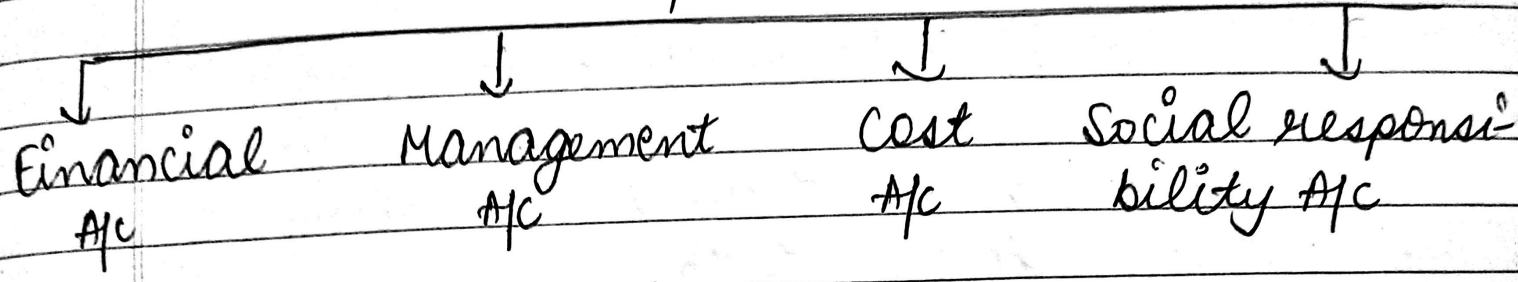


* Financial Accounting → It is the process of identify, measuring, recording, summarising, communicating.

Branches.



(ii) Management Acc → Using the information by the internal managers for decision making.

(iii) Cost Acc → To ascertain the cost and to control the cost

(iv) Social Responsibility → Identifying the transactions or efforts by the organization in the society.

Financial Acc	Management Acc
Users → Outsiders	Internal Managers
Purpose → To measure & record the transaction	Analyzing the information for decision Making.
Scope → Consider only monetary transaction	Monetary as well as non-monetary
Legal Compulsion → Legally compulsory have to make P/L & B/S	Not compulsory because it is for our betterment

* Nature of financial accounting →

- 1) ~~Art~~ It is a art. (we need skills)
- 2) It is a science.
- 3) It records definite units/values

not imaginary through invoice we take the information

- 4) Recording monetary transactions
- 5) Future forecasting.

* Objectives →

- ① Systematic Record
- ② To protect the business property
- ③ To calculate the operational profit or loss. (P+L A/C)
- ④ To know the financial position (Balance sheet)
- ⑤ To facilitate decision making

* Limitations →

- ① Ignores the qualitative information
- ② It ignores the price level change (Time value of money).
- ③ Window dressing (Manipulations)
- ④ Errors are possible.
- ⑤ Not free from bias

* GAAP → Generally accepted accounting principles

↓
CONCEPTS

→ During the year

(i) Separate Entity Concept →

→ Business entity is separate from the proprietor.

→ Therefore, the capital contributed by the proprietor will be liability for the company.

(ii) Going Concern Concept → It is assumed that the business will continue for long term. Therefore the assets are shown at acquisition cost and depreciation will change accordingly.

(iii) Money Measurement Concept → Will be recording only those transactions which can be expressed in terms of money. Therefore we cannot record the hardwork of employees.

(iv) Cost Concept → Assets are always recorded at cost that is acquisition cost plus installation charges.

(v) Dual Aspect Concept → Based on Acc principle

$$\text{Cap + Liab} = \text{Asset}$$

or

every transaction has dual effect one is to be dr the other will be Cr.

(vi) Accounting period concept → The life of business is divided into different segments to evaluate its performance.

(vii) Matching concept → In order to ascertain the actual profit during the specified period, it is required to match the cost with the revenue.
eg → Goods of Rs 10000 manufactured in Jan. However goods worth Rs 8000 were sold at the market price of Rs 12000 so the actual profit will be Rs 4000 (12000 - 8000).

(viii) Realisation concepts → Revenue is considered only when the payer or buyer legally becomes liable to pay. The bill is generated or possession is transferred.

* CONVENTIONS →
① Conservatism → This is based on rule "anticipate no profits but provide for all losses"

② Full Disclosure - This states that the organisation should disclose sufficient information for decision making of the concerned parties.

③ Consistency - Same accounting practices should be followed every year to provide appropriate results.

④ Materiality - Material information means important information. Only important information should be disclosed otherwise the financial statements will be overburdened.

P/L A/c

Particulars	Details	Amount
A. Net Sales		
Sales (Gross)		
less: Return inward		
B. Cost of goods sold		
opening stock		
Add: Purchases		
less: Return outward		
Add: Direct Expenses (Wages, freight inward or carriage inward)		
less: Closing stock		
[Gross Profit (A-B)]		

Ques → Sales - Rs 4000

Return Inward → ₹ 800

Purchases → ₹ 2800

Wages paid → ₹ 600

Freight Inward → ₹ 200

Closing stock → 900

P&L A/c

Particulars		Detail	₹
A	Net Sales		4000
	Sales	4000	
	less: Return Inward	(800)	3200
B.	Cost of goods sold.		
	Add: Purchases	2800	
	Add: Direct expenses	800	
	less: Closing stock	(900)	2700
C	Gross Profit (A-B)		500

Profit and Loss A/c

Particulars		Detail	₹
A.	Net sales		
	Gross sales		
	less: Return		
B.	Cost of goods sold		
	opening stock		
	Add: Purchases		
	less: Return		
	Add: Direct expenses		
	less: Closing stock		
C.	Gross Profit (A-B)		

D Operating expenses:

(a) Selling expenses: Carriage
outward

Discount allowed

Travelling expenses

Sales promotion expenses

Bad debts

(b) Office & administrative
expenses: Salaries

wages

Rent/Repairs

Taxes

Insurance

Electricity expenses

Stationery

Depreciation

Other expenses

E. Net operating Profit
(C-D).

F. Non-operating expenses/
incomes (items)

Interest earned

Commission earned

any other income

Interest allowed (exp).

Loss on sale of FA (exp).

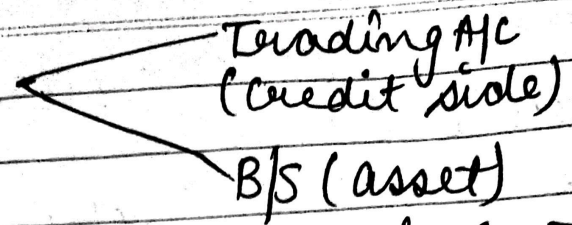
Net Profit

- Discount allowed (exp) → ₹ 800
- Wages → ₹ 80,000
- Purchases → ₹ 2,34,000
- Sales → ₹ 4,27,000
- Bad debts → ₹ 5200
- Carriage → ₹ 7100
- Rent + Insurance → ₹ 22,000
- Opening stock → ₹ 54,000
- Closing stock → ₹ 3,70,000
- Salaries paid → ₹ 31,000

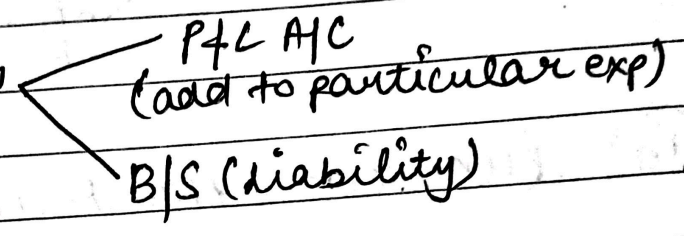
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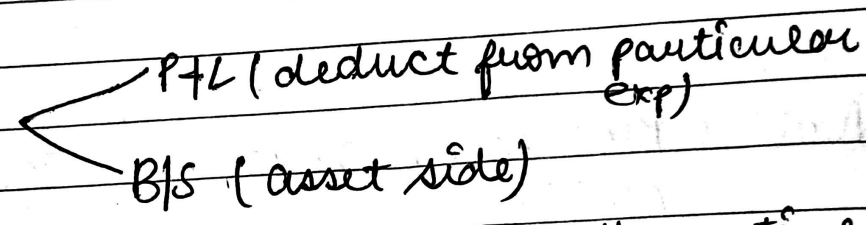
P/L A/c

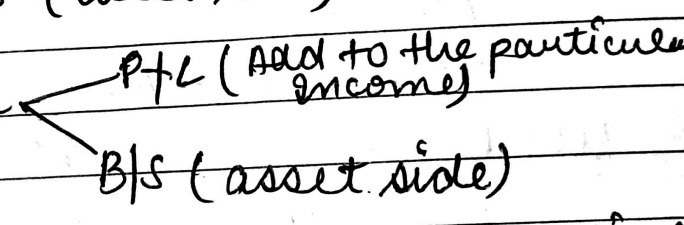
Particulars	Details	₹
A. Net sales	427,000	427,000
B. Opening stock	54,000	
Add: Purchases	2,34,000	
less: Closing stock	(3,70,000)	
Add: Carriage	7,100	
wages	80,000	
		<u>51,000</u>
		(74,900)
C. Gross Profit (A-B)		<u>351,900</u>
		<u>421,900</u>
D. Operating expenses		
Discount allowed	800	
Bad debts	5,200	
Rent + Insurance	22,000	
Salaries paid	31,000	
		<u>59,000</u>
E. Net operating profit (C-D)		<u>362,900</u>

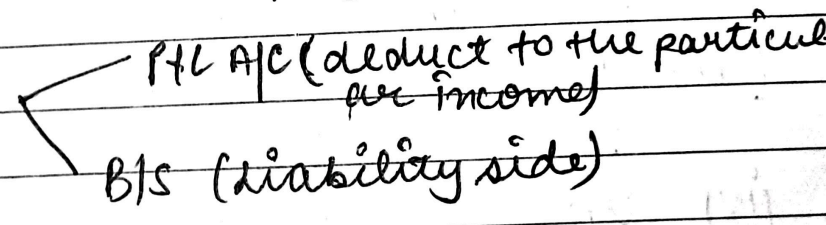
1) Closing ~~of~~ stock 

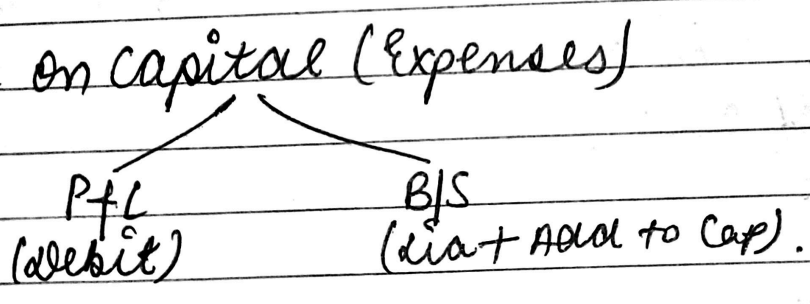
* Note: Closing stock is given within TB (B/S) adjusted Purchases → Sales

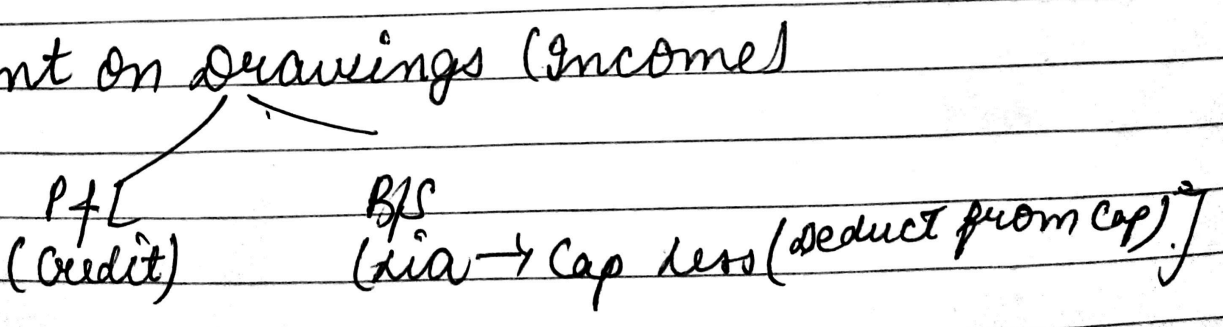
2) Outstanding expenses 

3) Prepaid expenses 

4) ~~Accrued~~ Accrued Income 

5) Unearned Income 

6) Int on Capital (Expenses) 

7) Int on Drawings (Income) 

⑧ Depreciation

- P+L (Debit) become exp.
- B/S (deduct from particular asset).

⑨ Bad debts

- P+L (Debit)
- B/S (Debtors - Bad debts deduct)

⑩ Provision for doubtful debts

- P+L (Bad debts deduct)
- B/S (deduct from debtors)

Note - (i) Provision given in Trial balance it is called old provision & it is to be deducted from bad debts

(ii) Provision created this year is called new provision & is added to the bad debts.

(iii) Provision on doubtful debt is calculated on net debtors (Debtors - Bad debts)

(iv) In case old provision is higher than new provision + Bad debts, we will show the balance of old provision on the credit side of P+L A/c

Ques loss of stock by fire Rs-10000
 It was partially insured for Rs 8000
 Insurance company agreed to pay only
 Rs 6500

Trading A/c	
PR	₹
	loss of stock
	10000

P/L A/c	
PR	₹
loss of stock for (2000 + 1500)	3500

Ques ③ Working Notes:→

① (a) Dep @ 2.5% on land & Building = $50000 \times 2.5\%$
 $= 1250$

(b) Dep @ 10% on Plant & Machinery = $28540 \times 10\%$
 $= 2854$

(c) Dep @ 10% on furniture = $2500 \times 10\%$
 $= 250$

② B/D Reserve = $75600 \times \frac{5}{100} = 3780$

④ Int on Capital = $180000 \times \frac{5}{100} = 9000$

Less: old prov = 4980
 Add: New prov = 3780

Trading & P+L A/c

PR	₹	PR	₹
Carriage inward	8740		
Wages	42,940		
Int on Cap	9000		
Dep A+B	1250		
P+M	2850		
Furniture	250		
Salaries	9340		
Bank expenses	280		

Balance sheet

liabilities		₹	asset		₹
Capital - 180,000			Capital - 180,000		
less: Int on Cap	9000		A+B - 50000		
	189000		less: Dep - 1250		48750
			P+M - 28540		
sidrani 12960		177040	less: Dep - 2850		25690
			Furni - 250		
			less: Dep - 250		2250