

# Principle of Accounting 438-1<sup>st</sup> Autumn 2016

B.Com

**Q No 1: (i) Define Accounting. Distinguish between Book keeping and Accounting.**

**(ii) What is a Journal? Explain its objectives and main features.**

**Answer: (i)**

**Accounting:** Accounting is the systematic and comprehensive recording of financial transactions pertaining to a business. Accounting also refers to the process of summarizing, analyzing and reporting these transactions. The financial statements that summarize a large company's operations, financial position and cash flows over a particular period are a concise summary of hundreds of thousands of financial transactions it may have entered into over this period. Accounting is one of the key functions for almost any business; it may be handled by a bookkeeper and accountant at small firms or by sizable finance departments with dozens of employees at larger companies.

**Book-keeping:** Bookkeepers record financial transactions in chronological order on a daily basis. Because accounting software automates many of the processes, some bookkeepers in small organizations also classify and summarize financial data in financial reports. These bookkeepers are often referred to as full-charge bookkeepers. They make higher salaries than bookkeepers but lower salaries than accountants.

Accounting	Book-keeping
Accounting is an orderly recording and reporting of the financial affairs of an organization for a particular period.	Bookkeeping is an activity of recording the financial transactions of the company in a systematic manner.
It is regarded as the language of business.	It is the subset of accounting.
Decisions can be taken on the basis of accounting records.	On the basis of bookkeeping records, decisions cannot be taken.
Bookkeeping does not reflect the financial position of an organization.	Accounting clearly shows the financial position of the entity.
Single Entry System of Bookkeeping and Double Entry System of Bookkeeping	Financial Accounting, Cost Accounting, Management Accounting, Human Resource Accounting, Social Responsibility Accounting.

**Ans (ii): What is a Journal?**

In accounting and bookkeeping, a journal is a record of financial transactions in order by date. A journal is often defined as the book of original entry. The definition was more appropriate when transactions were written in a journal prior to manually posting them to the accounts in the general ledger or subsidiary ledger. Manual systems usually had a variety of journals such as a sales journal, purchases journal, cash receipts journal, cash disbursements journal, and a general journal. The journal is an important book under the double-entry system. Journal is the first book of systematic record of the financial transactions of the business. Journal is called the book of original or prime entry, because its financial transactions are first of all recorded in this book as and when they take place. Journal is also called a subsidiary book as it is maintained to help prepare the main book called the ledger. The journal is prepared with the help of memorandum or waste book, which is a rough and temporary record of the financial transactions of the business. The literal meaning of

the journal, is a record of day-to-day financial transactions. Formally, however, it may be defined as a book of original entry or subsidiary book in which the financial transactions of the business are systematically recorded in order of their occurrence.

### **Objectives of the Journal:**

The following are the main objectives of the journal

- Journal is prepared to keep a systematic record of financial transactions.
- Journal is prepared to show financial transactions in chronological order.
- Journal is prepared to present necessary information about the financial transactions.
- Journal is prepared to use as a legal evidence of financial transactions.
- Journal is prepared to facilitate the preparation of ledger book.

The objective of the journal is to provide a platform to faculty, research scholars and practitioners of management discipline globally to highlight new knowledge, innovation, technology usage and latest tools of research in the areas of management science. Its focus is on applied research and to bridge the gap between management theories and practice. The journal aims to follow international benchmarks in papers selection, refereeing, editing, proofing and production as per the latest methodology and standards. Its International Advisory Board provides policy guidelines for publications in the journal.

### **Features of the Journal:**

- A book of original entry because transaction is recorded at first stage in this book.
- The first step in the recording process of double entry system of book-keeping.
- Also known as day book or diary because transactions are recorded in it on day to day basis as and when they take place.
- A chronological record of all transactions taking place according to the order of occurrence.
- Every entry in journal is accompanied with narration which describes, briefly, true nature and context of the transactions.
- Amount of the transaction is recorded in both debit and credit column-side by side. It helps in maintaining arithmetical accuracy of the books.
- Journal and ledger are interrelated linked because next step after journal is the ledger.

**Q No 2: From the following Receipts & Payment account of students Foundation and the subjoined information. Prepare the income and Expenditures account for the year ended 31<sup>st</sup> March 2016 and Balance Sheet as on that date from it and subjoined information.**

Date	Receipt	Amount	Date	Expenditure	Amount
2015	Endowment fund	14,460	2015	Payment of salaries	15,300
	Donation	20,720		Rent (31-3-2016)	1,200
	Subscription	8,020		Office expenses	5,700
	Legacies	10,000		Commission	940
	Miscellaneous fees	3,600		Printing	720
	Interest on investment	3,680		Postage	560
	Interest on deposit	600		Purchase of Govt. securities	80,00
				Balance of c/d	28,600
	<b>Total</b>	<b>61,080</b>		<b>Total</b>	<b>61,080</b>

**Additional information**

1. The legacies and donations are capitalized.
2. A quarter's rent is prepaid which amount is Rs. 300 full yearly charges of rent is Rs. 1,200.
3. Subscription is outstanding for 2015 Rs. 500.
4. Interest on Government securities Rs. 800 had accrued but was not received.
5. Postage Rs. 240 is outstanding.

**Required: From the above information, prepare the income & Expenditure Account for the year ended 31<sup>st</sup> March 2016 and Balance Sheet as that date.**

**Solution:**

**Student Foundation  
Income & Expenditure Account  
For the year ended 31<sup>st</sup> March 2016**

Expenditure	Rs.	Income	Rs.
Salaries	15,300	Subscription	
Rent		8,020	8,520
1200	900	<b>Add:</b> outstanding	20,720
Less: Prepaid	5,700	<u>500</u>	10,000
<u>300</u>	940	Donation	3,600
Office expenses	720	Legacies	3,680
Commission		Miscellaneous fee	600
Printing	800	Interest on Investment	
Postage		Interest on deposit	
560			
Add: Outstanding	8,800		
<u>240</u>			
Purchase of Govt. securities	13,960		
8,000			
Add: Accrued			
<u>800</u>			
Excess of Income over Expenditure			
	<b>47,120</b>		<b>47,120</b>

**Balance Sheet**  
**As on 31<sup>st</sup> March 2016**

Assets	Rs.	Liabilities	Rs.
Endowment fund	14,460	Capital fund	
Interest on Govt. securities	800	30,720	44,680
Rent prepaid	300	Net profit	
Postage outstanding	240	<u>13,960</u>	
Subscription outstanding	500		
Cash in hand	28,660		
	<b>44,680</b>		<b>44,680</b>

**Q No 3: The Trail Balance of a trader as on 31. 12. 2015 is given below.**

Debit	Rs.	Credit	Rs.
Opening stock	60,000	Bill Payable	10,000
Sundry debtors	80,000	Capital	222,400
Furniture	20,000	Commission received	1,000
Plant	100,000	Sales	462,000
Purchases	340,000	Interest received	4000
Bill Receivable	22,000		
Carriage outward	1,800		
Salaries	25,400		
Wages	22,600		
Cash at Bank	18,000		
Cash in Hand	6,000		
Total	695,800	Total	695,800

**Required: Prepare a Trading and profit and loss a/c for the year ended 31.12.2015 and a balance sheet as at that date after taking into consideration the following adjustments:**

1. Closing stock valued at Rs. 100,000.
2. Commission received in advance (unearned) is Rs. 300.
3. Interest received for the year, 2015 is Rs. 200.

**Solution:**

**Trading Profit & Loss**  
**As on 31.12.2015**

Details	Rs.	Details	Rs.
Opening stock	60,000	Sales	462,000
Purchases	340,000	Closing Stock	100,000
Wages	22,600		
<b>Balance (c/d)</b>	139,400		
	<b>562,000</b>		<b>562,000</b>
Carriage outward	1,800	<b>Balance (b/d)</b>	139,400
Salaries	25,400	Commission received	
		1000	700
		<b>Less: Advance</b>	
Net Profit (c/d)	113,500	<u>300</u>	600
		Interest received	
		400	
		<b>Add: Accrued</b>	
		<u>200</u>	
	140,700		140,700

**Balance Sheet  
As on 31.12.15**

Assets	Rs.	Liabilities	Rs.
Sundry Debtor	80,000	Bill Payable	10,000
Furniture	20,000	Commission Receivable	300
Plant	100,000		
Cash at Bank	18,000		
Cash in Hand	6,000	Capital	
Bill Receivable	22,000	222,400	335,900
Interest Received	200	<b>Add: Net Profit</b>	
		<b>113,500</b>	
	<b>346,200</b>		<b>346,200</b>

**Q No 4: record the following Transactions in journal and post them in ledger and prepare trial balances**

2015	Rs.	Rs.
May 1. Business started with cash		100,000
4. Goods purchased for cash from Amjad		30,000
7. Sold goods to Karim Bros.		10,000
14. Paid salaries.		5,000
20. Commission received.		450
25. Cash received from Karim Bros. in full settlement.		9,900

**Solution:**

Date	Details	Rs.	Rs.
May 1	Cash A/c Capital A/c (Being business started with cash.)	100,000	100,000
May 4	Purchase A/c Cash A/c (Being purchase goods for cash from Amjad.)	30,000	30,000
May 7	Karim Bros A/c Sales A/c (Being goods sold on credit.)	10,000	10,000
May 14	Salaries A/c Cash A/c (Being salaries are paid by cash.)	5,000	5,000
May 20	Cash A/c Commission A/c (Being commission is received.)	450	450
May 25	Cash A/c Discount A/c Karim Bros A/c (Cash received and discount allowed.)	9,900 100	10,000

**Capital A/c**

Details	Rs.	Details	Rs.
Balance (c/d)	100,000	Cash A/c	100,000
	<b>100,000</b>		<b>100,000</b>

**Cash A/c**

Details	Rs.	Details	Rs.
Capital A/c	100,000	Purchase A/c	30,000
Commission A/c	450	Salaries A/c	5,000
Karim Bros A/c	9,900	Balance (c/d)	75,350
	<b>110,350</b>		<b>110,350</b>

**Purchase A/c**

Details	Rs.	Details	Rs.
Cash A/c	30,000	Balance (c/d)	30,000
	<b>30,000</b>		<b>30,000</b>

**Karim Bro A/c**

Details	Rs.	Details	Rs.
Sales A/c	10,000	Cash A/c	9,900
		Discount A/c	100
	<b>10,000</b>		<b>10,000</b>

**Sales A/c**

Details	Rs.	Details	Rs.
Balance (c/d)	10,000	Karim Bros	10,000
	<b>10,000</b>		<b>10,000</b>

**Salaries A/c**

Details	Rs.	Details	Rs.
Cash A/c	5,000	Balance (c/d)	5,000
	<b>5,000</b>		<b>5,000</b>

**Commission A/c**

Details	Rs.	Details	Rs.
Balance (c/d)	450	Cash A/c	450
	<b>450</b>		<b>450</b>

**Discount A/c**

Details	Rs.	Details	Rs.
Karim Bro A/c	100	Balance (c/d)	100
	<b>100</b>		<b>100</b>

**Trial Balance**

Sr. No.	Details	Rs.	Rs.
1.	Capital A/c	100,000	
2.	Cash A/c		75,350
3.	Purchase A/c		30,000
4.	Sales A/c	10,000	
5.	Salaries A/c		5,000
6.	Commission A/c	450	
7.	Discount A/c		100
	<b>Total</b>	<b>110,450</b>	<b>110,450</b>

**Q No 5: A firm purchased machinery for Rs. 500,000 on January 1<sup>st</sup> 2012. It purchased additional machinery for Rs. 225,000 and spent Rs. 25,000 on 1<sup>st</sup> July 2012. The firm financial year closed on 31<sup>st</sup> December every year. Depreciation is charged @ 15% p.a. on fixed installment method. Required: Prepare machinery Accounts from 2012 to 2015. Accounts are closed on 31<sup>st</sup> December every year.**

**Solution:**

**Depreciation A/c**

Date	Details	Rs.	Date	Details	Rs.
<b>2012</b>			<b>2012</b>		
Jan, 1	Balance (b/d)	500,000	Dec, 31	Depreciation A/c	75,000
July, 1	Balance (b/d)	225,000		Depreciation A/c	18,750
	Balance (b/d)	25,000		(6 month)	
				Balance (c/d)	656,250
		<b>750,000</b>			<b>750,000</b>
<b>2013</b>			<b>2013</b>		
Jan, 1	Balance (b/d)	656,250	Dec,31	Depreciation A/c	98,437
				Balance (c/d)	557,813
		<b>656,250</b>			<b>656,250</b>
<b>2014</b>					
Jan, 1	Balance (b/d)	557,813		Depreciation A/c	83,672
				Balance (c/d)	474,141
		<b>557,813</b>			<b>557,813</b>
<b>2015</b>			<b>2015</b>		
Jan, 1	Balance (b/d)	474,141	Dec, 31	Depreciation A/c	72,121
				Balance (c/d)	402,020
		<b>474,141</b>			<b>474,141</b>

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