Written as per the revised syllabus prescribed by the Maharashtra State Board of Secondary and Higher Secondary Education, Pune.

STD. XI Commerce
Book-Keeping & Accountancy

Salient Features

- Precise Theory for every topic including Specimen Journal Entries and Formats for Ledger Accounts.
- Comprehensive Illustrations to cover the different types of problems.
- Practice Problems important from examination point of view.
- Answers and Working Notes to simplify the Textual Problems.
- Simple and Lucid language.
- Self evaluative in nature.

Printed at: **Repro Knowledgecast Ltd.,** Mumbai

© *Target Publications Pvt. Ltd.*
No part of this book may be reproduced or transmitted in any form or by any means, C.D. ROM/Audio Video Cassettes or electronic, mechanical including photocopying; recording or by any information storage and retrieval system without permission in writing from the Publisher.

P.O. No. 106231

12493_JUP

Preface

"**Std. XI Commerce: Book-Keeping and Accountancy**" has been designed with a revolutionary fresh approach towards content, to facilitate thorough preparation of the subject for the student.

This book has been written according to the revised syllabus and guidelines prescribed by the State Board.

The book includes Precise Theory with Specimen Journal Entries and Formats for Ledger Accounts. The comprehensive illustrations included in this book cover different types of problems. A separate section of Practice Problems has also been provided which includes a variety of problems, important from examination point of view. Additionally, we have provided answers along with working notes to simplify the Textual Problems.

We are sure, this study material will turn out to be a powerful resource for the students and facilitate them in understanding the concepts of this subject in the most lucid way.

The journey to create a complete book is strewn with triumphs, failures and near misses. If you think we've nearly missed something or want to applaud us for our triumphs, we'd love to hear from you.

Please write to us at: *mail@targetpublications.org*

Best of luck to all the aspirants!

Yours faithfully,

Publisher

Edition: Second

Disclaimer

This book is intended to be a study material expressing views and elaborating concepts for ease of understanding for students and purely for their benefits. We make no representations as to accuracy, completeness, correctness, suitability, or validity of any information through this study material. And, shall not be held liable or responsible for any errors, omissions, or differences in this information or any losses, injuries or damages arising from its use. All information is provided on an as it is basis depending upon the understanding of the author and his/her elaboration of such concepts along with adoption and inspiration from various other texts in relation to the topics as mentioned in this study material. It is the reader's responsibility to verify their own facts. Through this study material we are only explaining and elaborating various concepts as may be necessary for the students in the present framework and context.

The views and opinions expressed in this study material are purely as per the understanding of the authors and do not necessarily reflect the official policy or position of any other agency, organization, employer or company. Assumptions made in this analysis are not reflective of the position of any other than the authors - and since we are critically thinking human beings with personified opinions, these views are always subject to change, revision and rethinking at any time. Please do not hold us to them in perpetuity.

Readers shall not misconceive this work with any other work. This work is purely inspired upon the course work as suggested and prescribed by the Maharashtra State Board of Secondary and Higher Secondary Education, Pune.

All the facts and figures so stated have been purely adopted from various research points purely for the purpose of representation and explaining the students and readers at large as a part of fair dealing. By producing anything and everything in this book the author does not intend to claim copyrights on any such material but has been purely adopted and used for the purpose of representation and for better understanding of the students with a pure intention to educate the public at large for a better India.

Contents

Sr. No.	Chapter	Page No.
1	Introduction of Book-Keeping and Accountancy	1
2	Meaning and Fundamentals of Double Entry Book-Keeping	16
3	Source Documents Required for Accounting	35
4	Journal	57
5	Subsidiary Books	86
6	Ledger	135
7	Bank Reconciliation Statement	166
8	Trial Balance	197
9	Errors and their Rectification	217
10	Depreciation, Provisions & Reserves	245
11	Financial Statements of Proprietary Concern	273
12	Computer in Accounting	333

Note: All the Textual questions are represented by * mark.

01 Introduction of Book-Keeping and Accountancy

Introduction

Human wants were limited in the past. Over a period of time, human wants started increasing and the resources available were utilised for satisfying human wants. In earlier times, Barter system was followed. Goods were exchanged for goods. Gradually, the need was felt to have a common medium of exchange for goods and services and thus, the evolution of money took place.

All the activities performed involved money. Business activities came into existence. It was very difficult for businessmen to remember each and every transaction of the business and therefore, recording all the transactions became necessary. This process of recording all the transactions in a systematic manner is known as Book-Keeping.

Meaning of Book-Keeping

Book-Keeping is a systematic manner of recording transactions related to business in the books of accounts. In Book-Keeping, transactions are recorded in the order of the dates. An Accountant is a person who records the transactions in the books of the business and is expected to show the financial results of a business for every financial year. A financial year in India is followed from 1st April to 31st March.

Book-Keeping is an art as well as a science. It is the art of recording day to day business transactions in the books of accounts in a scientific and systematic manner.

Definitions:

J. R. Batliboi: Book-Keeping is an art of recording business dealings in a set of books.

R.N Carter: Book-Keeping is an art of recording in the books of accounts, all those business transactions that result in transfer of money's worth

Spicer and Pegler: Book-Keeping is a systematic recording of all the transactions in a manner enabling the relationship of business with other persons to be clearly disclosed and the cumulative effect of transactions on the financial position of the business itself can be correctly ascertained.

Features of Book-Keeping

i. To record business transactions.
ii. Records only monetary transactions.
iii. Transactions are recorded in a given set of Books of Accounts.
iv. Transactions recorded for a specific period are presented for future reference.
v. Records business transactions in a scientific manner.

Objectives of Book-Keeping

i. Permanent, Datewise and Account wise record of all the business transactions.
ii. To ascertain the Profit / Loss of the business during a specific period.
iii. Keep a record of the Capital Investment in the business.
iv. Business keeps a record of Total Assets and Liabilities.
v. It keeps a record of the amount a business owes to others and the amount receivable by the business from others.
vi. It facilitates the comparison of the financial performance of a business with previous year's performance or with the performance of other businesses in the same line of business.
vii. It is useful to ascertain the Tax liabilities and meet the Legal Requirements of a business.

Importance of Book-Keeping

i. **Record:** Book-Keeping is recording transactions in a systematic manner. It may not be realistic for a businessman to remember all the transactions over a period of time. Thus Book-Keeping ensures that the record of all the transactions is kept on a permanent basis.

ii. **Financial Information:** Book-Keeping records the financial activities of a business. This financial record helps in generating financial information of the business regarding the Assets, Liabilities, Profit, Loss, Stock Investment etc.

iii. **Decision Making:** All the information provided by Book-Keeping helps the company, business or businessman to make decisions for successful business operations.

iv. **Controlling:** Management uses the financial records of business to manage and control the business operations in a smooth manner. Such financial records are available from Book-Keeping.

v. **Evidence:** Book-Keeping records can be used as legal evidence in Courts as all the recorded transactions of a business are recorded from source documents which act as evidence in case of any disputes.

vi. **Comparison:** Record of transactions in the books of accounts helps businesses to compare their financial positions year after year and with other business units.

vii. **Tax Liability:** Book-Keeping helps the businessman in ascertaining the amount payable for Sales Tax, Property Tax, Income Tax etc.

Utility of Book-Keeping

Book-Keeping is vital for the below parties:

i. **Owner:** Book-Keeping helps to ascertain the financial information and position of the business at any time. Financial information includes Profits, Losses, Assets, Liabilities etc.

ii. **Management:** The various Management functions such as Planning, Organising, Directing and Controlling can be performed effectively and efficiently by the management based on the records and reports available through Book-Keeping.

iii. **Government:** The various sources of information available through Book-Keeping facilitate the Government and the Tax Authorities to ascertain the tax liabilities of the business.

iv. **Investors:** Investors are interested in the financial statements of a business before investments are made. It provides them with assurance about the safety of their investments.

v. **Customers:** Customers are assured about the financial capacity of the business as well as the quality and quantity of goods supplied by the business, based on the information available through Book-Keeping.

vi. **Lenders:** Book-Keeping provides financial information to the lenders enabling them to judge the credit worthiness of the business thus, ensuring uninterrupted supply of funds.

Accountancy

Meaning:

Accountancy is a broad concept and Book-Keeping is the recording branch of Accounting. Accounting includes recording of transactions, classifying them in different books of accounts, summarising the transactions in the form of reports and interpreting them in financial statements. Accountancy helps management in decision making. Accountancy starts when Book-Keeping ends.

Definitions:

An act of recording, classifying and summarising the business transactions, balancing of accounts, drawing conclusions and interpreting the results thereof.

Kohler: Accountancy refers to the entire body of the theory and process of accounting.

Prof. Robert N. Anthony: Nearly every business entrerprise has an accounting system. It is a means of collecting, summarising, analysing and reporting in monetary terms information about the business transactions.

Objectives of Accountancy:

The objectives of accountancy are as follows:

i. Ascertain the Profit or Loss of a business for a particular accounting period.
ii. To establish the financial position of a business during a given accounting period
iii. Arrive at the Total Capital on any given date.
iv. Determine the positions of Assets and Liabilities on any given date.
v. Identify and keep a check on any frauds and misappropriations of money.
vi. Spot the various errors and rectify them by passing the necessary entries.
vii. Verify the arithmetic accuracy of the books of accounts.
viii. Compute the cost of production.
ix. Facilitate the management in decision making by providing accounting ratios, reports and relevant data.
x. Facilitate the management in preparing, analysing and controlling the cash flows of the business.
xi. Help the management form policies for controlling cost, preparation of quotation for competitive supply etc.

Basis of Accounting

There are two basic methods for accounting as stated below:

i. Cash Basis: All the transactions of business which take place in cash are called Cash transactions. In Cash basis of accounting, only cash transactions are recorded. This is a very popular form of Accounting. In this method, an expense is recorded only when it is actually paid in cash. Similarly, an income is booked only when it is actually received in cash. The specific reason of the cash inflow or cash outflow is recorded with every transaction.

ii. Accural Basis: Both Cash and Credit transactions are recorded in this system of accounting. In the Accrual basis of accounting, transactions are recorded as and when they occur. Incomes are recorded when they are earned, irrespective of whether the cash has been received or not and Expenses are recorded when they become payable, irrespective of whether they have been actually paid in cash or not. Accrual Basis of Accounting is also known as 'Mercantile Basis of Accounting'

Qualitative Characteristics of Accounting Information

Accounting information recorded in books of accounts must possess the below mentioned qualitative characteristics:

i. Reliability: This is a very important characteristic of Accounting information. Accounting infomration should be recorded on the basis of documentary evidence which is verifiable and reliable. The accounting facts should be presented in an unbiased (impartial) manner. As per this characteristic, accounting information should be verifiable, nuetral and faithful.

ii. Relevance: All the accounting information which is useful and relevant should be included in the books of accounts. Relevant information is any information which may change the results of the business if disclosed. Every such information should be included in the books of accounts. At the same time, any irrelevant or unncessary information should be ignored. Accounting information should have timelessness and feedback value and it should be dedicative.

iii. Understandability: Accounting information is utilised by various parties such as Customers, Investors, Government, Workers, Employees, Analysts, Economists, Researchers etc. Accounting information should therefore, be recorded, presented and interpreted in a manner that can be understood easily by all its users. It should be brief, clear, concise, exact and suitable to all its users.

iv. Comparability: It is essential to have accuracy in the comparison methods and the practice of recording and presenting accounting information every year. Accounting information should be recorded and presented in a consistent manner so that it can be easily compared year after year. Comparability is an important characteristic of accounting information as it helps in effective decision making.

Branches of Accounting

There are different types of people / organizations interested in the accounting information of various business organizations. Considering, the different requirements of different people and organizations, three Branches of Accounting have been developed:

i. **Financial Accounting:** Financial Accounting is the process of identifying, recording, measuring, classifying, summarising, interpreting, analysing and communicating the accounting transactions of business organizations. It is the original form of accounting. The main objective of Financial Accounting is to make the financial information of the business available to outsiders like Crediters, Customers, Banks, Financial Institutions, Investors etc.

The purpose of Financial Accounting is to maintain systematic records for the ascertainment of the financial performance and the financial position of a business and communicate the same to the various interested parties. This information is presented in the form of Profit and Loss Account and Balance sheet which show the performance of the business during the specified period.

ii. **Cost Accounting:** Cost Accounting is a process to control the cost of product. The purpose of this branch of accounting is to determine the cost, control the cost and to communicate the cost related information to the various departments in order to make decisions and take corrective actions.

iii. **Management Accounting:** Management Accounting is used by top management to make business decisions. It is essential for the top management to perform the various management functions. It covers various areas like Cost Accounting, Budgetory Control, Inventory Control, Statistical Methods, Internal Auditing etc. Management Accounting also facilitates the management in assessing the impact of the business decisions made and actions taken by them in the past.

Accounting Terminologies

i. **Business Transations:** Every transaction of a business, which deals in buying and selling of goods in exchange of money is called a Business Transaction. Every transaction should have a financial impact and it should be measurable in terms of money.

There are two main types of Transactions:

a. **Monetary Transactions:** The transactions which involve an exchange of money or money's worth, directly or indirectly, are called as Monetary Transactions. Only Monetary transactions are recorded in books of accounts. These can be further classified into two types :

1. **Cash Transactions:** Cash transactions are those transactions where the payment / receipt of cash occurs at the time of transaction only.
2. **Credit Transactions:** Credit Transactions are those transactions where the payment or receipt of cash takes place after a specified period of time.

b. **Non-Monetary Transactions:** The transactions carried out without the involement of money or money's worth, directly or indirectly, are called Non Monetary transactions. These transactions are not recorded in the books of accounts.

c. **Barter System:** Barter System is when goods and services are exchanged against other goods and services.

d. **Entry:** Entry is a first record of a business transaction in the books of accounts. To pass an entry means to record a transaction in a proper form by using the correct technique in the books of accounts.

e. **Narration:** Narration is a short explanation of the business transaction for an entry . It starts with the word 'Being' and is written in brackets below the entry.

ii. **Goods:** Goods are commodities or articles bought or sold by a businessman with the motive to earn profit. The businessman may manufacture the goods himself or he may purchase them for the purpose of sale.

iii. **Profit / Loss:**

a. **Profit:** The excess of Income over Expenses during an accounting year is known as 'Profit'.

b. **Loss:** The excess of Expenses over Income during an accounting year is known as 'Loss'.

c. **Gross Profit:** Gross profit is the excess of the Net Sales over the Cost of Goods Sold.