



ACADEMIC YEAR 2025-2026, SEMESTER – I
STUDY MATERIAL FOR BUSINESS ADMINISTRATION
ACCOUNTS FOR MANAGER - I



STUDY MATERIAL FOR BUSINESS ADMINISTRATION
ACCOUNTS FOR MANAGER - I
SEMESTER - I



ACADEMIC YEAR 2025-26

PREPARED BY

BUSINESS ADMINISTRATION DEPARTMENT



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KAMARAJ WOMEN'S COLLEGE



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UNIT – I

INTRODUCTION

Over the centuries, accounting has remained confined to the financial record-keeping functions of the accountant. But, today's rapidly changing business environment has forced the accountants to reassess their roles and functions both within the organisation and the society. The role of an accountant has now shifted from that of a mere recorder of transactions to that of the member providing relevant information to the decision-making team. Broadly speaking, accounting today is much more than just bookkeeping and the preparation of financial reports. Accountants are now capable of working in exciting new growth areas such as: forensic accounting (solving crimes such as computer hacking and the theft of large amounts of money on the internet); ecommerce (designing web-based payment system); financial planning, environmental accounting, etc. This realisation came due to the fact that accounting is capable of providing the kind of information that managers and other interested persons need in order to make better decisions. This aspect of accounting gradually assumed so much importance that it has now been raised to the level of an information system. As an information system, it collects data and communicates economic information about the organisation to a wide variety of users whose decisions and actions are related to its performance. This introductory chapter therefore, deals with the nature, need and scope of accounting in this context.

NEED AND IMPORTANCE OF ACCOUNTING

When a person starts a business, whether large or small, his main aim is to earn profit. He receives money from certain sources like sale of goods, interest on bank deposits etc. He has to spend money on certain items like purchase of goods, salary, rent, etc. These activities take place during the normal course of his business. He would naturally be anxious at the year end, to know the progress of his business. Business transactions are numerous, that it is not possible to recall his memory as to how the money had been earned and spent. At the same time, if he had noted down his incomes and expenditures, he can readily get the required information. Hence, the details of the business transactions have to be recorded in a clear and systematic manner to get answers easily and accurately for the following questions at any time he likes.

- i. What has happened to his investment?
- ii. What is the result of the business transactions?
- iii. What are the earnings and expenses?
- iv. How much amount is receivable from customers to whom goods have been sold on credit?
- v. How much amount is payable to suppliers on account of credit purchases?



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- vi. What are the nature and value of assets possessed by the business concern?
- vii. What are the nature and value of liabilities of the business concern?

Meaning

Accounting is a means of communicating the results of business operations to various parties interested in or connected with the business viz., the owners, creditors, investors, banks and financial institutions, Government and other agencies. Hence, it is rightly called as the language of business.

Definition

The American Institute of Certified Public Accountants has defined accounting as “the art of recording, classifying and summarizing in a significant manner and in terms of money transactions and events which are, in part at least, of financial character, and interpreting the results thereof.”

OBJECTIVES OF ACCOUNTING

The main objectives of accounting are

- i. To maintain accounting records.
- ii. To calculate the result of operations.
- iii. To ascertain the financial position.
- iv. To communicate the information to users.

Process: The process of accounting as per the above definition is given below: In order to accomplish its main objective of communicating information to the users, accounting embraces the following functions.

Identifying: Identifying the business transactions from the source documents. **Recording:** The next function of accounting is to keep a systematic record of all business transactions, which are identified in an orderly manner, soon after their occurrence in the journal or subsidiary books.

Classifying: This is concerned with the classification of the recorded business transactions so as to group the transactions of similar type at one place. i.e., in ledger accounts. In order to verify the arithmetical accuracy of the accounts, trial balance is prepared.

Summarising: The classified information available from the trial balance are used to prepare profit and loss account and balance sheet in a manner useful to the users of accounting information.



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Analysing: It establishes the relationship between the items of the profit and loss account and the balance sheet. The purpose of analysing is to identify the financial strength and weakness of the business. It provides the basis for interpretation.

Interpreting: It is concerned with explaining the meaning and significance of the relationship so established by the analysis. Interpretation should be useful to the users, so as to enable them to take correct decisions.

Communicating: The results obtained from the summarised, analysed and interpreted information are communicated to the interested parties.

USERS OF ACCOUNTING INFORMATION

The basic objective of accounting is to provide information which is useful for persons and groups inside and outside the organization.

Internal Users: Internal users are those individuals or groups who are within the organisation like owners, management, employees and trade unions.

- Owners: To know the profitability and financial soundness of the business.
- Management: To take prompt decisions to manage the business efficiently.
- Employees and Trade unions: To form judgement about the earning capacity of the business since their remuneration and bonus depend on it.

External Users: External users are those individuals or groups who are outside the organisation like creditors, investors, banks and other lending institutions, present and potential investors, Government, tax authorities, regulatory agencies and researchers.

- Creditors, banks and other: To determine whether the principal and lending institutions the interest thereof will be paid in when due.
- Present investors: To know the position, progress and prosperity of the business in order to ensure the safety of their investment.
- Potential investors: To decide whether to invest in the business or not.
- Government and Tax: To know the earnings in order to assess authorities the tax liabilities of the business.
- Regulatory agencies: To evaluate the business operation under the regulatory legislation.
- Researchers: To use in their research work.



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BRANCHES OF ACCOUNTING

The economic development and technological advancements have resulted in an increase in the scale of operations and the advent of the company form of business organisation. This has made the management function more and more complex and increased the importance of accounting information. This gave rise to special branches of accounting. These are briefly explained below:

1. Financial Accounting: The purpose of this branch of accounting is to keep a record of all financial transactions so that: (a) the profit earned or loss sustained by the business during an accounting period can be worked out, (b) the financial position of the business as at the end of the accounting period can be ascertained, and (c) the financial information required by the management and other interested parties can be provided.

2. Cost Accounting: The purpose of cost accounting is to analyse the expenditure so as to ascertain the cost of various products manufactured by the firm and fix the prices. It also helps in controlling the costs and providing necessary costing information to management for decision-making.

3. Management Accounting: The purpose of management accounting is to assist the management in taking rational policy decisions and to evaluate the impact of its decisions and actions.

CONCEPTUAL FRAME WORK OF ACCOUNTING

I. BASIC ASSUMPTIONS

The basic assumptions of accounting are like the foundation pillars on which the structure of accounting is based. The four basic assumptions are as follows:

- i. **Accounting Entity Assumption** According to this assumption, business is treated as a unit or entity apart from its owners, creditors and others. In other words, the proprietor of a business concern is always considered to be separate and distinct from the business which he controls. All the business transactions are recorded in the books of accounts from the view point of the business. Even the proprietor is treated as a creditor to the extent of his capital.
- ii. **Money Measurement Assumption** In accounting, only those business transactions and events which are of financial nature are recorded. For example, when Sales Manager is not on good terms with Production Manager, the business is bound to suffer. This fact will not be recorded, because it cannot be measured in terms of money.
- iii. **Accounting Period Assumption** the users of financial statements need periodical reports to know the operational result and the financial position of the business concern. Hence it becomes necessary to close the accounts at regular intervals.



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Usually a period of 365 days or 52 weeks or 1 year is considered as the accounting period.

- iv. **Going Concern Assumption** As per this assumption, the business will exist for a long period and transactions are recorded from this point of view. There is neither the intention nor the necessity to wind up the business in the foreseeable future.

II. BASIC CONCEPTS OF ACCOUNTING

These concepts guide how business transactions are reported. On the basis of the above four assumptions the following concepts (principles) of accounting have been developed.

- i. **Dual Aspect Concept** Dual aspect principle is the basis for Double Entry System of book-keeping. All business transactions recorded in accounts have two aspects - receiving benefit and giving benefit. For example, when a business acquires an asset (receiving of benefit) it must pay cash (giving of benefit).
- ii. **Revenue Realisation Concept** According to this concept, revenue is considered as the income earned on the date when it is realised. Unearned or unrealised revenue should not be taken into account. The realisation concept is vital for determining income pertaining to an accounting period. It avoids the possibility of inflating incomes and profits.
- iii. **Historical Cost Concept** Under this concept, assets are recorded at the price paid to acquire them and this cost is the basis for all subsequent accounting for the asset. For example, if a piece of land is purchased for Rs.5,00,000 and its market value is Rs.8,00,000 at the time of preparing final accounts the land value is recorded only for Rs.5,00,000. Thus, the balance sheet does not indicate the price at which the asset could be sold for.
- iv. **Matching Concept** Matching the revenues earned during an accounting period with the cost associated with the period to ascertain the result of the business concern is called the matching concept. It is the basis for finding accurate profit for a period which can be safely distributed to the owners.
- v. **Full Disclosure Concept** Accounting statements should disclose fully and completely all the significant information. Based on this, decisions can be taken by various interested parties. It involves proper classification and explanations of accounting information which are published in the financial statements.
- vi. **Verifiable and Objective Evidence Concept** This principle requires that each recorded business transactions in the books of accounts should have an adequate evidence to support it. For example, cash receipt for payments made. The documentary evidence of transactions should be free from any bias. As accounting records are based on documentary evidence which are capable of verification, it is universally acceptable.



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III. MODIFYING PRINCIPLES

To make the accounting information useful to various interested parties, the basic assumptions and concepts discussed earlier have been modified. These modifying principles are as under.

- i. **Cost Benefit Principle** this modifying principle states that the cost of applying a principle should not be more than the benefit derived from it. If the cost is more than the benefit then that principle should be modified.
- ii. **Materiality Principle** The materiality principle requires all relatively relevant information should be disclosed in the financial statements. Unimportant and immaterial information are either left out or merged with other items.
- iii. **Consistency Principle** The aim of consistency principle is to preserve the comparability of financial statements. The rules, practices, concepts and principles used in accounting should be continuously observed and applied year after year. Comparisons of financial results of the business among different accounting period can be significant and meaningful only when consistent practices were followed in ascertaining them. For example, depreciation of assets can be provided under different methods, whichever method is followed, it should be followed regularly.
- iv. **Prudence (Conservatism) Principle** Prudence principle takes into consideration all prospective losses but leaves all prospective profits. The essence of this principle is “anticipate no profit and provide for all possible losses”. For example, while valuing stock in trade, market price or cost price whichever is less is considered.

DOUBLE ENTRY SYSTEM

There are numerous transactions in a business concern. Each transaction, when closely analysed, reveals two aspects. One aspect will be “receiving aspect” or “incoming aspect” or “expenses/loss aspect”. This is termed as the “Debit aspect”. The other aspect will be “giving aspect” or “outgoing aspect” or “income/gain aspect”. This is termed as the “Credit aspect”. These two aspects namely “Debit aspect” and “Credit aspect” form the basis of Double Entry System. The double entry system is so named since it records both the aspects of a transaction. In short, the basic principle of this system is, for every debit, there must be a corresponding credit of equal amount and for every credit, there must be a corresponding debit of equal amount.

Definition of Double Entry System

According to J.R.Batliboi “Every business transaction has a two-fold effect and that it affects two accounts in opposite directions and if a complete record were to be made of each such transaction, it would be necessary to debit one account and credit another account. It is this recording of the two fold effect of every transaction that has given rise to the term Double Entry System”.



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FEATURES OF DOUBLE ENTRY SYSTEM

- i. Every business transaction affects two accounts.
- ii. Each transaction has two aspects, i.e., debit and credit.
- iii. It is based upon accounting assumptions concepts and principles.
- iv. Helps in preparing trial balance which is a test of arithmetical accuracy in accounting.
- v. Preparation of final accounts with the help of trial balance.

Approaches of Recording

There are two approaches for recording a transaction.

- Accounting Equation Approach
- Traditional Approach

Accounting Equation Approach

This approach is also called as the American Approach. Under this method transactions are recorded based on the accounting equation, i.e., $\text{Assets} = \text{Liabilities} + \text{Capital}$ this will be discussed in detail in the next chapter.

Traditional Approach

This approach is also called as the British Approach. Recording of business transactions under this method are formed on the basis of the existence of two aspects (debit and credit) in each of the transactions. All the business transactions are recorded in the books of accounts under the 'Double Entry System'.

Accounting Rules

Personal Accounts (Natural person or Company)

- Debit the receiver
- Credit the giver

Real Accounts (cash, property or asset)

- Debit what comes in
- Credit what goes out

Nominal Accounts (Business expenses or losses and income or gains)

- Debit all expenses and losses
- Credit all income and gains



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JOURNAL

A journal may be defined as the book or original or prime entry containing a chronological record of the transactions from which posting is done to the ledger. The transactions are recorded first in the journal in the order in which they occur.

Date	Particular	L.F.	Debit (\$)	Credit (\$)
DD/MM/YYYY	_____ A/c Dr. To _____ A/c (Being _____) (Narration)		xxxx	xxxx

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 the transaction 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.



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STEPS IN JOURNALISING

The process of analysing the business transactions under the heads of debit and credit and recording them in the Journal is called Journalising. An entry made in the journal is called a 'Journal Entry'.

- Step 1 Determine the two accounts which are involved in the transaction.
- Step 2 Classify the above two accounts under Personal, Real or Nominal.
- Step 3 Find out the rules of debit and credit for the above two accounts.
- Step 4 Identify which account is to be debited and which account is to be credited.
- Step 5 Record the date of transaction in the date column. The year and month is written once, till they change. The sequence of the dates and months should be strictly maintained.
- Step 6 à Enter the name of the account to be debited in the particulars column very close to the left hand side of the particulars column followed by the abbreviation Dr. in the same line. Against this, the amount to be debited is written in the debit amount column in the same line.
- Step 7 Write the name of the account to be credited in the second line starts with the word 'To' a few space away from the margin in the particulars column. Against this, the amount to be credited is written in the credit amount column in the same line.
- Step 8 Write the narration within brackets in the next line in the particulars column.
- Step 9 Draw a line across the entire particulars column to separate one journal entry from

Step 1	Determine the two accounts involved in the transaction.	Cash Account	Capital Account
Step 2	Classify the accounts under personal, real or nominal.	Real Account	Personal Account
Step 3	Find out the rules of debit and credit.	2(a) Debit what comes in.	1(b) Credit the giver
Step 4	Identify which account is to be debited and credited.	Cash A/c is to be debited	Capital A/c is to be credit



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Example 1:

January 1, 2004 – Saravanan started business with Rs. 1, 00,000

Solution:

Date	Particulars	LF	Debit		Credit	
			Rs.	P.	Rs.	P.
2004	Cash A/c Dr	12	1,00,000	–		
Jan 1	To Capital A/c (The amount invested in the business)	45			1,00,000	–

Example 2

On 1st June 2016 goods sold for Rs. 2000 On 2nd June 2016 goods purchase from XYZ Ltd for Rs.5000

General Journal

Date	Particulars	Ledger Folio(LF)	Ref	Debit Amount	Credit Amount
1/6/2016	Cash -----Dr To, Sales (Being cash sales to Mr X)	15		2000	2000
2/6/2016	Purchase -----Dr To, XYZ Ltd (Credit Purchase from XYZ ,Invoice No xxx)	12		5000	5000

Example 3

Journalise the following transactions in the books of Amar and post them in the Journal: -
 2004 March 1 Bought goods for cash Rs. 25,000 2 Sold goods for cash Rs. 50,000 3 Bought goods for credit from Gopi Rs.19, 000 5 Sold goods on credit to Robert Rs.8, 000 7 Received from Robert Rs. 6,000 9 Paid to Gopi Rs.5, 000 20 Bought furniture for cash Rs. 7,000



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Solution :

Journal of Amar

Date	Particulars	LF	Debit		Credit	
			Rs.	P.	Rs.	P.
2004 Mar 1	Purchases A/c To Cash A/c (Cash purchases)	Dr.	25,000	–	25,000	–
2	Cash A/c To Sales A/c (Cash Sales)	Dr.	50,000	–	50,000	–
3	Purchases A/c To Gopi A/c (Credit purchases)	Dr.	19,000	–	19,000	–
5	Robert A/c To Sales A/c (Credit Sales)	Dr.	8,000	–	8,000	–
7	Cash A/c To Robert A/c (Cash received)	Dr.	6,000	–	6,000	–
9	Gopi A/c To Cash A/c (Cash paid)	Dr.	5,000	–	5,000	–
20	Furniture A/c. To Cash A/c (furniture purchased)	Dr.	7,000	–	7,000	–

Write journal entries in the books of Cholan & Bros.

10th June: Paid wages 12,000

11th June : paid rent by cheque 10,000

13th June : Paid salary to Mr. Charan 12,000

14th June : Purchased stationery from Kagaz & Co. and paid by cheque 5,000

15th June : Received interest 14,000

17th June : Received commission by cheque 6,000

18th June : Rent received from Mr. Mody 8,000



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19th June : Interest received from Mr.Bijju by cheque 10,000

20th June : Carriage paid on purchase of goods 3,000

22nd June : Carriage paid on sale of goods 2,000

Journal in the books of Mr. Cholan & Bros.
for the period from 1st June to 30th June

Date	Particular	LF	Amount (Dr)	Amount (Cr)
June 10 th	Wages a/c Dr To Cash a/c [Being the amount of cash paid towards wages vide voucher no: ___ dated: ___]		12,000	12,000
11 th	Rent paid a/c Dr To Bank a/c [Being the amount paid by cheque no. ___ date ___ towards rent vide voucher no: ___ dated: ___]		10,000	10,000
13 th	Salaries a/c Dr To Cash a/c [Being the amount of cash paid towards Salary to Mr. Charan vide voucher no: ___ dated: ___]		12,000	12,000
14 th	Stationery a/c Dr To Bank a/c [Being the amount paid by cheque no. ___ date ___ towards stationery purchased from Kagaz & co. vide voucher no: ___ dated: ___]		5,000	5,000
15 th	Cash a/c Dr To Interest Received a/c [Being the amount of cash received towards interest vide receipt no: ___ dated: ___]		14,000	14,000
17 th	Bank a/c Dr To Commission Received a/c [Being the amount received by cheque no. ___ date ___ towards commission vide receipt no: ___ dated: ___]		6,000	6,000
18 th	Cash a/c Dr To Rent Received a/c [Being the amount of cash received towards rent from		8,000	8,000



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	Mr. Mody vide receipt no: ___ dated: __]			
19th	Bank a/c Dr To Interest Received a/c [Being the amount received by cheque no. ___ date ___ towards interest from Bijju vide receipt no: ___ dated: __]		10,000	10,000
20 th	Carriage Outwards a/c Dr To Cash a/c [Being the amount of cash paid towards carriage on goods purchased vide voucher no: ___ dated: __]		3,000	3,000
22 nd	Carriage Inwards a/c Dr To Cash a/c [Being the amount of cash paid towards carriage on goods sold vide voucher no: ___ dated: __]		2,000	2,000

LEDGER

Collection of an entire group of similar accounts in double-entry bookkeeping. Also called book of final entry, a ledger records classified and summarized financial information from Journals.

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.

According to L.C. Cropper, 'the book which contains a classified and permanent record of all the transactions of a business is called the Ledger'.



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Example 1

Mr. Ram started business with cash Rs. 5,00,000 on 1st June 2003.

The transaction will appear in Journal and Ledger as under

Solution :

**In the Books of Ram
Journal**

Date	Particulars	LF	Debit Rs.	Credit Rs.
2003 June 1	Cash A/c. Dr To Ram's Capital A/c (Ram started business with Rs.5,00,000)		5,00,000	5,00,000

Note : Here two accounts are involved, Cash Account and Ram's capital account, so we should allot in the ledger a page for each account.

**Ledger
Cash Account**

Dr.				Cr.			
Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
2003 June 1	To Ram's Capital A/c		5,00,000				

Ram's Capital Account

Dr.				Cr.			
Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
				2003 June 1	By Cash A/c		5,00,000

Journalise the following transactions and prepare ledger accounts 2005

- i. Feb 1 sold goods for cash RS.1300
- ii. Feb 2 Purchased goods RS. 400
- iii. Feb 3 purchased goods from kumar Rs.30,000



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iv. Feb 3 Sold goods to prabu Rs.2,000
Feb 4 Received cash from prabu Rs.1,200

v. Feb 5 Paid to Kumar Rs.1,000

vi. Feb 6 Paid salary Rs.700

Date	Particulars	LF	Debit	Credit
2005 Feb	Cash a/c To Sales a/c Dr (Being sales made)		1,300	1,300
Feb 2	Purchased a/c To Cash a/c Dr (Being Purchases made)		400	400
Feb 3	Purchased a/c To Kumar a/c (Being credit purchase made)		3,000	3,000
Feb 4	Prabu a/c To Sale a/c (Being credit sales made)		2,000	2,000
Feb 5	Cash a/c To Prabu a/c (Being cash received from prabu)		1,200	1,200
Feb 6	Kumar a/c To cash a/c Dr (Being cash paid to kumar)		1,000	1,000
Feb 7	Salary a/c To Cash Dr (Being salary paid)		700	700
	Total		9,600	9,600



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LEDGER:

CASH ACCOUNT

Dr

Cr

Date	Particulars	J.F	Amount	Date	Particular	J.F	Amount
2005 Feb 1	To Sales a/c		1,300	2005 Feb 2	By Purhases a/c		400
Feb 5	To Prabu a/c		1,200	Feb 6	By Kumar a/c		1,000
				Feb 7	By Salary a/c		700
				Feb 28	By Balance c/d		400
Mar 1	To Balance b/d		<u>2,500</u> 400				<u>2,500</u>

SALES ACOOUNT

DR

Cr

Date	Particular	J.F	Amount	Date	Particular	J.F	Amount
2005 Feb				2005 Feb 1	By Cash a/c		1,300
				Feb 4	By Prabu a/c		2,000
Feb 28	To Balance c/d		3,300				
			<u>3,300</u>	Mar 1	Balance b/d		<u>3,300</u> 3,300

PRABU ACCOUNT

Dr

Cr

Date	Particulars	J.F	Amount	Date	Particulars	J.F	Amount
2005 Feb 4	To Sales a/c		2,000	2005 Feb 3	By Cash a/c		1,200
				Feb 28	By Balance c/d		800
Mar1	To Balance b/d		<u>2,000</u> 800				<u>2,000</u>



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KUMAR ACCOUNT

Dr

Cr

Date	Particulars	J.F	Amount	Date	Particular	J.F	Amount
2005 Feb 6	To Cash a/c		1,000	2005 Feb 3	By Purchases a/c		3,000
Feb 28	To Balance c/d		2,000				
			<u>3,000</u>	Mrar1	Balance b/d		<u>3,000</u> 2,000

PURCHASES ACCOUNT

Dr

Cr

Date	Particular	J.F	Amount	Date	Particular	J.F	Amount
2005 Feb2	To Cash a/c		400	2005			
Feb 3	To Kumar a/c		3,000	Feb 28	By Balance c/d		3,400
			<u>3,400</u>				
Mar 1			3,400				<u>3,400</u>

SALARY ACCOUNT

Dr

Cr

Date	Particular	J.F	Amount	Date	Particular	J.F	Amount
2005 Feb 7	To Cash a/c		700	2005			
				Feb 28	By Balance c/d		700
Mar1	To Balance b/d		<u>700</u> 700				<u>700</u>



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TRIAL BALANCE

Trial balance is a statement which shows debit balances and credit balances of all accounts in the ledger. The total of the debit balances and credit balances should tally (agree).

In case, there is a difference, one has to check the correctness of the balances brought forward from the respective accounts.

Trial balance can be prepared in any date provided accounts are balanced.

Definition

Trial balance is a statement, prepared with the debit and credit balances of ledger accounts to test the arithmetical accuracy of the books”– J.R. Batliboi.

Objectives

- 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.

The balance method is more widely used, as it supplies ready figures for preparing the final accounts.

Format

Trial Balance of ABC Ltd.
as on

SlNo	Name of Account	L.F	Debit Rs.	Credit Rs.



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Format of Trail Balance

- i) a debit balance is either an asset or loss or expense; and
- ii) a credit balance is either a liability or income or gain.

Format for Trial Balance:

Particulars (Debit side)	Rs.	Particulars (Credit side)	Rs.
All Assets	XXX	All Liabilities	XXX
All Expenses and Losses	XXX	All Income and gain	XXX
Opening Balance	XXX	Closing Balance	XXX
Drawings	XXX	Loan	XXX
Purchase	XXX	Sales	XXX
Sales Return	XXX	Purchase Return	XXX
Total	XXX	Total	XXX

Unadjusted

Unadjusted trial balances list all ending balances of accounts from general ledgers prior to any unadjusted they provide a preliminary check on ledger balances to determine if any mathematical errors need to be corrected. Unadjusted trial balance reports are created after journal entries have been posted to the general ledger.

Credit (USD)	Account	Debit (USD)
	Cash	15,000
	Accounts Receivable	5,000
	Office Supplies	2,000
	Equipment	20,000
3,000	Accounts Payable	
4,000	Unearned Revenue	
10,000	Notes Payable	
25,000	Capital Stock	
42,000	Total	42,000



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Adjusted

An adjusted trial balance is a listing of all accounts and their balances after adjusting entries have been made to the unadjusted trial balance. These adjusting entries are necessary to update the accounts for items that are not captured in daily transactions, such as accrued expenses, accrued revenue, deferred revenue, prepaid expenses and depreciation.

By incorporating these adjustments, the adjusted trial balance provides a more accurate picture of the company's financial position at the end of the accounting period, ensuring that the financial statements are prepared using the most current and complete information.

PRINTING PLUS Statement of Retained Earnings For Month Ended January 31, 2019	
Beginning Retained Earnings (Jan 1)	\$
Net Income	<u>4,665</u>
– Dividends	100
Ending Retained Earnings (Jan 31)	<u>\$4,565</u>

PRINTING PLUS Income Statement For Month Ended January 31, 2019		
Revenues		
Interest Revenue	\$ 140	
Service Revenue	<u>10,100</u>	
Total Revenues		\$10,240
Expenses		
Supplies Expense	100	
Depreciation Expense		
Equipment	75	
Salaries Expense	5,100	
Utility Expense	<u>300</u>	
Total Expenses		<u>5,575</u>
Net Income		<u>\$ 4,665</u>

PRINTING PLUS Adjusted Trial Balance January 31, 2019		
Account	Debit	Credit
Cash	\$24,800	
Accounts Receivable	1,200	
Interest Receivable	140	
Supplies	400	
Equipment	3,500	
Accumulated Depreciation		
Equipment		\$ 75
Accounts Payable		500
Salaries Payable		1,500
Unearned Revenue		3,400
Common Stock		20,000
Dividends	100	
Interest Revenue		140
Service Revenue		<u>10,100</u>
Supplies Expense	100	
Depreciation Expense		
Equipment	75	
Salaries Expense	5,100	
Utility Expense	<u>300</u>	
Total	<u>\$35,715</u>	<u>\$35,715</u>

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Example 5

The following are the balances extracted from the books of Mr. A. Mukhopadhyay. Prepare a Trial Balance as on 31st March, 2018:

Cash 2,000	Sundry Creditors 40,000
Capital 80,000	Investment 8,000
Purchases 85,000	Plant and Machinery 15,000
Sales 1,08,400	Building 20,000
Purchases Return 6,000	Furniture 6,000
Sales Return 4,000	Electricity 700
Transportation 1,800	Postage 400
Discount Allowed 500	Drawings 8,000
Printing 5,000	Salaries 6,000
Sundry Debtors 70,000	Travelling Expenses 2,000
Input CGST A/c 2,500	Output CGST A/c 1,500
Input SGST A/c 2,500	Output SGST A/c 1,500
Input IGST A/c 4,000	Output IGST A/c

SOLUTION

Trial Balance as on March 31, 2018

S.No	List of Items	Credit Balance	Debit Balance
1	Cash	2,000	
2	Capital		80,000
3	Purchases	85,000	
4	Sales		1,08,400
5	Purchases Return		6,000
6	Sales Return	4,000	
7	Transportation	1,800	
8	Discount Allowed	500	
9	Printing	5,000	
10	Sundry Debtors	70,000	
11	Input CGST A/c	2,500	
12	Input SGST A/c	2,500	
13	Input IGST A/c	4,000	



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14	Sundry Creditors		40,000
15	Investments	8,000	
16	Plant & Machinery	15,000	
17	Building	20,000	
18	Furniture	6,000	
19	Electricity	700	
20	Postage	400	
21	Drawings	8,000	
22	Salaries	6,000	
23	Travelling Expenses	2,000	
24	Output CGST A/c		1,500
25	Output SGST A/c		1,500
26	Output IGST A/c		6,000
	Total	2,43,400	2,43,400

KAMARAJ WOMENS COLLEGE



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ACCOUNTS FOR MANAGER - I



UNIT - II

CASH BOOK

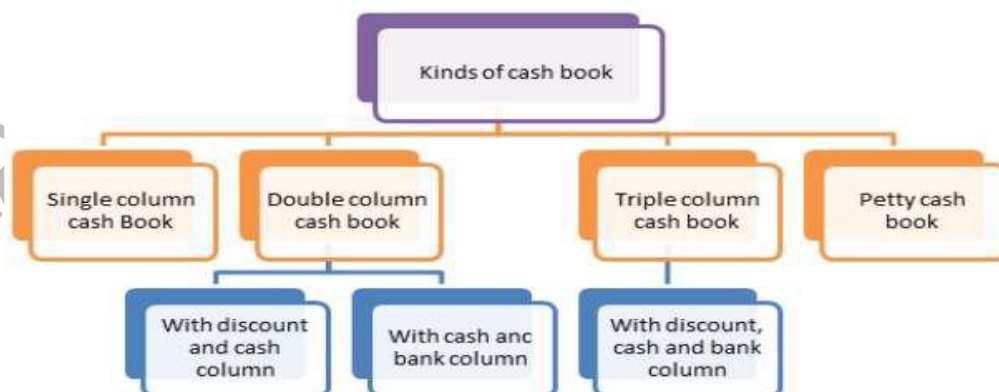
A cash book is a special journal which is used to record all cash receipts and cash payments. The cash book is a book of original entry or prime entry since transactions are recorded for the first time from the source documents. The cash book is a ledger in the sense that it is designed in the form of a cash account and records cash receipts on the debit side and cash payments on the credit side.

ADVANTAGES

- 1. Saves time and labour:** When cash transactions are recorded in the journal a lot of time and labour will be involved. To avoid this all cash transactions are straight away recorded in the cashbook which is in the form of a ledger.
- 2. To know cash and bank balance:** It helps the proprietor to know the cash and bank balance at any point of time.
- 3. Mistakes and frauds can be prevented:** Regular balancing of cash book reveals the balance of cash in hand. In case the cash book is maintained by business concern, it can avoid frauds.
- 4. Effective cash management:** Cash book provides all information regarding total receipts and payments of the business concern at a particular period. So that, effective policy of cash management can be formulated.

TYPES OF CASH BOOK:

1. Single Column Cash Book: A single column Cash Book contains one column of amount on both sides, i.e., one in the debit side and other in the credit side. In the single column Cash Book, only cash transactions are recorded. In the debit side of the Cash Book, all cash receipts are recorded, while in the credit side all cash payments are recorded.





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2. Double Column Cash Book: A double column Cash Book contains two columns of amount, namely cash column and bank column on both sides. In the cash column of Cash Book, all cash receipts and payments are recorded, according to the rule of Real Accounts.

All deposits either in cash or through cheque into the bank account of the business are debited in the bank column and all withdrawals of cash and payments through cheques are credited in the bank column.

3. Triple Column Cash Book: In a triple column Cash Book, there are three columns of amount namely, cash, bank and discount. Discount allowed and discount received are recorded in the discount column. While in the debit side, discount allowed is recorded along with the receipts, either in cash or through cheque; whereas, in the credit side, discount received is recorded, along with the payments made either in cash or by issuing cheques.

4. Petty Cash Book: This book is used for recording payment of petty expenses, which are of smaller denominations like, postage, stationery, conveyance, refreshment, etc. is known as Petty Cash Book.

Following is the format of the single column cash book:

Dr.		Cash Book								Cr.	
Receipts					Payment						
Date	Particulars	V No.	L. F.	Amount (Rs)	Date	Particulars	V. No.	L. F.	Amount (Rs)		

Explanation:

i. Date: This column appears in both the debit and credit side. It records the date of receiving cash at debit side and paying cash at credit side.

ii. Particulars: This column is used at both debit and credit side. It records the names of parties (personal account), heads (nominal account) and items (real account) from whom payment has been received and to whom payment has been made.

iii. Receipt Number (R.N): This refers to the serial number of the cash receipt.

iv. Voucher Number (V.N): This refers to the serial number of the voucher for which payment is made.



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v. Ledger Folio (L.F): This column is used in both the debit and credit side of cash book. The ledger page (folio) of every account in the cash book is recorded against it.

vi. Amount: This column appears in both sides of the cash book. The actual amount of cash receipt is recorded on the debit side. The actual payments are entered on the credit side.

Balancing:

The cash book is balanced like any other account. The total of the receipt (debit side) column will always be greater than the total of the payment column (credit side). The difference will be written on the credit side as "By Balance c/d". In the beginning of the next period, to show the cash balance in hand, the balance amount is recorded in the debit side as "To balance b/d".

Format of the Double Column Cash Book:

A double column cash book or two column cash book is one which consists of two separate columns on the debit side as well as credit side for recording cash and discount. In many concerns it is customary for the trader to allow or to receive small allowance off or against the dues. These allowances are made for prompt settlement of accounts. In certain business almost all receipts or payments are accompanied by such discounts and in order to avoid unnecessary postings separate columns in the cash book are introduced to record the discounts received or allowed. These discount columns are memorandum columns only. They do not form the discount account. The discount column on the debit side of the cash book will record discounts allowed and that on the credit side discounts received.

THREE COLUMN CASH BOOK:

Opening Balance:

Put the opening balance (if any) on cash in hand and cash at bank on the debit side in the cash book and bank columns. If the opening balance is credit balance (overdraft) then it will be put in the credit side of the cash book in the bank column.

Cheque/Check or Cash Received:

If a cheque is received from any person and is paid into the bank on the same date it will appear on the debit side of the cash book as "To a Person". The amount will be shown in the bank column. If the cheque received is not deposited into the bank on the same date then the amount will appear in the cash column. Cash received will be recorded in the usual manner in the cash column.

Payment By Cheque/Check or Cash:



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When we make payment by cheque, this will appear on the credit side "By a person" and the amount in the bank column. If the payment is made in cash it will be recorded in usual manner in the cash column.

Contra Entries:

If an amount is entered on the debit side of the cash book, and the exact amount is again entered on the credit side of the same account, it is called "contra entry". Similarly an amount entered on the credit side of an account also may have a contra entry on the debit side of the same account. Contra entries are passed when:

1. Cash is deposited into bank by office: It is payment from cash and receipt in bank.

Therefore, enter on credit side, cash column "By Bank" and on debit side bank column "To Cash". The reason for making two entries is to comply with the principle of double entry which in such transactions is completed and therefore, no posting of these items is necessary. Such entries are marked in the cash book with the letter "C" in the folio column

2. Cheque/Check is drawn for office use: It is payment by bank and receipt in cash.

Therefore, enter on the debit side, cash column "To Bank" and on credit side, bank column "By Cash".

Bank Charges and Bank Interest Allowed: Bank charges appear on the credit side, bank column "Bank Charges." Bank interest allowed appears on the debit side, bank column "To Interest".

Posting:

The method of posting three column cash book into the ledger is as follows:

1. The opening balance of cash in hand and cash at bank are not posted.
2. Contra Entries marked with "C" are not posted.
3. All other items on the debit side will be posted to the credit of respective accounts in the ledger and all other items on the credit side will be posted to the debit of the respective accounts.
4. As regards discounts the total of the discount allowed will be posted to the debit of the discount account in the ledger and total of the discount received to the credit side of the discount account.



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Cash Book

Dr							Cr						
Receipts							Payment						
Date	Particulars	R.No	L.F	Disc.All	Cash Rs	Bank	Date	Particulars	V.No	L.F	Disc.All	Cash Rs	Bank
2021							2021						
Apr-01	To Capital A/c	1			50,000	2,00,000	Apr-04	By Purchase A/c	1		100		9,900
Apr-11	To Sales A/c	2		100		4,900	Apr-07	By Rent A/c	2			1,000	
Apr-15	To Ram & Sons A/c	3		50		3,950	Apr-09	By Wages A/c	3				2,500
Apr-18	To Cash A/c	4				25,000	Apr-14	By Commisssin A/c	4			100	
Apr-25	To Bank A/c	5			5,000		Apr-16	By Labour Charges A/c	5			250	
							Apr-18	By Bank A/c	6			25,000	
							Apr-23	By Ramesh A/c	7		50		2,450
							Apr-25	By Cash A/c	8				5,000
							Apr-29	By Drawing A/c	9			1,000	
							Apr-30	By Balance c/d				27,650	2,14,000
	Total			150	55,000	2,33,850		Total			150	55,000	2,33,850



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UNIT – III

Preparation of final accounts

Introduction

The most important function of an accounting system is to provide information about the profitability of the business. A sole trader furnishes a Trading and Profit and loss Account which depicts the result of the business transactions of the sole trader. Along with the Trading and Profit and Loss Account he also prepares a Balance Sheet which shows the financial position of the business.

Steps in the Process of Finalization of Accounts

A. For Trading Concerns:

1. Trading Account.
2. Profit and Loss Account.
3. Balance Sheet.

B. For Manufacturing and Trading Concerns:

1. Manufacturing Account.
2. Trading Account.
3. Profit and Loss Account.
4. Balance Sheet.

Preparation of Financial Statements

Profitability Statement – This statement is related to a complete accounting period. It shows the outcome of business activities during that period in a summarized form. The activities of any business.

Balance Sheet – Business needs some resources which have longer life (say more than a year). Such resources are, therefore, not related to any particular accounting period, but are to be used over the useful life thereof. The resources do not come free. One requires finance to acquire them. This funding is provided by owners through their investment, bank & other through loans, suppliers by way of credit terms. The Balance Sheet shows the list of resources and the funding of the resources i.e. assets and liabilities (towards owners and outsiders). It is also referred as sources of funds (i.e. liabilities & capital) and application of funds (i.e. assets). Let us discuss these statements in depth.



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Trading Account

It is an account which is prepared by a merchandising concern which purchases goods and sells the same during a particular period. The purpose of it to find out the gross profit or gross loss which is an important indicator of business efficiency.

The following items will appear in the debit side of the Trading Account: ss will include purchase, manufacture, and sell.

(i) Opening Stock: In case of trading concern, the opening stock means the finished goods only. The amount of opening stock should be taken from Trial Balance.

(ii) Purchases: The amount of purchases made during the year. Purchases include cash as well as credit purchase. The deductions can be made from purchases, such as, purchase return, goods withdrawn by the proprietor, goods distributed as free sample etc.

(iii) Direct expenses: it means all those expenses which are incurred from the time of purchases to making the goods in suitable condition. This expenses includes freight inward, octroi, wages etc.

(iv) Gross profit: If the credit side of trading A/c is greater than debit side of trading A/c gross profit will arise.

The following items will appear in the credit side of Trading Account:

(i) Sales Revenue: The sales revenue denotes income earned from the main business activity or activities.

The income is earned when goods or services are sold to customers. If there is any return, it should be deducted from the sales value. As per the accrual concept, income should be recognized as soon as it is accrued and not necessarily only when the cash is paid for. The Accounting standard 7 (in case of contracting business) and Accounting standard 9 (in other cases) define the guidelines for revenue recognition. The essence of the provisions of both standards is that revenue should be recognized only when significant risks and rewards (vaguely referred to as ownership in goods) are transferred to the customer. For example, if an invoice is made for sale of goods and the term of sale is door delivery; then sale can be recognized only on getting the proof of delivery of goods at the door of customer. If such proof is pending at the end of accounting period, then this transaction cannot be taken as sales, but will be treated as unearned income.

(ii) Closing Stocks: In case of trading business, there will be closing stocks of finished goods only. According to convention of conservatism, stock is valued at cost or net realizable value whichever is lower.

(iii) Gross Loss: When debit side of trading account is greater than credit side of trading account, gross loss will appear.



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Dr.	Trading Account for the year ended		Cr.
Particulars	Amount	Particulars	Amount
Opening Stock:		Sales	
Finished goods		Less : Sales return	
Purchases		Closing stock	
Less : Purchase returns		Finished goods	
Gross Profit		Gross Loss	
(transferred to P & L A/c)		(transferred to P & L A/c)	
Total		Total	

Preparation of Trading Account

Illustration 1.

Following are the ledger balances presented by M/s. P. Sen as on 31st March 2013.

Particulars	Amount (₹)	Particulars	Amount (₹)
Stock (1.4.2012)	10,000	Sales	3,00,000
Purchase	1,60,000	Return Inward	16,000
Carriage Inwards	10,000	Return Outward	10,000
Wages	30,000	Royalty on Production	6,000
Freight	8,000	Gas and Fuel	2,000

Additional Information: All figures in Rs,

- (1) Stock on 31.3.2013: (i) Market Price 24,000; (ii) Cost Price 20,000;
- (2) Stock valued 10,000 were destroyed by fire and insurance company admitted the claim to the extent of 6,000.
- (3) Goods purchased for 6,000 on 29th March, 2013, but still lying in-transit, not at all recorded in the books.
- (4) Goods taken for the proprietor for his own use for 3,000.
- (5) Outstanding wages amounted to 4,000.



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In the books of M/s. P. Sen
Trading Account
For the year ended 31st March, 2013

Dr.			Cr.		
Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)	Amount (₹)
To Openign Stock		10,000	By, Sales	3,00,000	
To Purchase	1,60,000		Less: Return Inward	16,000	2,84,000
Less: Return Outward	10,000				
	1,50,000		By, Closing Stock	20,000	
Less: Goods taken by Proprietor	3,000		Add: Stock Destroyed	10,000	
	1,47,000			30,000	
Add: Goods-in-transit	6,000	1,53,000	Add: Goods-in-Transit	6,000	36,000
To Wages	30,000				
Add: Outstanding	4,000	34,000			
To, Carriage Inwards		10,000			
To, Freight	8,000				
Less: Prepaid	1,000	7,000			
To, Royalty on production		6,000			
To, Gas & fuel		2,000			
`` Profit & Loss A/c (Gross profit transferred)		98,000			
		3,20,000			3,20,000

Note: (a) Stock should be valued as per cost price or market price whichever is lower.
(b) The claim which was admitted by insurance company and the loss of stock, will not appear in Trading Account.

Profit and Loss Account

The following items will appear in the debit side of the Profit & Loss A/c:

(i) Cost of Sales: This term refers to the cost of goods sold. The goods could be manufactured and sold or can be directly identified with goods.

(ii) Other Expenses: All expenses which are not directly related to main business activity will be reflected in the P & L component. These are mainly the Administrative, Selling and distribution expenses. Examples are salary to office staff, salesmen commission, insurance, legal charges, audit fees, advertising, free samples, bad debts etc. It will also include items like loss on sale of fixed assets, interest and provisions.

(iii) Abnormal Losses: All abnormal losses are charged against Profit & Loss Account. It includes stock destroyed by fire, goods lost in transit etc.

The following items will appear in the credit side of Profit & Loss A/c:

(i) Revenue Incomes: These incomes arise in the ordinary course of business, which includes commission received, discount received etc.

(ii) Other Incomes: The business will generate incomes other than from its main activity. These are purely incidental. It will include items like interest received, dividend received, etc. The end result of one component of the P & L A/c is transferred over to the next component and the net result will be transferred to the balance sheet as addition in owners'



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equity. The profits actually belong to owners of business. In case of company organizations, where ownership is widely distributed, the profit figure is separately shown in balance sheet.

separately shown in balance sheet.

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

Particulars	Amount	Particulars	Amount
Gross Loss (transferred from Trading A/c)		Gross Profit (transferred from Trading A/c)	
Administrative expenses		Other Income	
Office salaries		Interest received	
Communication		Commission received	
Travel & Conveyance		Profit on sale of assets	
Office rent		Rent received	
Depreciation of office assets		Net loss	
Audit fees		Total	
Insurance			
Repairs & maintenance			
Selling & Distribution expenses			
Advertising			
Salesmen commission			
Delivery van expenses/Depreciation on delivery vans/Bad debts			
Financial expenses			
Bank charges			
Interest on loans			
Loss on sale of assets			
Net profit			
Total			

Following are the balances extracted from the books of Manish Gupta on 31st March, 2018:

Capital 1, 90,000	Cash at Bank 26,000
Drawing 7,000	Salaries 8,000
Plant and Machinery 1, 20,000	Repairs 1,900
Delivery Vehicle 26,000	Stock on 1st April, 2017 16,000
Sundry Debtors 36,000	Rent 4,500
Sundry Creditors 26,000	Manufacturing Expenses 1,500
Purchases 20,000	Bills Payable 23,500
Sales 42,000	Bad Debts 5,000
Wages 8,000	Carriage 1,600



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ACCOUNTS FOR MANAGER - I



Prepare Profit and Loss Account as at 31st March, 2018 after following adjustments are made:

- (i) Closing Stock was ₹ 16,000.
- (ii) Depreciate Plant and Machinery @ 10% and Delivery Vehicle @ 15%.
- (iii) Unpaid Rent amounted to ₹ 500.

Profit and Loss Account
for the year ended March 31, 2018

Dr	Amount	Cr	Amount
Particulars	t	Particular	t
Salaries	8,000	Gross Profit	10,900
Repairs	1,900	Net Loss (Balancing Figure)	24,900
Rent	4,500		
Add: Unpaid Rent	500		
Bad Debts	5,000		
	12,000		
Depreciation on Plant and Machinery	0		
Delivery Vehicle	3,900		
	15,900		
	35,800		35,800

Balance Sheet

Horizontal format of Balance Sheet is also used by the business other than company

A. Liabilities

(a) Capital: This indicates the initial amount the owner or owners of the business contributed. This contribution could be at the time of starting business or even at a later stage to satisfy requirements of funds for expansion, diversification etc. As per business entity concept, owners and business are distinct entities, and thus, any contribution by owners by way of capital is liability.

(b) Reserves and Surplus: The business is a going concern and will keep making profit or loss year by year. The accumulation of these profit or loss figures (called as surpluses) will keep on increasing or decreasing owners' equity. In case of non-corporate forms of business, the



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profits or losses are added to the capital A/c and not shown separately in the balance sheet of the business.

(c) Long Term or Non-Current Liabilities: These are obligations which are to be settled over a longer period of time say 5-10 years. These funds are raised by way of loans from banks and financial institutions. Such borrowed funds are to be repaid in instalments during the tenure of the loan as agreed. Such funds are usually raised to meet financial requirements to procure fixed assets. These funds should not (d) Short Term or Current Liabilities: A liability shall be classified as Current when it satisfies any of the following:

- It is expected to be settled in the organisation's normal Operating Cycle,
- It is held primarily for the purpose of being traded,
- It is due to be settled within 12 months after the Reporting Date, or
- The organization does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting date (Terms of a Liability that could, at the option of the counterparty, result in its settlement by the issue of Equity Instruments do not affect its classification)

Current liabilities comprise of:

(i) Sundry Creditors - Amounts payable to suppliers against purchase of goods. This is usually settled within 30-180 days.

(ii) Advances from customers – At times customer may pay advance i.e. before they get delivery of goods. Till the business supplies goods to them, it has an obligation to pay back the advance in case of failure to supply. Hence, such advances are treated as liability till the time they get converted to sales.

(iii) Outstanding Expenses: These represent services procured but not paid for. These are usually settled within 30–60 days e.g. phone bill of Sept is normally paid in Oct.

(iv) Bills Payable: There are times when suppliers do not give clean credit. They supply goods against a promissory note to be signed as a promise to pay after or on a particular date. These are called as bills payable or notes payable.

(v) Bank Overdrafts: Banks may give fund facilities like overdraft whereby, business is permitted to issue cheques up to a certain limit. The bank will honour these cheques and will recover this money from business. This is a short term obligation.

B. Assets

In accounting language, all debit balances in personal and real accounts are called as assets. Assets are broadly classified into fixed assets and current assets.



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(a) Fixed Assets: These represent the facilities or resources owned by the business for a longer period of time. The basic purpose of these resources is not to buy and sell them, but to use for future earnings. The benefit from use of these assets is spread over a very long period. The fixed assets could be in tangible form such as buildings, machinery, vehicles, computers etc, whereas some could be in intangible form viz. patents, trademarks, goodwill etc. The fixed assets are subject to wear and tear which is called as depreciation. In the balance sheet, fixed assets are always shown as “original cost less depreciation”.

(b) Investments: These are funds invested outside the business on a temporary basis. At times, when the business has surplus funds, and they are not immediately required for business purpose, it is prudent to invest it outside business e.g. in mutual funds or fixed deposit. The purpose is to earn a reasonable return on this money instead of keeping them idle. These are assets shown separately in balance sheet. Investments can be classified into Current Investments and Non-current Investments. On-current Investments are investments which are restricted beyond the current period as to sale or disposal.

Whereas, current investments are investments that are by their nature readily realizable and is intended to be held for not more than one year from the date on which such investment is made.

(c) Current Assets: An asset shall be classified as Current when it satisfies any of the following:

- It is expected to be realised in, or is intended for sale or consumption in the organisation’s normal Operating Cycle,
- It is held primarily for the purpose of being traded,
- It is due to be realised within 12 months after the Reporting Date, or
- It is Cash or Cash Equivalent unless it is restricted from being exchanged or used to settle a Liability for at least 12 months after the Reporting Date.

Current assets comprise of:

(i) Stocks: This includes stock of raw material, semi-finished goods or WIP, and finished goods.

Stocks are shown at lesser of the cost or market price. Provision for obsolescence, if any, is also reduced. Generally, stocks are physically counted and compared with book stocks to ensure that there are no discrepancies. In case of discrepancies, the same are adjusted to P & L A/c and stock figures are shown as net of this adjustment.

(ii) Debtors: They represent customer balances which are not paid. The bad debts or a provision for bad debt is reduced from debtors and net figure is shown in balance sheet.



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(iii) Bills receivables: Credit to customers may be given based on a bill to be signed by them payable to the business at an agreed date in future. At the end of accounting period, the bills accepted but not yet paid are shown as bills receivables.

(iv) Cash in Hand: This represents cash actually held by the business on the balance sheet date. This cash may be held at various offices, locations or sites from where the business activity is carried out. Cash at all locations is physically counted and verified with the book balance. Discrepancies if any are adjusted.

(v) Cash at Bank: Dealing through banks is quite common. Funds held as balances with bank are also treated as current asset, as it is to be applied for paying to suppliers. The balance at bank as per books of accounts is always reconciled with the balance as per bank statement, the reasons for differences are identified and required entries are passed.

(vi) Prepaid Expenses: They represent payments made against which services are expected to be received in a very short period.

(vii) Advances to suppliers: When amounts are paid to suppliers in advance and goods or services are not received till the balance sheet date, they are to be shown as current assets. This is because advances paid are like right to claim the business gets.

Please note that both current assets and current liabilities are used in day-to-day business activities. The current assets minus current liabilities are called as working capital or net current assets. The following report is usual horizontal form of balance sheet. Please note that the assets are normally shown in descending order of their illiquidity. Also, capital, long term liabilities and short term liabilities are shown in that order.

Example:

From the following particulars prepare a Balance Sheet of Mr. X, for the year ended 31st March, 2013.

Capital: 2, 00,000; Drawings: 40,000; Cash In Hand: 15,000; Loan from Bank: 40,000; Sundry

Creditors: 40,000; Bills Payable: 20,000; Bank Overdraft: 20,000; Goodwill: 60,000; Sundry Debtors: 80,000; Land and Building: 50,000; Plant and Machinery: 80,000; Investment: 20,000;

Bills Receivable: 10,000. Cash at Bank: 25,000.

The following adjustments are made at the time of preparing final accounts:

I. Outstanding Liabilities for: Salaries 10,000; wages 20,000; Interest on Bank Overdraft 3,000; and Interest on Bank Loan 6,000.

II. Provide Interest on Capital @ 10% p.a.



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III. Depreciation on Plant and Machinery by 10% p.a.

IV. Bad Debts amounted to 10,000 and make a provision for Bad Debts @ 10% on Sundry Debtors.

V. Closing stock amounted to 1,20,000.

Net profit for the year amounted to 96,000 after considering all the above adjustments.

Accounting books

In the books of Mr. X
 Balance Sheet as at 31.03.2013

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Capital	2,00,000		Goodwill		60,000
Add: Interest on Capital @ 10%	20,000		Land and Building		50,000
Add: Net Profit	96,000		Plant and Machinery	80,000	
	3,16,000		Less: Depreciation@ 10%	8,000	72,000
Less: Drawings	40,000	2,76,000	Investment		20,000
Bank Overdraft	20,000		Closing Stock		1,20,000
Add: Out. Interest	3,000	23,000	Sundry Debtors	80,000	
Bank Loan	40,000		Less: Bad Debts	10,000	
Add: Out. Interest	6,000	46,000		70,000	
Sundry Creditors		40,000	Less: Prov. for Bad debts@10%	7,000	63,000
Bills Payable		20,000	Bills Receivable		10,000
Outstanding Liabilities:			Cash at Bank		25,000
Salaries	10,000		Cash in Hand		15,000
Wages	20,000	30,000			
		4,35,000			4,35,000

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UNIT - IV

Depreciation

Meaning & Nature of Depreciation

- Accounting Standards for Depreciation
- Various methods of providing depreciation
- Accounting treatment for disposal or sale of depreciable properties
- Accounting treatment for change in the method of depreciation
- Accounting treatment for change in estimated useful life
- residual value of property

Introduction:

Every concern or business house requires various types of fixed assets/tangible assets like property, plant, equipment etc. for performing regular business operations to earn revenues and these assets are used throughout its useful life. But the cost of fixed asset is recorded in books of accounts in the year of acquisition, instead of dividing or splitting its cost over the periods of its benefits enjoyed from it. In simple word depreciation is the splitting or allocation of the acquisition cost of fixed asset in every accounting year in which asset is utilized.

As per Schedule-II under the Companies Act, 2013, “Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life. The depreciable amount of an asset is the cost of an asset or other amount substituted for cost, less its residual value. The useful life of an asset is the period over which an asset is expected to be available for use by an entity, or the number of production or similar units expected to be obtained from the asset by the entity”.

Accounting Standard for Depreciation:

Previously, there was a separate standard on Depreciation (AS 6) and AS 10 on Fixed Asset. Now, AS 10 (revised), Property, Plant & Equipments (PPE) deals with all aspects of fixed assets including depreciation. Ind AS 16, PPE is introduced in line with International Financial Reporting Standards (IFRS).

Key points of Ind AS 16:

- As per Ind AS, Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life.



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- As per Ind AS 16 Property, Plant and Equipment are tangible in nature that is held by an entity for use in the production or supply of goods or services throughout its useful life.
- As per Ind AS 16 “Property, Plant and Equipment”, each part of fixed assets (Property, Plant and Equipment) with a cost is a significant part of the total cost of the item should be depreciated separately. Therefore depreciation on components of assets is necessary.
- As per Ind AS 16, the useful life and estimated residual value of an asset should be reviewed at the end of each accounting year before calculation of depreciation.
- As per Ind AS 16, change in method of depreciation should be treated as change in accounting estimate.

Causes of Depreciation:

Value of assets decreases mainly due to following

- Reasons Wear and tears due to use in business entity
- Efflux or passage time even when an asset is not in regular use
- Deterioration in market value
- Obsolescence due to technological advancement, invention of new assets for better process or other changes

Methods of Depreciation:

A number of methods are available for calculating the amount of depreciation, these are:

- Straight Line Method (SLM)
- Written Down Value Method / Reducing Balance Method / Diminishing Balance Method Production Unit Method
- Annuity Method
- Depletion Method
- Sum-of-the-Years’ Digit Method
- Machine Hour Method
- Depreciation Fund / Sinking Fund Method



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Straight Line Method (SLM) / Fixed Instalment Method:

- Under this method an equal amount of depreciation is written off in every accounting year over the useful life of the asset.
- According to this method, written down value of the asset is reduced to nil or to its residual value

Formula

$$\text{Depreciation p.a.} = \frac{\text{Cost of Asset} + \text{Other Capital Expenses} - \text{Scrap Value}}{\text{Useful Life of Asset}}$$

$$\text{Rate of Depreciation} = \text{Depreciation p.a.} \times 100 / \text{Original Cost}$$

$$\begin{aligned} \text{Rate of Depreciation} &= \frac{\text{Depreciation per annum}}{\text{Total cost of an asset}} \times 100 \\ &= \frac{60,000}{12,00,000} \times 100 \\ &= \frac{60,00,000}{12,00,000} \\ &= 5\% \end{aligned}$$

Written Down Value Method / Diminishing Balance Method:

- Under this method a fixed percentage of the diminishing value of the asset is written off in every accounting year and the value of the asset is reduced to its residual value
- The amount of depreciation decreasing
- Rate of depreciation remain constant

Formula

$$\text{Depreciation p.a.} = \text{For new asset: Original Cost} \times \text{Rate of Depreciation}$$

$$\text{For existing asset: Opening WDV} \times \text{Rate of Depreciation}$$

Note: When an asset is put to use during a year, proportionate depreciation is charged. If a problem gives date of installation of an asset and a different date for putting the asset in use, the date on which the asset is put to use should be considered.



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(i) Depreciation (I year) = Rs. 20,00,000 \times $\frac{10}{100}$ = Rs. 20,000

(ii) Written down value = Rs. 2,00,000 – 20,000 = Rs. 1,80,000
(at the end of the I year)

(iii) Depreciation (II year) = Rs. 1,80,000 \times $\frac{10}{100}$ = Rs. 18,000

(iv) Written down value = Rs. 1,80,000 – Rs. 18,000 = 1,62,000
(at the end of the II year)

(v) Depreciation (III year) = Rs. 1,62,000 \times $\frac{10}{100}$ = Rs. 16,200

(vi) Written down value = Rs. 1,62,000 – Rs. 16,200 = Rs. 1,45,800
(at the end of III year)

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UNIT - V

Single Entry System

The term 'Single Entry' refers to a method of maintaining the accounts in a manner convenient to a business house, which does not exactly follow the principles of double entry system.

Under this system only the minimum accounts, which in the opinion of business house are absolutely essential, are being maintained (i.e. Normally cash book and personal accounts of debtors & creditors are maintained). The other impersonal accounts i.e. real and nominal accounts may not be maintained. In other words single entry system is incomplete form of account keeping. Special Features: The following are the special features of single entry system:

- 1) Unsuitable for big business:** This system is suitable only for small business carried on proprietary or partnership basis. Big businesses especially Joint Stock companies cannot afford to maintain accounts as per this system, which is defective and unscientific.
- 2) Only personal and cash Accounts:** Under this system only the personal accounts of debtors and creditors as well as cash and bank accounts are maintained. The impersonal accounts (i.e. real & nominal accounts) are not maintained.
- 3) Incomplete account keeping:** This system records double effect of only some transactions. It record only the single aspect of many transactions while it fails to records few other transactions. Hence it is incomplete, defective and crude system.
- 4) Variations:** The single entry system of accounting varies from business to business. Hence it lacks uniformity.
- 5) Flexible:** No rigid rules and principles are followed under this system.



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Chart of Difference between Single Entry System and Double Entry System

Basis of Difference	Single Entry System	Double Entry System
Overview	In the Single Entry system of bookkeeping, only one effect of the transaction is recorded which is related to our business.	In Double Entry system of bookkeeping, only both or all effects of the transaction is recorded in the books of accounts.
Object	To know or remember the cash, debtors and creditor balance only.	To know every financial term of the business entity.
Type of Recording	It is an incomplete system of recording the transactions.	It is the complete system of recording the transactions.
Fraud	In this system, here is very easy to record fraud entry of transactions Because you are not showing the second affected account by the same transaction.	In this system, here is difficult to record fraud entry of transactions Because you are showing the second affected account by the same transaction.
Error	It is very hard to identify the error in the books.	It is easy to identify the error in the books.
Accounts Included	Only account related to persons and cash are included.	All accounts are considered in this method. Like the person, real and nominal.
Acceptance by Taxation department	It is not accepted by the taxation department.	It is accepted.
Profit/loss for the year	It requires a lot of labour and time to calculate the Profit/loss for the year.	It is easy to find out the Profit and Loss for the Year.
Suitable	This system is suitable for only a very small business.	It is suitable for all type of business.
Cost of Implementation	This system does not require any cost of implementation	This system does require any cost of implementation.
Users	Only Owner of the Business can use this system because it is not maintained on the particular standard.	All related Parties can use this system because all books are maintained on the standard formats.
Reconciliation of accounts	Reconciliations of accounts are not possible.	Reconciliations of accounts are possible.



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Statement of Affairs

A statement of affairs, like a balance sheet, is a statement which shows the assets and liabilities of a concern on a particular date and reveals its financial state of affairs. Many of the assets and liabilities shown on this statement are based on the estimates made by the proprietor. They are not based on book values as in case of balance sheet.

Statement of affairs is prepared to ascertain the financial position and capital investments in the organisation where books of accounts are not properly maintained or may be destroyed. The values of various assets and liabilities of the concern are ascertained as under:

- i) Cash in hand:** It is ascertained from cash book or through physical verification of cash in hand
- ii) Cash with bank:** It is ascertained by balancing cash book. In case the cash book has no bank column it is confirmed on the basis of pass book or bank records.
- iii) Debtors & creditors:** They are calculated from the personal ledgers maintained by the concern.
- iv) Stock in trade:** It is valued on the basis of actual stock taking and valuation.
- v) Fixed Assets:** The values of fixed assets owned by concern like furniture, machinery & equipments, buildings, vehicles etc., are judged from available records or by estimates.
- vi) Other values:** The other values such as outstanding expenses and incomes, prepaid expenses, loans and incomes received in advance etc., are found from available records and memory of proprietor or partners.
- vii) Capital:** Finally, the excess of assets over liabilities is taken as capital.

Conversion methods

Conversion methods enable you to use data group elements within a data group to convert data from a data source into a different format. Sometimes source data is accessed directly and sometimes by reference. Unlike reference method, however, conversion methods perform server-side conversions. Conversion method data is stored to the Device Definition Service (DDS), but reference method data is not.

The following topics list and explain common ways you can use conversion methods to perform conversions. You can employ conversion methods to customize templates to interface with a field device in a way that best suits your needs. For example, a field device might return a date-time value that is represented in an uncommon format, but you want to display the value in a common format. A conversion method could be defined in the template that converts the value from an uncommon format to a common one.



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There are two conversion method types. One uses the attribute cvtF and the other uses the attribute cvtRef. The cvtF conversion method type is usually EIE specific and directly converts source data. The cvtRef conversion method type is Modbus protocol specific, which means that it is available for use with any Modbus or Modbus-derived EIE. The cvtRef method type is currently only used to convert source date-time values into the Microsoft standard date-time format (COleDateTime) from a referenced date-time format.

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