

# Department of Tourism and Hotel Management


Kurukshetra University, Kurukshetra.

Professor (Dr). R. H. Taxak

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94 167 82 444

## LESSON PLAN FOR MTTM-207 ACCOUNTING FOR MANAGERS (MTTM20701)

	<i>Specialization:</i>	<i>Tourism Education, HRM, Entrepreneurship, Sustainable Tourism, Hotel Management, Organisational Health, Business Administration, Advanced Accounts, Computers</i>
	<i>Qualification:</i>	<i>Ph. D Tourism &amp; Hotel Management (Kurukshetra), M. Phil Futurology (Indore), FDPM (IIM-A), M. Com (Pune)</i>

### Courses Offered & Students Enrolled (During Current Session) by the Department of Tourism & Hotel Management

SNo.	Name of Class	Total No. of Students	Male Students	Female Students
1	BHM&CT-I	60	60	
2	BHM&CT-II	40	40	
3	BHM&CT-III	29	29	
4	BHM&CT-IV	33	31	02
<u>5</u>	<u>MTTM-I</u>	<u>22</u>	<u>13</u>	<u>09</u>
6	MTTM-II	19	14	05
7	MHM&CT-I	17	16	01
8	MHM&CT-II	12	08	04
9	M.Phil	11	07	04
10	Ph.D.	43	32	11
	TOTAL	286	250	36

### Courses Offered by Department of Tourism and Hotel Management

#### 2nd Semester of MTTM

Paper Code	Paper Name	Internal Marks	External Marks	Max Marks
MTM-201	International Tourism	30	70	100
MTM-202	Tourism Marketing	30	70	100
MTM-203	Airlines Ticketing	30	70	100
MTM-204	Tour Packaging Management	30	70	100
MTM-205	Culture Heritage & Tourism	30	70	100
MTM-206	Event Management	30	70	100
<b>MTM-207</b>	<b>Accounting For Managers</b>	<b>30</b>	<b>70</b>	<b>100</b>
MTM-208	Soft Skills Development	100	-----	100
MTM-209	Field Survey Report & Viva-Voce	-----	100	100
TOTAL				900

Six weeks On-the-Job training after 2<sup>nd</sup> semester examinations.

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## PLEASE REFER FOLLOWING PAGES FOR CLASS ACTIVITIES IN YOUR SEMESTER-II

MTTM-207

ACCOUNTING FOR MANAGERS

External Marks: 70

Internal Marks: 30

Duration: 3 Hours

### OBJECTIVE

The basic purpose of this paper is to apprise the students about the fundamentals of accounting so that they can analyse and interpret the financial statements of various business enterprises particularly related to tourism. The students in addition to the given contents in their paper are also required to go through the Annual Reports of leading Travel Agencies and other business establishments in India.

### APPORACHES

Lectures, Group discussion, Presentations, Practical case studies Business Games

### REQUIEMENTS

Regular attendances, active participation, review of books and literature, long essays and assignments, seminar presentations, etc.

### EVALUATION

The performance of the students will be evaluated on the basic of class participation; house tests; regularity and assignment carrying 30 percent of the credit and the rest of 70 percent though Terminal Examinations (3 hours duration).

### MODE OF PAPER SETTING

In all there will be FIVE questions. Candidates are required to attempt all the five questions. First question will be of 14 marks, containing 7 short answer questions of 2 marks each, covering entire syllabus. Rest of the FOUR questions will be set out of four units, picking up 2 questions from each unit, having internal choice. Candidates are required to attempt one question from each unit of 14 marks each. Such questions shall judge both theoretical and applied knowledge of students. Case studies may also be given as question.

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## COURSE CONTENTS

### Unit-I

#### Meaning and Scope of Accounting

Need for Accounting, Definition and Functions of Accounting, Book-keeping and Accounting, Accounting as an Art or Science, Classification of Accounting: Financial Accounting, Management Accounting, Difference between Management and Financial Accounting, Accounting Principles, Accounting Principles, Journal, Rules of Debit and Credit, Compound Journal Entry.

### Unit-II

#### Ledger Posting and Trial Balance & Final Account

Ledger Posting Relationship between Journal and Ledger, rules Regarding Posting, Trial Balance.

Trading Account, Profit & Loss Account: Manufacturing Account, Balance Sheet (without Adjustment Entries).

### Unit III

#### Management Accounting

Management Accounting: Meaning, Functions, Scope, Utility, Limitation of System;

Cost Accounting: Meaning, Activities, difference between Cost Accounting and Financial Accounting, Cost Accounting and Management Accounting; Concepts of Cost: Cost, Expense and Loss, Elements of Cost, Components of Total Cost.

### Unit IV

#### Financial Statements: analysis and Interpretation:

Financial Statements: Meaning and Types, Nature , Limitations, Analysis and Interpretation; Ratio Analysis; Classification of Ratios; Profitability Ratios; Turnover Ratios; Financial Ratios; Advantages of Ratios analysis.

Fund Flow Statement & Cash Flow Statement: Use, preparation of statement, difference between Fund Flow Statement & Cash Flow Statement.

## REFERENCES:

1. Donald F. Sutton, 1986. Financial Management in Hotel and Catering Heinemann, London.
2. Flamholds Etle, Human Research Accounting, California.
3. G. Boni and F.F. Shartes, 1988 Hotel Organization Management and Accounting, Sir ISAAR, Pitman, London.
4. Horwarth and Toth, 1979, Hotel Accounting, Ronald Press, New York.
5. J. M. Negi, 1987, Financial and cost Control Techniques in hotel and Catering Industry.
6. L. S. Porwal, 1993, Accounting theory, An Introduction Tata McGraw Hill Publishing Co., Ltd., New Delhi.

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7. Leslie Chadwick, 1995 The Essence of Financial Accounting Prentice Hall of India Pvt. Ltd., New Delhi.
8. Owen, Accounting for Hospitality Tourism and Leisure, Pitman.
9. Richard, Katas, 1984, Management Accounting for Hotels and Restaurants, Surrey University Press.
10. Richard, Katas, 1989, Book-Keeping in hotel and Catering Industry, Surrey University Press, London.
11. Robert and Anthony, 1995, Management Accounting, Prentice Hall of India Pvt., Ltd. New Delhi.
12. R.D. Boardman, 1980, Hotel and Catering Costing and Budgets, Heinemann, London.
13. Adrill, P and Mclancey , 2001, Accounting and Finance for non-Specialists, Prentice Hall.
14. Dyson J R, 2001, Accounting for Non-Accounting Students, 5<sup>th</sup> Ed. Prentice Hall.

RT/16/06/2011

## TIME TABLE FOR THE SEMESTER

NAME \DAYS	MON- 2:00- 3:00PM	TUES -2:00- 3:00PM	WED -2:00- 3:00PM	THR	FRI- 12:00- 01:00PM	SAT- 12:00- 01:00PM	TOTAL
TAXAK	MTTM- 207	MTTM- 207	MTTM- 207	OFF	MTTM- 207	MTTM- 207	5

## INTERNAL CLASS TESTS

1. 1<sup>st</sup> Class Test on –March 16, 2015 from 1:00-2:00 PM and from 2:00-3:00 PM –Syllabus up to 2<sup>nd</sup> Unit –Complete.
2. 2<sup>nd</sup> Class Test on –March 28, 2015 from 09:00-10:00 AM and from 10:00-11:00 AM – Syllabus only 3<sup>rd</sup> Unit.
3. 3<sup>rd</sup> Class Test on –April 18, 2015 from 09:00-10:00 AM and from 10:00-11:00 AM - Syllabus only 4<sup>th</sup> Unit.
4. Submit Assignment –by Feb 25, 2015 –Schedule for presentation shall be provided on Feb 27, 2015.

UNIT	R NO	R NO	R NO	R NO	R NO	R NO
I	4	8	12	16	20	NA
II	3	7	11	15	19	NA
III	2	6	10	14	18	22
IV	1	5	9	13	17	21

Submit your soft copy in MS words with PPT only on [studentsmtmkuk@gmail.com](mailto:studentsmtmkuk@gmail.com)

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## Unit-I

### Meaning and Scope of Accounting

- 1. Need for Accounting, Definition and Functions of Accounting, Book-keeping and Accounting, Accounting as an Art or Science,*
- 2. Classification of Accounting: Financial Accounting, Management Accounting, Difference between Management and Financial Accounting,*
- 3. Accounting Principles,*
- 4. Journal, Rules of Debit and Credit, Compound Journal Entry.*

## Unit-II

### Ledger Posting and Trial Balance & Final Account

- 1. Ledger Posting Relationship between Journal and Ledger, rules Regarding Posting, Trial Balance.*
- 2. Trading Account, Profit & Loss Account Manufacturing Account, Balance Sheet (without Adjustment Entries).*

## MTTM-207

### Unit-I

## Accounting for Management

### Objectives

1. Describe the need for accounting
2. Perceive the development of accounting
3. Explain the meaning of accounting
4. Name the persons interested in accounting disclosures
5. Identify the objectives of accounting
6. Describe the role of accountant in the society

### Need for Accounting

1. Records and communicates the financial result of operations of an organization to various concerned parties such as stakeholders, government agencies etc.
2. Provides information that helps the management of the organization to plan the future course of action and other funds related issues.

### Definition of Accounting

- Definition of accounting by American Accounting Association (AAA):

“Accounting is the process of identifying, measuring and communicating economic information to permit informed judgments and decisions by users of the information”

### Functions of Accounting

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1. **Recording:** Accounting helps record all the business transactions of financial character in an orderly manner. Recording is done on various Journals.
2. **Classifying:** After the systematic analysis of the recorded data, the entries of similar nature are grouped at one place. Transactions are classified on Journals.
3. **Summarizing:** The classified data is displayed in understandable and easy to use statements such as balance sheet, trial balance etc.
4. **Financial Dealing:** Accounting records only monetary transactions that are of financial nature.
5. **Analyzing:** A methodical classification of recorded data and presenting in financial statements such as current liabilities etc.
6. **Interpreting:** Accounting helps in explaining the meaning and significance of the data in simplified form.
7. **Communicating:** Accounting helps in communicating the analyzed and interpreted information in the form of graphs, ratios etc.

## **Book Keeping and Accounting**

1. Accounting refers to designing the system for recording the financial data and then presenting it in logical manner to the end users.
2. Book-keeping is concerned with recording financial data in an orderly manner.

## **End Users of Accounting Information**

1. **Proprietors:** Profitability and financial health of an enterprise needs to be communicated to the proprietors.
2. **Managers:** Financial disclosures communicate the financial health and help the managers to plan and manage the enterprise better.
3. **Creditors:** Entities that have extended credit look into financial statements to ascertain security of their credit.

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4. Prospective Investors: Financial statements communicate profitability and financial health to attract investment into an enterprise.
5. Government: Financial statements serve as the basis of meeting government liabilities pertaining to taxation, labour and corporate laws.
6. Employees: Bonus or profit sharing or Employees Stock Options Plan is prepared using financial statements.

## **Role of an Accountant**

1. Role of the accountant in public service:
  - a. Provides services such as financial audit, cost audit etc.
  - b. Is the member of professional bodies, Institute of Chartered Accountants of India and Institute of Cost and Work Accountants of India.
  - c. Trained in a prescribed manner and observe accounting principles enunciated by the professional body.
  - d. Observe the code of ethics laid down by the professional body.
2. Role of the accountant in employment:
  - a. Is employed in business or non business entities.
  - b. Maintains accounting records for the entity
  - c. Provides information for tax returns, financial performance etc.

## Accounts Services

- Maintenance of the books of accounts:
  1. Keeps a systematic record of business transactions
  2. Provides information on financial performance of the entity
  3. Helps the management of an organization in taking important decisions on the basis of vital accounts information
  4. Reduces the risk of losing information due to loss of memory because the information is recorded



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5. Helps perform the comparative study on performance after fixed interval of time
6. Maintains the accounting records systematically that are acceptable to tax authorities and can be taken as evidence in court of law
7. Serves as the basis for proper evaluation of business entity

## **Summary**

You have:

1. Described the need for accounting
2. Perceived the development of accounting
3. Explained the meaning of accounting
4. Named the persons interested in accounting disclosures
5. Identified the objectives of accounting
6. Described the role of accountant in the society

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## Accounting Principles

### Objectives

1. Explain the meaning of accounting principles
2. Differentiate between accounting concepts and conventions
3. Name the accounting standards issued by the Institute of Chartered Accountants of India
4. Describe the different systems of accounting

### Meaning of Accounting Principles

1. Accounting principles refer to the rules and actions adopted by the accountants globally for recording accounting transactions.
2. These are classified into two categories:
  - a. Accounting concepts
  - b. Accounting conventions

### Accounting Concepts

1. Accounting concepts include the assumptions and conditions on which the science of accounting is based.
2. These are also known as accounting standards.
3. Important accounting concepts are:
  - a. Separate entity concept
  - b. Going concern concept
  - c. Money measurement concept
  - d. Cost concept
  - e. Dual aspect concept
  - f. Accounting period concept
  - g. Realization concept

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## **Accounting Conventions**

1. Accounting conventions include the customs and traditions that assists the accountants in preparing accounting statements.
2. Important accounting conventions are:
  - a. Convention of conservatism
  - b. Convention of full disclosure
  - c. Convention of consistency
  - d. Convention of materiality

## **Institute of Chartered Accountants of India**

1. Council of Institute of Chartered Accountants issues from time-to-time preface to the statements of accounting standards that defines the various aspects of accounting standards.
2. It established an Accounting Standards Board (ASB) on 22<sup>nd</sup> April, 1977.
3. The function of ASB is to formulate accounting standards, which are then established by the Council of Institute of Chartered Accountants.

## **Preface to the Statements of Accounting Standards**

1. It defines standards related to following features:
  - a. Formation of accounting standards board
  - b. Objectives and functions of the Accounting Standards Board
  - c. General purpose financial statements
  - d. Scope of accounting standards
  - e. Procedure for issuing an accounting standard
  - f. Compliance with the accounting standards

## **Systems of Book-Keeping**

1. Two types of systems of book-keeping are:

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- a. Single entry system: It is used to record only cash and personal accounts.
- b. Double entry system: It is used to record each transaction under two different accounts. It is more reliable and efficient than the single entry system.

## **Difference between Double Entry and Single Entry Systems**

1. Accounting Equation
2. It is defined as:  
$$\text{Assets} = \text{Equities}$$

Or, 
$$\text{Assets} = \text{Liabilities} + \text{Capital}$$
3. Assets refers to the properties owned by a business
4. Equities refer to the rights to the properties.
5. Liabilities refer to the equity of creditors that represent debts of the business.
6. Capital refers to the equity of owners of the business.

## **Systems of Accounting**

1. Two basic systems of accounting are:
  - a. Cash system of accounting: In this system, entries are made only when cash is received or paid. It is followed by the Government of various countries.
  - b. Mercantile system of accounting: In this system, entries are made for amount that is due for payment or receipt. It is followed by the industrial and commercial firms.
2. Mercantile system is preferred over cash system because it considers the effect of transactions and reflects the financial position of the company.

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## **Summary**

1. Explained the meaning of accounting principles
2. Defined accounting concepts and conventions
3. Named the accounting standards issued by the Institute of Chartered Accountants of India
4. Explained the difference between double entry and single entry systems
5. Described the different systems of accounting

# Journalising Transactions

## Objectives

1. Identify the stages of accounting cycle
2. Role of journal in recording business transactions
3. Understand the rules of debit and credit applicable to different type of business transactions
4. Describe the various categories of accounts
5. Pass appropriate entries for recording transactions in the journal

## Accounting Cycle

The stages involved in accounting cycle are:

1. Creating Journal for recording transactions
2. Creating Ledger for classifying the transactions recorded in Journal
3. Preparing Trial Balance, Trading Account, Profit and Loss Account and Balance Sheet for summarising the results of transactions
4. Computing accounting ratios for determining the liquidity, solvency and profitability of business

## Journal

1. Journal is a book that records all daily transactions in the chronological order of date.
2. It is also known as book of original entry.
3. The process of recording a transaction in Journal is known as Journalising.

## Types of Transactions

1. All the business transactions are categorized into three types:
  - a. Transactions related to persons

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- b. Transactions related to properties and assets
  - c. Transactions related to income and expenses
2. Depending upon the types of transactions, the accounts under which the transactions are recorded are classified into personal, real and nominal accounts.

## **Personal Accounts**

1. Personal account includes accounts of persons and organizations with whom the business deals.
2. Types of personal accounts:
  - a. Natural personal accounts: It includes accounts of persons such as John's Account.
  - b. Artificial personal accounts: It includes accounts of organizations such as accounts of company, club and Government.
  - c. Representative personal accounts: It includes accounts that represent a group of persons such as outstanding salaries account for employees.

### *Rule of debit and credit*

1. *Debit the receiver*
2. *Credit the giver*

## **Real Accounts**

1. Real accounts represent accounts of properties and assets.
2. Types of real accounts:
  - a. Tangible real accounts: It represents accounts of things that can be touched or measured, such as cash account, furniture account and stock account.
  - b. Intangible real accounts: It represents accounts of things that cannot be touched, such as patent account and goodwill account.

### *Rule of debit and credit:*

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1. *Debit what comes in*
2. *Credit what goes out*

## **Nominal Account**

1. Nominal accounts represent accounts for incomes, gains, expenses and losses.
2. Example: rent account, rates account , insurance account, loss by fire account.

*Rule of debit and credit:*

1. *Debit all expenses and losses*
2. *Credit all incomes and gains*

## **Classification of Goods Account**

1. Goods are the objects purchased by the business for resale.
2. Accounts related to goods are classified into:
  - a. Purchases account: It records all purchases of goods and the account is debited on purchasing the goods.
  - b. Sales account: It records the sales of goods and the account is credited on selling the goods.
  - c. Purchases returns account: It records the return of goods purchased and the account is credited on returning the purchased goods.
  - d. Sales returns account: It records the return of goods sold and the account is debited on receiving the sold goods.

## 3. Passing Entries to Journal

### **Summary**

You have:

- a. Identified the stages of accounting cycle
- b. Understood the role of journal in recording business transactions
- c. Described the rules of debit and credit applicable to different types of business transactions
- d. Described the different types of goods accounts



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e. Learned the passing of entries to Journal

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## Subdivision of Journal

### Objectives

1. Explain the importance of subdivision of Journal
2. Name the different types of Journals
3. Record Transactions in different Journals
4. Importance of Subdivision of Journal
5. Subdivision of Journal means dividing the Journal into various subsidiary books.
6. It reduces the size of Journal and thus handling of Journal becomes easier.
7. It helps in division of labour by allowing different persons to write different Journals.
8. It helps in classifying information by associating a Journal with a particular aspect of the business.

### Types of Journals

Journals can be broadly categorized into two types:

- a. Special Journal: Helps record transactions of specific type. It is further divided into the following types:
  - i. Cash Journal
  - ii. Goods Journal
  - iii. Bills Journal
- b. General Journal: It is also known as Journal Proper. It records all such transactions that do not occur frequently in business. Examples of such transactions are opening entries, closing entries, adjustment entries, transfer entries and purchases of fixed assets.

### Cash Journal

1. Cash Journal is used for recording all cash transactions.
2. It is also known as Cash Book.

Types of Cash Journal:

1. Simple Cash Book
2. Two Columnar Cash Book

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3. Three Columnar Cash Book
4. Multi Columnar Cash Book
5. Cash Receipts Book
6. Cash Payment Book

## ■ Simple Cash Book

Simple Cash Book is just like an ordinary Cash account.

1. It is also known as Single Column Cash Book.
2. It functions both as a book and as a Ledger account.

## ■ Two Columnar Cash Book

Two Columnar Cash Book consists of two columns for recording cash details:

- a. Cash column: It records cash receipts and payments.
- b. Discount column: It records discount received and discount given.

## ■ Three Columnar Cash Book

Three Columnar Cash Book consists of three columns for recording cash details.

1. The first two columns are same as the Two Columnar Cash Book.
2. Bank column is the additional column in Three Columnar Cash Book.
3. Bank column records money deposited and money withdrawn from the bank.
4. Multi Columnar Cash Book
5. Multi Columnar Cash Book consists of more than three columns for recording cash details.

## ■ Cash Receipts and Cash Payments Books

1. Cash Receipts Book: It records all cash receipts transactions. Posting from Cash Receipts Book to Ledger is done daily and the entries are recorded in the credit side of the Ledger. At the end of a week, the Cash account is debited with the total cash received.
2. Cash Payments Book: It records all cash payments transactions. Posting from Cash Payment Book to Ledger is done on a daily basis and the entries are recorded in the debit side of the Ledger. At the end of a week, the Cash account is credited with the total cash paid.

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## **Goods Journal**

1. Goods Journal is used for recording all transactions related to goods.
2. Types of Goods Journal are:
  - a. Purchases Journal: It records all credit purchases of goods.
  - b. Sales Journal: It records all credit sales of goods.
  - c. Purchases Returns Journal: It records all returns of goods purchased on credit.
  - d. Sales Returns Journal: It records all returns of goods sold on credit.

## **Bills Journal**

1. Bills Journal is used to record all bills of exchange and promissory notes received or issued by the business.
2. Types of Bills Journal are:
  - a. Bills Receivable Journal: It records all bills of exchange and promissory notes received by the business from its debtors.
  - b. Bills Payable Journal: It records all bills of exchange and promissory notes issued by the business in favour of its creditors.

## **Summary**

You have:

1. Explained the importance of subdivision of Journal
2. Named the different types of Journals
3. Recorded Transactions in different Journals

## Unit-II

### Ledger Posting and Trial Balance

#### Objectives

1. Explain the role of Ledger in recording business transactions
2. Understand the meaning and rules of posting
3. Understand the meaning and objective of preparing a Trail Balance
4. Understand how to make posting and preparing a Trial balance
5. Explain the importance of Voucher system

#### Ledger

1. Ledger is a book that contains a set of accounts.
2. It organizes the transactions recorded in Journal under their respective account heads.
3. Two forms of Ledger are:
  - a. Bound Ledger
  - b. Loose Leaf Ledger

#### Posting

1. Posting is the process of transferring the Journal entries to their corresponding accounts in Ledger.
2. During posting, the names of accounts in Journal should match with the names of accounts in Ledger.
3. Posting should be completed before the financial statements are prepared.
4. Active accounts such as Cash Account and Personal Accounts of various parties should be posted on a daily basis.

#### Methods of Posting

Methods of posting are:

- a. Consider a particular side, say debit and make complete posting of all debit entries from journal to Ledger. Then make complete posting of all the credit entries.

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- b. Consider a particular account and post all the debit and credit entries related to that account appearing on a particular page of the Journal. Then consider another account and perform the method repeatedly.
- c. Consider a Journal entry and complete its posting. Then proceed with the next Journal entry.

## Relationship between Journal and Ledger

1. Transactions are first recorded in Journal and then in Ledger.
2. Journal records transactions in chronological order of date, whereas Ledger records transactions in an analytical order.
3. Journal is more reliable than Ledger because the transactions are recorded in Journal, from where the Ledgers are made.

## Rules of Posting

1. Open separate accounts in Ledger for posting transactions related to different accounts in the Journal.
2. For a particular entry in the Journal, the account corresponding to the debit entry should be debited in Ledger under the account that corresponds to the credit entry.
3. For a particular entry in the Journal, the account corresponding to the credit entry should be credited in Ledger under the account that corresponds to the debit entry.
4. Write 'To' before the account that appears on the debit side of a Ledger and 'By' before the account that appears on the credit side of a Ledger.

## Example of Posting

### Trial Balance

1. Trial balance is a statement that consists of all the debit and credit balances of various accounts in Ledger on a particular date.
2. Objective of Preparing Trial Balance
3. Trial Balance is used for checking the arithmetic accuracy of accounting entries.
4. It forms the basis for preparing financial statements such as Trading Account, Profit and Loss Account and Balance Sheet.
5. It presents the entire Ledger in a summarized form.
6. Methods of Preparing Trial Balance
7. Two methods of preparing Trial Balance are:

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- a. Totals method: The totals of debit and credit of the accounts in Ledger are transferred to the debit and credit sides of the Trial Balance.
  - b. Balance method: The debit and credit balances of the accounts in Ledger are transferred to the debit and credit sides of the Trial Balance
8. In both the methods, the total of debit and credit columns in the Trial Balance must be same.

## **Example of Trial Balance**

### **Voucher System**

1. Voucher system is defined as a method for verifying, recording and making payment of all items that require the disbursement of cash.
2. The basic activities involved in Voucher system are:
  - a. Preparing voucher for each item of expenditure
  - b. Making payment after properly verifying an authorized voucher
  - c. Developing an efficient system for determining the amount to be paid at the end of each day
3. Documents used in Voucher system are:
  - a. Vouchers
  - b. Voucher Register
  - c. Unpaid Voucher File
  - d. Cheque Register
  - e. Paid Voucher File
  - f. Vouchers Payable Account

### **Advantages of Voucher System**

1. Safeguards cash disbursements
2. Reduces book-keeping work
3. Records all current liabilities
4. Strengthens the internal check system
5. Provides ways for planning future cash requirements

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## **Limitations of Voucher System**

1. Is unsuitable for small business enterprises
2. Requires proper personnel and finances
3. Fails to provide overall account position of a creditor
4. Is difficult to maintain in case of partial payment returns

## **Summary**

You have:

1. Explained the role of Ledger in recording business transactions
2. Understood the meaning and rules related to posting
3. Understood the meaning and the objective of preparing a Trail Balance
4. Understood how to make posting and preparing a Trial balance
5. Explained the usage of Voucher System



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## Final Accounts

### Objectives

1. Identify the objectives of preparing various final accounts
2. Understand the treatment of different items in the preparation of the final accounts
3. Explain the importance of final accounts
4. Describe the role of worksheet in preparing final accounts

### Objectives of Final Accounts

1. Final accounts refer to the various accounts and statements that provide information related to the progress of the business.
2. These are prepared from the Trial Balance.
3. They provide the following information:
  - a. Profit earned or loss suffered by the business during a particular accounting period
  - b. Financial position of the business

### Accounts and Statements Comprising Final Accounts

1. Final accounts with respect to a particular business are:
  - a. Trading account
  - b. Profit and Loss account
  - c. Balance Sheet
2. Trading account and Profit and Loss account are together known as income statements.
3. Income statements are the final summary of the accounts that affect the profit and loss position of the business.

### Trading Account

1. It shows the overall results of purchasing and selling of goods.
2. It includes all the direct expenses incurred in the business.
3. It provides gross profit earned by the business, if total sales is greater than total purchases.

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4. It provides gross loss suffered by the business, if total sales is less than total purchases.

## Format of Trading Account

### Items on Debit Side of Trading Account

1. Opening stock: It refers to the total cost of goods left unsold at the beginning of the current accounting period.
2. Purchases: It refers to the total cost of goods purchased, both in cash and credit. In case of purchases returns, first net purchases is computed by deducting purchases returns from purchases and the result is then debited to the Trading account.
3. Wages: It refers to the amount paid to the workers for manufacturing, loading and unloading of goods.
4. Customs and import duty: It refers to the amount paid as customs and import duty when the goods are purchased from outside the country.
5. Carriage expenses: It refers to the direct expenses that are incurred while transferring the purchased goods from vendor to the factory. These expenses are also known as freight in, carriage in or cartage.
6. Royalty: It refers to the amount paid to the owner for using his rights.
7. Manufacturing expenses: It refers to the expenses spent on gas, electricity, water and fuel, which are required to run the factory.
8. Packing expenses: It refers to the amount spent in packing the purchased goods to bring them to factory.

### Items on Credit Side of Trading Account

1. Closing stock: It refers to the total cost of the goods that are left unsold at the end of the accounting period.
2. Sales: It refers to the total cost of goods sold, both in cash and credit. In case of sales returns, first the net sales is computed by deducting the sales returns from total sales and the result is then credited to the Trading account.

## Importance of Trading Account

1. It provides information related to gross profit and loss and helps in defining the upper limits for the operating expenses of the business.
2. It helps in the computation of gross profit ratio. A decrease in the gross profit ratio indicates increase in the purchased cost or decrease in the selling price.

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3. It allows the comparison of opening and closing stocks of two accounting periods. This helps in preventing unnecessary investment of funds for the purchase of inventories.

## **Profit and Loss Account**

1. Profit and Loss account shows all incomes and indirect expenses related to business.
2. Indirect expenses include those expenses such as administrative, selling and distribution expenses that are required for the operation of business.
3. Profit and Loss account provides net profit earned or net loss suffered by the business.

## **Format of Profit and Loss Account**

### Items on Debit Side of Profit and Loss Account

1. Gross loss: It is transferred from the Trading account.
2. Salaries: It refers to the amount paid to the employees as their salaries.
3. Interest paid: It refers to the amount paid as interest on loans.
4. Commission paid: It refers to the amount paid as commission to the agents.
5. Trade expenses: It refers to the amount spent on various number of small but important expenses related to business.
6. Printing and stationary: It refers to the amount spent on printing of bills, invoices, registers, files and letter heads.
7. Advertisements: It refers to the amount spent for attracting customers to buy the products.
8. Bad debts: It refers to the amount, which is not paid by the debtors to whom the goods were sold on credit.
9. Discount: It refers to the amount, which is reduced from the list price of goods.

### Items on Credit Side of Profit and Loss Account

1. Gross profit: It is transferred from the Trading account.
2. Interest received: It refers to the amount received as interest on investments.
3. Commission received: It refers to the commission earned by the business for giving business to others.

## **Importance of Profit and Loss Account**

1. It provides information about net profit earned or net loss suffered by the business.

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2. It helps in determining whether the business is being run efficiently or not by comparing the Profit and Loss account of two accounting periods.
3. It helps in taking effective control steps by analyzing the various expenses listed in the Profit and Loss account of the current year with that of the previous years.
4. It allows in the estimation of profits for the coming years by comparing the profits of previous years.

## **Manufacturing Account**

1. It is a special account, which is prepared only when the business is engaged in manufacturing of goods.
2. It provides the cost of goods manufactured during a given accounting period.
3. In case of manufacturer, the manufacturing account should be prepared prior to the preparation of Trading account and Profit and Loss account.

## **Format of Manufacturing Account**

### **Balance Sheet**

1. It is a financial statement that states the financial position of the business.
2. It lists the assets and liabilities of a business on a particular date.
3. The assets and liabilities on a Balance Sheet are listed in either of the following two orders:
  - a. Liquidity order
  - b. Permanency order

### **Format of Balance Sheet**

#### **Items on Balance Sheet**

1. The left side of Balance Sheet represents the liabilities of the business.
2. Liabilities are the claims of the creditors against the assets of a firm.
3. The two categories of liabilities are:
  - a. Current liabilities: The liabilities that are payable within a year.
  - b. Fixed liabilities: The liabilities that are to be paid atleast after a year.
4. The right side of Balance Sheet represents the assets of the business.
5. Assets represent the resources acquired by the business.

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6. The categories of assets are:

- a. Current assets: The assets that can be easily convertible into cash.
- b. Liquid assets: The assets that can be immediately convertible into cash without any loss.
- c. Fixed assets: The assets that are acquired for carrying out the business and are not meant for resale.
- d. Intangible assets: The assets like Goodwill and patents that cannot be seen or touch.
- e. Fictitious assets: The assets that are neither tangible nor possess a property.

## **Adjustment Entries**

1. These are the entries that are made at the end of an accounting period after closing the books of accounts and preparing Trail Balance.
2. Some of the adjustment entries that are required for the preparation of final accounts are:
  - a. Closing stock
  - b. Outstanding expenses
  - c. Outstanding income
  - d. Income received in advance
  - e. Depreciation
  - f. Bad debts
  - g. Interest on capital
  - h. Interest on drawings

## **Summary**

You have:

1. Identified the objectives of preparing various final accounts
2. Understood the treatment of different items in the preparation of the various final accounts
3. Explained the importance of various final accounts
4. Described the role of worksheet in preparing final accounts.