is given credit with an equal amount. Thus, on any date, the total of all debits must be equal to the total of all credit because every debit entry has a corresponding credit.

For example, ram purchased goods from Kewal, of Rs.5000. here ram is receiver of goods and hence, debtor of Kewal, who is the giver of goods, that is, he is the creditor of Ram. Similarly, Salary paid to manager is in lieu of the benefit received by the business, in terms of the service rendered ect. Thus, all transaction will have two aspect and a proper record of the transaction is necessary for this, it has to be recognized that.

1.) Each transaction is to be dealt with as standing alone having no preceding ar succeeding connection, and

2.) A business is regarded as a separate entity quite distinct from its proprietor and the exchange in transaction takes place between the business and the outsider.

ACCOUNTING CONCEPT

Accounting Concept defines the assumptions on the basis of which Financial Statements of a business entity are prepared. Certain concepts are received assumed and accepted in accounting to provide a unifying structure and internal logic to accounting process. The word concept means idea or nation, which has universal application. Financial transactions are interpreted in the light of the concepts, which govern accounting methods. Concepts are those basis assumption and conditions, which form the basis upon which the accountancy has been laid. Unlike physical science, Accounting concepts are only results of broad consensus. These accounting concepts lay the foundation on the basis of which the accounting principals are formulated.

Now we shall study in detail the various concept on which accounting is based. The following are the widely accepted accounting concepts.

1.) **Entity Concept:-** Entity Concept says that business enterprises is a separate identity apart from its owner. Business transactions are recorded in the business books of accounts and owner's transactions in this personal back of accounts. The concept of accounting entity for every business or what is to be excluded from the business books. Therefore, whenever business received cash from the proprietor, cash a/c is debited as business received cash and capital/c is credited. So the concept of separate entity is applicable to all forms of business organization.

2.) **Money Measurement Concept:-** As per this concept, only those transactions, which can be measured in terms of money are recorded. Since money in the medium of exchange and the standard of economic value, this concept requires that these transactions alone that are capable of being measured in terms of money be only to be recorded in the books of accounts. For example, health condition of the chairman of the company, working conditions of the workers, sale policy ect. do not find place in accounting because it is not measured in terms of money.

3.) **Cost Concept:-** By this concept, the value of assets is to be determined on the basic of historical cost. Transaction are entered in the books of accounts at the amount actually involved. For example a machine purchased for Rs. 80000 and may consider it worth Rs. 100000, But the entry in the books of account will be made with Rs. 80000 or the amount actually paid. The cost concept does not mean that the assets will always be shown at cost. The assets may be recorded at the time of purchase but it may be reduced its value be charging depreciation.

Many assets de not have acquisition cost. Human assets of an enterprises are an example. The cost concept fails to recognize such assets although it is a very important assets of any organization.

4.) **Going Concern Concept:-** According to this concept the financial statements are normally prepared on the assumption that an enterprises is a going concern and will continue in operation for the foreseeable future. Transaction are therefore recorded in such a manner that the benefits likely to accrue in future from money spent. It is because of this concept that fixed assets are recorded at their original cost and depreciation in a systematic manner without reference to their current realizable value.

5.) **Dual aspect Concept:-** This concept is the care of double entry book-keeping. Every transaction or event has two aspect. If any event occurs, it is bound to have two effect. For Rs.50000, on the other hand stock will increase by Rs.50000 and other liability will increase by Rs.50000. similarly is X starts a business with a capital of Rs. 50000, while on the other hand the business has to pay Rs. 50000 to the proprietor which is taken as proprietor's Capital.

6.) **Realization Concept: -** It closely follows the cost concept any change in value of assets is to be recorded only when the business realize it. i.e. either cash has been received or a legal obligation to pay has been assumed by the customer. No Sale can be said to have taken place and no profit can be said to have arisen. It prevents business firm from inflating their profit by recording sale and income that are likely to accrue, i.e. expected income or gain are not recorded.

7.) **Accrual Concept:-** Under accrual concept the effect of transaction and other events are recognized on mercantile basic. When they accrue and not as cash or a cash equivalent is received or paid and they are recorded in the accounting record and reported in the financial statements of the periods to which they relate financial statement prepared on the accrual basic inform users not only of past events involving the payment and receipt of cash but also of obligation to pay cash in the future and of resources that represent cash to be received in the future. For Example:- Mr. Raj buy clothing of Rs. 50000,a paying cash Rs. 20000 and sells at Rs. 60000 of which customer paid only Rs. 40000. So his revenue is Rs. 60000, not Rs. 40000 cash received. Exp. Or Cash is Rs. 50000, not Rs. 20000 cash paid. So the accrual concept based profit is Rs. 10000 (Revenue- Exp.)

8.) **Accounting Period Concept:-** This is also called the concept of definite periodicity concept as per going concept on indefinite life of the entity is assumed for a business entity it causes inconvenience to measure performance achieved by the entity in the ordinary causes of business. Therefore, a small but workable fraction of time is chosen out of infinite life cycle of the business entity for measure the performance and loading at the financial position 12 months period is normally adopted for this purpose accounting to this concept accounts should be prepared after every period & not t the end of the life of the entity. Usually this period is one calendar year. In India we follow from 1st April of a year to 31st March of the immediately following years. Now a day because of the need of management, final accounts are prepared at shoter intervals of quarter year or in some cases a month such accounts are know a interim account.

9.) **Matching Concept:-** In this concept, all exp. Matched with the revenue of that period should only be taken into consideration. In the financial statements of the organization. If any revenue is recognized that exp. Related to earn that revenue should also be recognized. This concept as it considers the occurrence of exp. And income and do not concentrate on actual inflow or outflow of cash. This leads to adjustment of certain items like prepaid and outstanding expenses, unearned or accrued income.

It is not necessary that every exp. Identity every income. Some exp. Are directly related to the revenue and some are directly related to sale but rent, salaries etc. are recorded on accrual basis for a particular accounting period. In other words periodicity concept has also been followed while applying matching concept.

10.) **Objective Concept:-** As per this concept, all accounting must be based on objective evidence. In other words, the transactions recorded should be supported by verifiable documents. Only than auditors can verify information record as true or otherwise. The evidence should not be biased. It is for this reasons that assets are recorded at historical cost and shown thereafter at historical lass depreciation. If the assets are shown on replacement cost basis, the objectivity is lost and it become difficult for auditors to verify such value, however, in resent year replacement cost are used for specific purpose as only they represent relevant costs. For example, to find out intrinsic value of share, we need replacement cost of assets and not the historical cost of the assets.

ACCOUNTING CONVENTIONS

The term “Accounting Conventions” refers to the customs or traditions which are used as a guide in the preparation of accounting reports and statements. The conventions are derived by usage and practice. The accountancy bodies of the world may charge any of the convention to improve the quality of accounting information accounting conventions need not have universal application. Following are important accounting conventions in use:

1.) **Convention of consistency:-** According to this convention the accounting practices should remain unchanged from one period to another. It requires that working rules once chosen should not be changed arbitrarily and without notice of the effect of change to those who use the accounts. For example, stock should be valued in the same manner every year. Similarly depreciation is charged on fixed assets on the same method year after year. If this assumption is not followed, the fact should be disclosed together with reasons.

The principle of consistency plays its role particularly when alternative accounting methods is equally acceptable. Any change from one method to another method would result in inconsistency; they may seem to be inconsistent apparently. In case of valuation of stocks if the company applies the principle “at cost or market price whichever is less” and if this principle accordingly result in the valuation of stock in one year at cost and the market price in the other year, there is no inconsistency here. It is only an application of the principle.

An Enterprise should change its accounting policy in any of the following circumstances only.

(i) To bring the books of accounts in accordance with the issued accounting standard.

(ii) To compliance with the provision of law.

(iii) When under changed circumstances it is felt that new method will reflect more true and fair picture in the financial statement.

2.) **Convention of Conservatism:-** This is the policy of playing sale game. It takes into consideration all prospective losses but leaves all prospective profits financial statements are usually drawn up on a conservative basis anticipated profit are ignored but anticipated losses are taken into account while drawing the statements following are the examples of the application of the convention of conservatism.

(i) Making the provision for doubtful debts and discount on debtors.

(ii) Valuation of the stock at cost price or market price which ever is less.

(iii) Charging of small capital items, like crockery to revenue.

(iv) Showing joint life policy at surrender value as against the actual amount paid.

(v) Not providing for discount on creditors.

3.) **Convention of Disclosure:-** Apart from statutory requirement, good accounting practice also demands that significant information should be disclosed in financial statements. Such disclosures can also be made through footnotes. The purpose of this convention is to communicate all material and relevant facts concerning financial position and results of operations to the users. The contents of balance sheet and profit and loss account are prescribed by law. These are designed to make disclosures of all materials facts compulsory. The practice of appending notes relative to various facts and items which do not find place in accounting statements is in pursuance to the convention of full disclosure of material facts. For example;

(a) Contingent liability appearing as a note.

(b) Market value of investments appearing as a note.

The convention of disclosure also applies to events occurring after the balance sheet date and the date on which the financial statement are authorized for issue. Such events include bad debts, destruction of plant and equipment due to natural calamities', major acquisition of another enterprises, etc. such events are likely to have a substantial influence on the earnings and financial position of the enterprises. Their not-disclosure would affect the ability of the users for evaluations and decisions.

4.) **Convention of Materiality:-** According to this conventions, the accountant should attach importance to material detail and ignore insignificant details in the financial statement. In materiality principle, all the items having significant economics effect on the business of the enterprises should be disclosed in the financial statement.

The term materiality is the subjective term. It is on the judgment, common sense and discretion of the accountant that which item is material and which is not. For example stationery purchased by the organization though not used fully in the concept. Similarly depreciation small items like books, calculator is taken as 100% in the year if purchase through used by company for more than one year. This is because the amount of books or calculator is very small to be shown in the balance sheet. It is the assets of the company.

JOURNAL

Introduction:- The word 'Journal means' a daily record. Journal is derived from French word 'Jour' which means a day. It is a book of original or prime entry written up from the various sources documents. Every transaction is recorded in the first instance and than it is posted to the ledger. The form in which it is recorded is called journal entry and recording or entering a transaction in the journal is known as Journalizing.

Rules of Journalizing:- The process of passing an entry in a journal is called Journalizing. The rule for Journalizing is same as that of rules of debit and credit. It is based on two facts. First is accounting equation and other is accounting approach.

1.) Based on Accounting Equation:-

a) Increases in assets are debits, decreases are credit.

b) Increased in liability are credit, decreases are debits.

c) Increases in capital are credits, decreases are debits.

d) Increases in profits are credits, decreases are debits.

e) Increases in expenses are debits, decreases are credits.

2.) Based on Traditional Approach:-

a) Debit the receiver, credit the giver

b) Debit what comes in, credit what goes out.

c) Debit all expenses and losses, credit all income and gains.

CASH BOOK

Every business activity ultimately result in cash, therefore, recording of transaction involving cash must be recorded in a separate journal. This journal is called cash book. It may be defined as the record of transaction relating to receipt of and payment in cash.

Therefore, all cash transaction began to be recorded separately in a book called the cash book, which later began to be used to record bank book and discount transaction as well besides cash transaction by doing so daily checking of cash in hand and periodical checking of cash in hand and periodical checking of bank balance was rendered quick and easy. Although cash book is a book of original entry, the use of cash book as a subsidiary book is often dispensed with. It is an integral part of ledger. But nonetheless, it serves the dual purpose of journal as well as ledger.

PETTY CASH BOOK

The cash book as seen above is used for recording all major payments. But, in every business a number of petty (small) Payment like that for postage, carriage, stationery, entertainment, cartage, conveyance etc. are paid frequently even in a single day. If all these petty expenses are to be recorded in the main cash book. It would be come too bulky and difficult to handle therefore, it is usual for the business units to maintain a separate cash book to record small payments only. Such a cash book is known as petty cash book. Petty cash book can be of two types.

a) Simple petty cash book and

b) Analytical petty cash book.

1.) **SIMPLE PETTY CASH BOOK:-**A simple petty cash book is written just like the cash book. The amount received by the petty cashier from the head cashier is recorded on the debit side of the petty cash book and payment on the credit side of the petty cash book. Expenses account is individually debited in the ledger.

2.) **AN ANALYTICAL PETTY CASH BOOK:-** An Analytical petty cash book is employed by a large concern having a number of transactions of petty amount such petty. Cash book contains individual columns for each expense every small payment is recorded on the credit side. One of the total payment column and second in one of the analytical amount columns. The periodic total of expenses column is posted to the expenses accounts concerned while the total of expenses column is posted to the expenses accounts. Concerned while the total of payment column serves to find out the balance of cash with the petty cashier.

IMPREST SYSTEM

The petty cash book is usually maintained on the basis of imprest system. Under it, a fixed amount, solely determined by the Head Cashier, is advanced to the Petty Cashier at the beginning of the period, may be, a week or a fortnight, or a month, by the Head Cashier. The petty cashier submits his accounts at the end of the period to the Head Cashier and the head cashier after examining the accounts gives him a fresh advance equivalent to the amount spent by him during the period. Thus, in the beginning of each period, the petty cashier has a fixed balance. The amount so advance to him is termed as "Imprest" or "Float".

JOURNAL PROPER

It must have been understood by this time that Journal is used for recording only those transactions for which there is no special subsidiary book. Moreover, if the number of transactions of a particular type (say returns inward or outward) is not large, there is no point in having a separate subsidiary book for such transactions. These transactions may be journalized. The method of recording transactions in Journal has already been explained.

Following transactions are still recorded in the journal:

1. **Opening entries:-** At the beginning of the year, the opening balances of assets and liabilities are journalized.
2. **Closing Entries:-** At the end of the year final accounts are prepared. For preparing these accounts various are to be transferred to the trading and profit and loss account which is done by means of journal entries.
3. **Rectification entries:-** When any error is detected in writing up the books then it is rectified by means of suitable journal entry.
4. **Adjustment entries:-** Since accounting follows "accrual concept" therefore adjustment has to be done at the end of the year regarding:
   a) Expenses incurred but not paid,
   b) Expenses paid but benefit to be available in the next period,
   c) Income becoming due but not received,
   d) Income received in advance, and
   e) Charging depreciation on fixed assets, etc.
5. **Transfer entries:-** If any amount is to transferred from one ledger account to the other, then it is done by means of journal entries.
6. **Miscellaneous entries:-**
   a.) Purchase and sale of fixed asses on credit,
   b.) Writing off of losses due to bad debt, fire, accidents etc,

c.) Any extra concession to be allowed to any customer or any charge to be levied after the issue of the invoice, and

d.) Any other item for which no subsidiary book has been maintained.

SUBSIDIARY BOOKS

As transactions occur, it is possible, at least in theory, to record them from source documents directly to the proper accounts in the Principal Book(s). but in actual practice, with hundreds of different accounts and thousands of transactions occurring every day, such a procedure would become cumbersome and confusing. Furthermore, after several recordings it world become difficult to locate a particular transaction. Not only this, the identity of individual transaction is lost and the purpose of recording it cannot be easily ascertained. For example, if the cash account, he might not succeed in his efforts unless he goes through the entire general ledger. A separate record of each transaction is therefore, necessary.

Need for Subsidiary Books

Ledger, as already noted, is the principal book of account which contains information relating to all business transaction both as regards debits and credit aspects. It provides a cumulative analysis of the effect of business transactions.

The use of ledger alone, though the principal book of accounts, such procedure usually is inadvisable. It fails to meet all the requirements of a complete accounting system. Various reasons why ledger is an incomplete record and why subsidiary books must also be maintained are as follows:

1.) **Chronological history not available:-** If business transactions are entered directly In individual accounts in ledger, the trader would not have as adequate picture of what occurs in his business. It is lacking when only ledger is used.

A business enterprises should keep a chronological record of its transactions in order to simplify references to its activities according to date.

2.) **Complete transaction not shown at one place:-** information disconnected each business transaction affects more than one account. When the debit and credit aspects of a transaction are entered in two shown at one place. Consequently, if there are a large number of accounts in ledger, it would become difficult to trace any transaction.

3.) **Detail inadequate- ledger too bulky:-** only meager information concerning a transaction can be shown conveniently in the accounts in ledger. If, however complete information is given in the ledger, it would become too bulky to be handled efficiently.

4.) **Division of labour hampered:-** only one person at a time con efficiently make entries in the ledger. He must have the entire ledger available in order to record the transaction in each account affected. A large enterprise, with a multitude of transactions to record, must use a more efficient system which permits many employees to work on the books at the same time.

5.) **Errors difficult to locate:-** Making the entries directly in the ledger increases the probability that errors will occur and makes errors mode difficult to locate and correct. The following are a few examples.

a.) Omitting one part of a transaction

b.) Entering part of a transaction on the wrong side of an account.

c.) Entering the wrong amount in an account.

d.) Entering an amount in the wrong account.

These five reasons sufficiently explain the desirability of having. Subsidiary books where the transactions are shown—

a.) In chronological order

b.) Complete in one place, and

c.) With adequate explanations as to their nature.

DIFFERENCE BETWEEN TRADE AND DISCOUNT AND CASH DISCOUNT

Trade Discount	**Cash Discount**
1. It is offered at the time of sale or purchase. 2. It is usually offered or allowed on account of purchases made beyond a prescribed quantity. 3. It is deducted from the list price in the invoice. 4. It is not recorded in the books of account. 5. It is usually given in percentage.	1. It is offered at the time of getting quick payment. 2. It is usually offered or allowed for full or part settlement of account at an earlier date. 3. It is not deducted at the time of preparation of the invoice. 4. It is duly recorded in the books of the account. 5. It may be given in percentage or in absolute figure.

DEBIT & CREDIT NOTE

A Debit note is prepared when goods are returned by the purchaser due to some reason. Two copies of this note are prepared. The original copy is sent to the party (i.e. Seller of goods) to whom goods are returned and the duplicate copy is kept in the office record. It is called a debit note because the party's account is debited with the amount written in this note for the goods returned. The same debit note becomes credit note from the receiving party's point to view because he credits the account of the party from whom he received the note along with the goods.

A credit note, as stated above, is like a debit note. It is sent by the seller to the purchaser for the goods returned by the latter to the former. It is called a credit note because the party's account is credited with the amount written in this note for the goods returned by the party. The same credit note becomes debit note for the party sending this for the goods received.

The object of sending a credit note to a customer is to inform him that he has been credited in our books. A credit note is also sent to the customer in the following cases:

1.) When he is allowed some discount or allowance in defective, damaged or unsatisfactory goods.

2.) When an excessive charge was made by mistake.

3.) When cartons or containers are returned by the customer.

TRIAL BALANCE

We know that the fundamental principle of Double Entry System id accounting is that for every debit, there must be a corresponding credit, thus, for every debit or a series of debits given to one or several accounts, there is a corresponding credit or a series of credit of n equal amount given to some other account or accounts and vice versa. It follows, therefore, that the sum total of debit accounts should equal the credit amounts of the ledger at any date. But if the various accounts in the ledger are balanced, then the total of all debit balance must be equal to the total of all credit balances if the books of accounts are arithmetically accurate.

Thus, at the end of the financial year o at any other time, the balances of all the ledger accounts are extracted and are written up in a statement known as Trial Balance and finally totaled up to see if the total of debit balances is equal to the total of credit balances. A Trail Balance may thus be defined as a statement of debit and credit totals or balance extracted from the various accounts in the ledger with a view to test the arithmetical accuracy of the books.

The agreement of the Trial Balance reveals that both the aspects of each transaction have been recorded and that the books are arithmetically accurate. If the Trial Balance does not agree, it shows that there are some errors which must be detected and rectified link between the ledger accounts and the final accounts.

OBJECTIVES OF TRIAL BALANCE

The following are the main objectives of preparing the trial balance:

(i) To have balances of all the accounts of the ledger in order to avoid the necessity of going through the pages of the ledger to find it out.

(ii) To have a proof that the double entry of each transaction has been recorded because of its agreement.

(iii) To have arithmetic accuracy of the books of accounts because of the agreement of the trial balance.

(iv) To have material for preparing the profit and loss account and balance sheet of the business.

LIMITATIONS OF TRIAL BALANCE

The following are the main limitations of the trial balance:

(i) Trial balance can be prepared only in those concerns where double entry system of accounting is adopted. This system is very costly and cannot be adopted by the small concerns.

(ii) Through trial balance gives arithmetic accuracy of the books of accounts but there are certain errors which are not disclosed by the trial balance. That is why it is said that trial balance is not a conclusive proof of the accuracy of the books of accounts.

(iii) If Trial Balance is not prepared correctly then the final accounts prepared will not reflect the true and fair view of the state of affairs of the business. Whatever conclusions and decisions are made by the various groups of persons will not be correct and will mislead such persons.

ERROR DISCLOSED BY TRIAL BALANCE

It the two sides of a trial balance are not equal, it is the proof of the existence of error. There may, of course, be more than one error.

The main reasons of such errors are given below;

1.) An item omitted to be posted from a subsidiary book into the ledger i.e., A purchase of Rs.1000 from Navin omitted to be credited to his account. As a result of this error, the figure of sundry creditors to be shown in the Trial Balance will reduce by Rs.1000 and the total of the credit side of the Trial Balance will b Rs.1000 less as compared to the debit side of the Trial Balance.

2.) Posting of wrong amount to a ledger account i.e., A Credit sale of Rs. 2000 to Aarti wrongly posted to her account as Rs.200. the effect of this error will be that the figure of sundry debtors will be reduced by Rs.1800 and the total of the debit side of the Trial Balance will be Rs.1800 Less than the total of the credit side of the Trial Balance.

3.) Posting an amount to the wrong side of the ledger account i.e., Rs.50 Discount allowed to a Customer wrongly posted to the credit instead of the debit side of the discount account. As a result to this error, the credit side of the Trial Balance will exceed by Rs.100 (double the amount of the error).

4.) Wrong additions or balancing of ledger accounts i.e., while Balancing Capital account at the end of the financial year, credit balance of Rs.89000 wrongly taken as Rs.79000. as a result of this error, the credit total of the Trial Balance will Rs.10000 too short.

5.) Wrong totaling of subsidiary books i.e., Sales Book is overcast by Rs.10 as result of this error, credit side of the Trial balance will be Rs.10 too much because sales account will appear at a higher figure on the credit side of the Trial Balance.

6.) An item in the subsidiary book posted twice to a ledger account i.e., Payment of Rs.1000 to a creditor posted twice to his account.

7.) Omission of Balance of an account in the Trial Balance Cash and Bank Balance may have been omitted to be included in the Trial Balance.

8.) Balance of Some account wrongly entered in the Trial Balance i.e., A Balance of Rs. 513 in Stationery Account wrong entered as Rs.315in the Trial balance.

9.) Balance of some account written to the wrong side of the Trial Balance i.e., Balance of Commission earned account wrongly shown to the side instead of the credit side of the Trial Balance.

10.) An error in the Totaling of the Trial Balance will bring the disagreement of the Trial Balance.

ERROR NOT DISCLOSED BY A TRIAL BALANCE

It is certain that the error exists of the debits of trial balance are not equal to its credits. But the fact that trial balance is in balance does not prove the accuracy of accounts. There is a possibility of mistakes which will not upset the equilibrium of the equality of debits and credits and thus is a proof only of arithmetic accuracy of posting.

The following are the cases of such error which are not disclosed by a trail balance:

1.) **Omission of an entry in a subsidiary book:-** if an entry has not been recorded in a subsidiary book both the debit and credit of that transaction would be omitted and the agreement of the trial balance will not be affected in any way.

2.) **A wrong entry in a subsidiary book:-** If a Credit purchase of Rs.465 from Annu is Wrongly written as Rs.564 in the Purchase book, such an error will not be disclosed by the trial balance. As the posting on both the debit side of purchases account and credit side annu's account will be with the wrong amount of Rs.564, so the trial balance will agree.

3.) **Posting an item to the correct side but in the wrong account:-** If a purchase of Rs.500 from Vasant Desai has been credited to Himanshu Desai in stead of Vasant Desai, it will not affect the agreement of the Trial Balance, so the Trial Balance will not detect such an error.

4.) **Compensating error:-** These are errors which compensate themselves in the net result, i.e., over-debits or under-debits of various accounts being neutralized by the over-credits or under-credits to the same extent of some other accounts. For example under-posting of Rs.500 on the debit side of a certain account would be compensated by under-posting of Rs.100 on the credit side of another account and an omission of credit posting of Rs.400 to a third account. It is quite possible that this error may also be neutralized by over-posting of Rs.500 on the debit side in some other account or accounts or accounts.

5.) **Errors of Principle:-** These errors will not affect the agreement of the trial balance as they arise from the debiting or crediting of wrong heads of accounts as would be inconsistent with the fundamental principles of double entry accounting. For Example Rs.6550 spent in extension of building wrongly debited to repairs account instead of building account will not affect the agreement of the Trial balance. Thus, such errors arise whenever an asset is treated as an expense or vise versa or a liability is treated as an income or vise versa.

METHOD OF PREPARATION OF TRIAL BALANCE

Preparation of Trial Balance is the third step in accounting process. It is preceded by recording of transaction in subsidiary nooks and posting of the accounts in the ledger, and succeeded by preparation of final accounts.

A Trial Balance can be prepared at ant time as and when desired, but it must be prepared at the end of each financial year after the accounts have been closed. There are three methods of preparing the Trial balance.

1. **TOTAL METHOD:-**Under this method, every ledger account is totaled and that total amount (both of debit side and credit side) is transferred to trial balance. In this method, trial balance can be prepared as soon as ledger account is totaled. Time taken to balance the ledger accounts is saved under this method as balance can be found out in the trial balance itself. The difference of totals of each ledger account is the balance of that particular account. This method is no commonly used as it cannot help in the preparation of the financial statements.

2. **BALANCE METHOD:-** Under this method every ledger account is balanced and those balances only are carry forward to the trial balance. This method is used commonly by the accountants and helps in the preparation of the financial statements. Financial statements are prepared on the basis of the balance of the ledger accounts.

3. **TOTAL AND BALANCE METHOD:-** Under this method, the above two explained methods are combined. Under this method statement of trial balance contains seven columns instead of five columns. This has been explained with the help of the following example:

S.No.	Heads of Account	Debit Total	Credit Total

1.	Cash Account	30000	19800
2.	Furniture Account	3000	
3.	Salaries Account	2500	
4.	Shyam's Account	21500	25000
5.	Purchase Account	26000	
6.	Purchase Return Account		500
7.	Ram's Account	30000	25100
8.	Sales Account		30500
9.	Sale Return Account	100	
10.	Capital Account	500	1000
11.	Bank Account	5000	8200
	TOTAL	119100	191100

DEPARTMENTAL ACCOUNTING

INTRODUCTION: - When a business deals in different finds of articles or services under one roof, it is divided into number of divisions which are known as departments. This is generally done to have smooth and efficient running of business. A department is a physical part of the rest of the business. It is like decentralization of business activities. Each department is given freedom to take decision relation to purchases, pricing, adding of new products ect. The accounting system is so devised as to enable the management to find out turnover, expenses and profit of each department separately.

OBJECTIVES:- When all the divisions of a business are located under one roof and separate trading, profit and loss accounts of various departments of an organization are prepared, the information available there from is helpful to the management to find out relative performance of departments. The following are the objectives of departmental accounting.

2) To determine the profitability of each department and compare it with previous year's result and also with the other departments of the same concern.

3) To provide information regarding which department has high operation expenses so that policy may be formulated to control such expenses.

4) To help the management in deciding which department shall be expanded to maximize profitability of the business.

5) To provide information regarding improving efficiency of departments with lower profit or losses.

6) Which departments are to be closed because of lower sales volume and high operating costs.

7) When departmental manager's are to be paid commission on the basis of profit achieved by their department.

8) To generate information which may be helpful for planning, control, evaluation of their departments.

9) To help the proprietor in formulating policy to expend the business on proper lines so as to optimize the profits of the concern.

10) When a business is dealing in different types of goods or services, it is not enough to prepare one trading profit and loss account for the entries business. It may show profit made by the whole business but still there may be loss in some of the departments which reduces the overall profits of the business. Such departments must be closed down. Because of this reason separate trading profit and loss account of each department shall be prepared.

ADVANTAGES OF DEPARTMENTAL ACCOUNT

1) The trading results of each department may help to evaluate the performance of each department. The sales of that department which fives maximum profit may be pushed up by special efforts.

2) The profitability of each department may help the management for taking decision whether to drop a department or add a new one.

3) The growth potentials of a department can be evaluated by having comparison with the other departments.

4) The users of accounting information can be provide mode detailed information like the shareholder, investors, creditors etc.

5) The overall profits of the organization can be increased by having friendly rivalries between different departments.

6) The departmental managers and staff can be suitably rewarded on the basis of the departmental results.

7) It helps the management to determine the justification of proper use of capital invested in each department.

8) It helps to have comparison of various expenses of each department with the previous period or with other departments of the same concern.

9) It helps to know he efficiency of each department by calculating stock turnover ratio of each department to reveal the fast or slow moment of various items of stock.

10) The information provided by departmental accounts may be helpful to the management for future intelligent planning and control.

ALLOCATION OF DEPARTMENTAL EXPENSES

The problems arise only in indirect expenses which are common for the concern as a whole and may be relating to sales, distribution, administration, finance and till these are distributed among the departments on same suitable basis, the net profits of difference departments cannot be ascertained. Direct expenses are easily indentified with a particular department is known as direct expenses like purchase, wages, salary, carriage etc. these expenses are directly charged to respective department. Such expenses which cannot be directly related to a particular department or cannot have precise allocation may be divided among the different departments as follows:

1.) **Selling Expenses:-** These expenses include discount allowed, bad debts, selling commission, carriage on sales and should be divided among the different departments on the basis of sales. It must be noted carefully that sales for this purpose also include transfers to other departments.

2.) **Building Expenses:-** Rent and rates, insurance on building, repairs, etc. are expenses which are relating to building premises and should be distributed among the different departments according to the space occupied by each department. It any department is enjoying any special benefit then charge for these expenses must be adjusted according to the special benefit enjoyed by a particular department. Departments having front location must bear more charges than the departments in rear part of the building.

3.) **Heating and lighting:-** if there are no separate meters, these may be apportioned among the different departments on the basis of points, lamps used, area or inversely to the number of windows.

4.) **Power:-** It should be apportioned on the basis of probable usage as determined by numbers and types of machines adjusted where necessary according to running hours in absence of separate meters for each department.

5.) **Advertising:-**It should be apportioned on the basis of advertising space used by the different departments or on the basis of advertisement for the benefit of all departments must be apportioned equally among the departments.

6.) **Insurance Premium:-** It must be seen whether the insurance premium has been paid for stock, premises or loss of profit or workmen’s compensation and should be apportioned on the basis of stock carried, proportion of premises occupied, profits earned in the preceding years and wages respectively but if there exists any abnormal feature relating to any department, that may be considered while apportioning such expenses.

7.) **Depreciation:-** it should be allocated among the different departments on the basis of assets employed in each department.

8.) **Labour Welfare expenses:-** These should be apportioned among the different departments on the basis of number of employees working in each department.

9.) **Carriage inward:-** Carriage Inward are related to the purchases so these exp. Should be apportioned among the different departments on the basis of Purchases of each department.

10.) **Works manager’s salary:-** works manager’s salary should be allocated among the different departments on the basis of time spent in each department.

EXPENSES WHICH CANNOT BE ALLOCATED

There are Certain expenses which cannot be allocated on some equitable basis such as director fees, managerial remuneration, debenture interest, share transfer, income tax, office expenses, general manager’s salary, dividend paid etc., are cannot be allocated or apportioned. These expenses shall be charged to general or combined profit and loss account. Profit of all departments should be brought down in one total and such expenses should be debited and non-departmental profits credited to this profit without making any effort for its apportionment among different departments in combined income account.

HIRE PURCHASE & INSTALMENT PURCHASE

INTRODUCTION:- With an Increasing demand for better life, the consumption of goods has been on the expending sale. There are different ways by which goods can be sold. First is goods can be sold for cash, Second is goods can sold for Hire-Purchase and third is sold from Installment.

Under Cash Sale the ownership and possession is immediately passed from seller to buyer and buyer makes the payment in cash at the time of taking the delivery of Goods.

Under Hire-Purchase System the buyer acquires the possession of the goods immediately and agrees to pay the total price in installment. Each installment treated as hire charges until the payment of the payment of the last Installment when the ownership of goods passes. The ownership of goods is transferred to the buyer when the last Installment is paid. I the buyer default in the payment of the Installment (Even last Installment) the Hire-Vendor has right to repossess the goods without compensation the buyer. But buyer pays Installments regularly, the Seller has no right to repossess the goods.

Under Installment Purchase System the buyer acquires the possession & Ownership of the goods immediately and payment of the total price will be made in Installment if the buyer is any default in the payment of any Installment, the Seller has no right to repossess the goods. Because the ownership of the goods is transfer immediately from Seller to Buyer at the time of signing the contract. He can only go to the court and sue the purchaser for unpaid balance.

FEATURE OF HIRE-PURCHASES

1) The hire vendor transfer possession of goods immediately to the Purchaser
2) The Buyer will make Payment in Installment over a period of time.
3) The Ownership of the goods will remain with the seller and passed to the buyer on the payment of the last Installment.
4) Each Installment is treated as hire-Charges until the last Installment is paid.
5) The hire purchaser generally makes a down payment on signing the agreement.
6) In case of default in respect of even the last Installment, the hire vendor has the right to takes the goods back without making any compensation.

FEATURE OF INSTALLMENT PURCHASES

1) The buyer acquires possessions of the goods immediately at the time of agreement.
2) The Buyer will make Payment in Installment over a period of time.
3) Each Installment pay with some Interest.
4) The Ownership of the goods transfer of the goods at the time of agreement.
5) The hire purchaser generally makes a down payment on signing the agreement.
6) In case of default in respect of even the last Installment, the seller has no right to possess the goods. The Can only sues for unpaid balance.

DIFF. BETWEEN HIRE-PURCHASE AND INSTALLEMNT

HIRE-PURCHASE	**INSTALLMENT**

1. The ownership of the goods passes to the Hire-vendor on the payment of last Installment.	1. The ownership of the goods passes to the buyer immediately when the agreement is signed.
2. It is a agreement of Hiring.	2. It is a agreement of Sale.
3. The hires can return the goods if he does not want to continue with the agreement.	3. The buyer cannot return the goods to the seller.
4. The hires cannot sell transfer or pledge the goods.	4. The buyer can do all such thing.
5. If the hires make default in payment of Installment or any other terms of agreement the seller can repossess the goods.	5. In case of default seller can only sue the in the court of law and cannot repossess the goods.