[Academic Script]

Accounting Process

Subject:	Business Economics
Course:	B. A. (Hons.), 1st Semester, Undergraduate
Paper No. & Title:	Paper – 103 Fundamentals of Business And Accounting
Unit No. & Title:	Unit – 2 Fundamentals of Business And Accounting
Lecture No. & Title:	Lecture – 2 Accounting Process

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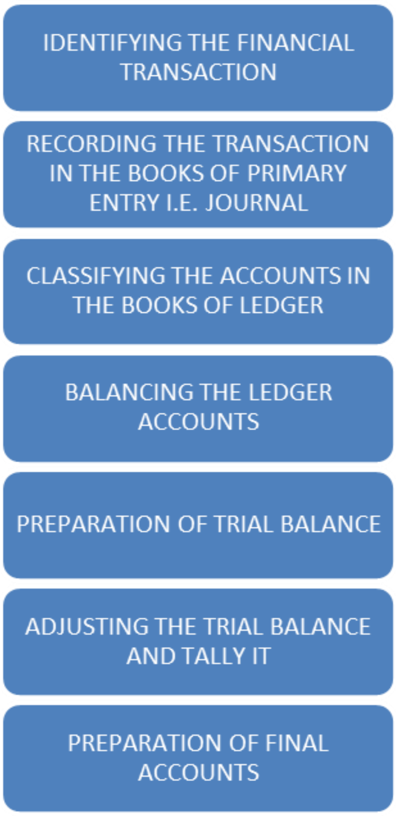
1. Introduction

The accounting process starts with identifying accounting transactions, recording it in journal, classifying in ledgers, making of trial balance, adjusting the trial balance and then preparation of final accounts. These are based on accounting rules.

ACCOUNTING PROCESS



2. TRADITIONAL RULES OF ACCOUNTING

While entering into any recording of a financial transaction rules of accounting are to be applied as:

1. Personal Account

These are the accounts of the persons with whom the organisation deals in various capacities.

For example:

- Capital Account
- Account of the customers,
- Account of suppliers,
- Bank / financial Institutions, etc.

RULE OF DEBIT CREDIT: "Debit the Receiver Credit the giver''

2. Real Account

These are the accounts of assets and liabilities

For example:

- Tangible assets like Land and Building
- Plant and machinery
- Vehicles
- Furniture fixtures and fittings
- Cash on hand
- Stock on hand
- Intangible assets like goodwill, patent, trademark, copy right

RULE OF DEBIT AND CREDIT: "Debit what comes in Credit what goes out"

3. Nominal Account

These are the accounts of incomes and expenses.

For example:

- Salary Account
- Commission Account
- Printing and Stationery Account
- Insurance Account
- Telephone Expenses Account
- Interest Paid and Interest Received Account
- Commission Paid and Received Account etc.

RULES OF DEBIT AND CREDIT: ''Debit all expenses and losses Credit all incomes and gains.''

Now let us understand modern rules of accounting

3. MODERN RULES OF ACCOUNTING

SrNo.	Types of Account	Account to be Debited	Account to be Credited
1.	Assets account	Increase	Decrease
2.	Liabilities account	Decrease	Increase
3.	Capital account	Decrease	Increase
4.	Revenue account	Decrease	Increase
5.	Expenditure account	Increase	Decrease
6.	Withdrawal account	Increase	Decrease

Do you have any idea about main books of accounts required to be maintained by all business entities?

The basic book of account is Journal

A journal is called a book of prime entry (a book of original entry) as all the business transactions are entered first in this book. The word 'journal means daily record. The transactions are entered in this book as and when they occur. In this book both the aspects i.e. the receiving aspect and the giving aspect of the transaction, are recorded. The process of recording a transaction in the journal is called 'journalizing'. The entries made in the journal are called 'journal entries'.

Steps in Journalizing

It is a process of recording the business transaction in the journal that referred to as the Book of original entry or Book of prime entry. The various transactions are entered in the journal in the order in which they happen as to date.

1. Take up a transaction one by one. Read and analyse the transaction carefully from the business entity point of view, and identify the accounts that are affected by the transaction.
2. Identify the account affected into the three categories classified into personal, real and nominal account.
3. Each class has its rule of debit and credit, now apply the relevant rules and decide which account is to be debited and which account is to be credited.

Let us understand the process of journalizing with the help of an example

Sr. No	Transactions	Accounts involved	Type of Account	Rules of Debit-Credit	Journal Entry
1	Commenced business with capital of Rs. 50,000	Cash Capital	Real (Asset) Personal (Liability)	Cash increases - Debit Capital increases - Credit	Cash A/c. Dr. 50,000 To Capital A/c. 50,000
2	Purchased goods in cash worth Rs. 2000	Purchase Cash	Real (Asset) Real (Asset)	Stock increases- Debit Cash decreases- Credit	PurchaseA/c.Dr 2000 To Cash A/c. 2000
3	Purchased goods of Rs. 5000 from Rishi	Purchase Rishi	Real (Asset) Personal (Liability)	Stock increases- Debit Liability increases- Credit	PurchaseA/c.Dr 5000 To Rishi's A/c. 5000
4	Sold goods of Rs.15,000 for cash	Cash Sales	Real (Asset) Real (Asset)	Cash increases – Debit Stock decreases – Credit	Cash A/c. Dr. 15,000 To Sales A/c. 15,000
5	Solds goods to Viru for	Viru	Personal (Asset)	Asset increases –	Viru's A/c Dr. 7000

	7,000	Sales	Real (Asset)	Debit Stock decreases – Credit	To Sales A/c. 7000
6	Purchased Machine of Rs. 5,000 from L&T.	Machine L&T	Real (Asset) Personal (Liability)	Asset increases- Debit Liability increases - Credit	Machine A/c.Dr 5,000 To L&T A/c. 5,000
7	Paid Salary Rs. 9000	Salary Cash	Nominal (Expense) Real (Asset)	Expense increases – Debit Cash decreases – Credit	Salary A/c. Dr. 9000 To Cash A/c. 9000
8	Commission Received 2500	Cash Commission	Real (Asset) Nominal (Income)	Cash increases – Debit Income increases - Credit	Cash A/c. Dr. 2500 To Commission A/c. 2500
9	Borrowed Rs. 50,000 from Kalpesh	Cash Kalpesh's Loan	Real (Asset) Personal (Liability)	Cash increases – Debit Liability increases – Credit	Cash A/c. Dr. 50,000 To Kalpesh's Loan A/c. 50,000

All business transactions are recorded in the books of account in two stages:

[1] Journalizing and

[2] Posting into ledger.

We have discussed what is journalizing now let us see

What is ledger?

Ledger is the book which contains all accounts affected by various transactions in a business. All the accounts are classified and summarized in a ledger whether they are personal, real or nominal accounts. It is permanent, ultimate and up-to-date record of all transactions which are easy to refer. It has two sides Debit and Credit side also known as 'T' form of account

Format of ledger account

An account is summarized record of all transactions relating to a particular person or an item. The format of ledger account:

Name of the account

Dr. **Cr.**

Date	Particulars	Ledger Folio	Amount	Date	Particulars	Ledger Folio	Amount
	To				By		

The left hand side indicated as "Dr." is debit side of the account and right hand side indicated as "Cr" is the credit side of the account.

Steps involved in ledger posting

1. The accounting entries are recorded in a journal, they form the basis for recording in the ledger account, and the process of entering the transaction in the ledger is called posting.

2. Each journal entry has minimum two accounts; therefore those two accounts are to be prepared in a ledger account with Dr. and Cr. Side. For e.g. for cash purchases, entry will be purchase account debited and cash account credited.

3. Posting of this is to be done in both accounts, in purchase account debit side write To Cash account and in Cash account Credit side By Purchase account.

4. While posting the account the same date will appear as it appears in the journal.

5. There is no narration recorded in the ledger Accounts.

6. The folio column will contain the page number of the journal where that particular entry is recorded, so that it can be crossed checked. In journal we write L.F. i.e. ledger Folio and in Ledger we write J.F. i.e. Journal Folio.

7. The amount will remain the same for the respective account as it appears in the journal entry.

Let us see how the ledger accounts can be prepared from the transactions explained for journalizing

Cash A/c

Date	Particulars	L.F	Amount Rs.	Date	Particulars	L.F.	Amount Rs.
	To Capital A/c.		50,000		By Purchase A/c.		2000
	To Sales A/c		15,000		By Salary A/c.		9000
	To CommissionA/c		2500				
	To Kalpesh's Loan A/c.		50,000		By Balance c/f		1,06,500
			1,17,500				1,17,500
	To Balan. b/f		1,06,500				

Capital A/c

Date	Particulars	L.F.	Amount Rs.	Date	Particulars	L.F.	Date

	To Balance c/f.		50,000		By Cash A/c		50,000
			50,000				50,000
					By Balance b/f		50,000

Purchase A/c

Date	Particulars	L.F.	Amount Rs.	Date	Particulars	L.F.	Date
	To Cash A/c.		2000		By Balance c/f		9000
	To Rishi A/c.		7000				
			9000				9000
	To Balanceb/f		9000				

Sales A/c

Date	Particulars	L.F.	Amount Rs.	Date	Particulars	L.F.	Date
	To Balance c/f		22,000		By Cash A/c		15,000
					By Virendra A/c		7,000
			22,000				22,000
					By Balance c/f.		22,000

Rishi's A/c

Date	Particulars	L.F.	Amount Rs.	Date	Particulars	L.F.	Date
	To Balance c/f		5,000		By Purchase A/c		5,000
			5,000				5,000
					ByBala. b/f		5,000

Viru's A/c

Date	Particulars	L.F.	Amount Rs.	Date	Particulars	L.F.	Date
	To Sales A/c		7,000		By Balance c/f		7,000
			7,000				7,000
	To Bala. b/f		7,000				

Machine A/c

Date	Particulars	L.F.	Amount Rs.	Date	Particulars	L.F.	Date

	To L & T A/c		5,000		By Balance c/f.		5,000
			5,000				5,000
	To Balance b/f		5,000				

L & T A/c

Date	Particulars	L.F.	Amount Rs.	Date	Particulars	L.F.	Date
	To balance c/f		5,000		By Machine A/c		5,000
			5,000				5,000
					By Balance c/f		5,000

Salary A/c

Date	Particulars	L.F.	Amount Rs.	Date	Particulars	L.F.	Date
	To Cash A/c.		9,000		By balance c/f		9,000
			9,000				9,000
	To Bala. c/f		9,000				

Commission A/c

Date	Particulars	L.F.	Amount Rs.	Date	Particulars	L.F.	Date
	To balance c/f		2,500		By Cash A/c		2,500
			2,500				2,500
					By balanceb/f		2,500

Kalpesh' Loan A/c

Date	Particulars	L.F.	Amount Rs.	Date	Particulars	L.F.	Date
	To balance c/f		50,000		By Cash A/c.		50000
			50,000				50000
					By balance b/f		50000

5. TRIAL BALANCE

Trial balance is the summary of all the accounts which are carried forward to the next period.

Every debit has an equal credit this is the principle of Double entry system. In journal we have debited and credited an equal amount therefore the total in the journal book is the same on both the sides. In ledger the debit and credit get scattered into different accounts and hence we get a balance in a particular account. Those balances are to be listed in a particular manner and that list of accounts is prepared in a trial balance.

Steps in preparing trial balance

1. Each ledge account is to be closed and the balance is to be found out.
2. Excess of debit side over credit side is a debit balance represented by "By balance c/f".
3. Excess of credit side over debit side is a credit balance represented by "To balance c/f".
4. If debit side is equal to credit side there is no balance remaining and the account is closed.
5. The trial balance will contain the account and its balance.
6. Trail balance must tally as we have given equal debit credit effect.
7. If suppose the total does not tally, it means that there is a recording error in posting the entries in ledger accounts.
8. Trial balance is a pre-requisite for final accounts.

Let us see the format of Trial Balance

Name of the Account	L. F.	Debit	Credit

		Rs.	Rs.

Let us see how the trial can be prepared from the ledger accounts prepared in the earlier section

Trial Balance

Name of the Account	L. F.	Debit Rs.	Credit Rs.
Capital			50,000
Cash		1,06,500	
Purchase		7,000	
Sales			22,000
Rishi's A/c			5,000
Virendra's A/c		7,000	
Machine A/c		5,000	
L & T A/c			5,000
Salary A/c		9,000	
Commission A/c			2,500
Kalpesh's Loan A/c			50,000
Total Rs.		1,34,500	1,34,500

6. Summary

Let us end the discussion with remark that we discussed in this session how to record business transactions in journal, how the ledger accounts are prepared and trial balance is extracted from the balances of ledger accounts.