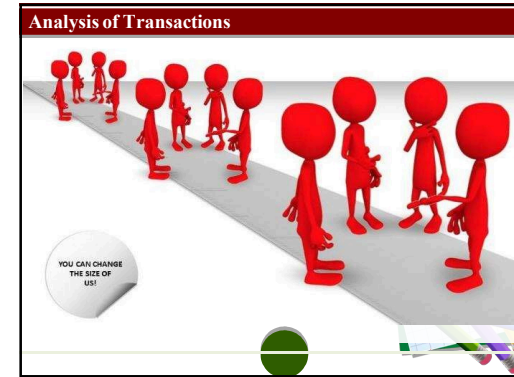


ASSETS		LIABILITIES		EQUITIES	
Debit for	Credit for	Debit for	Credit for	Debit for	Credit for
Increase	Decrease	Decrease	Increase	Decrease	Increase

ASSETS		LIABILITIES		EQUITIES	
↑	↓	↓	↑	↓	↑
Debit	Credit	Debit	Credit	Debit	Credit
+	-	-	+	-	+



- ### Accounting concepts
- 1) Business entity
  - 2) Money measurement
  - 3) Cost concept
  - 4) Consistency concept
  - 5) Conservatism
  - 6) Going concern
  - 7) Realization
  - 8) Accrual
  - 9) Dual aspect
  - 10) Disclosure
  - 11) Materiality
  - 12) Revenue recognition principle
  - 13) Matching principle
  - 14) Accounting standards
- 

### Business entity concept

- This concept assumes that, for accounting purposes, the business enterprise and its owners are two separate independent entities. Thus, the business and personal transactions of its owner are separate.
- For example, when the owner invests money in the business, it is recorded as liability of the business to the owner. Similarly, when the owner takes away from the business cash/goods for his/her personal use, it is not treated as business expense.

### Money Measurement concept

- This concept assumes that all business transactions must be in terms of money.
- In our country such transactions are in terms of rupees. Thus, as per the money measurement concept, transactions which can be expressed in terms of money are recorded in the books of accounts.

**Going concern concept**

- This concept states that a business firm will continue to carry on its activities for an future period of time.
- Simply stated, it means that every business entity has continuity of life. Thus, it will not be dissolved in the near future. This is an important assumption of accounting, as it provides a basis for showing the value of assets in the balance sheet.

**Accounting period concept**

The life of an entity is divided into short economic time periods on which reporting statements are fashioned. All the transactions are recorded in the books of accounts on the assumption that profits on these transactions are to be ascertained for a specified period. This is known as accounting period concept.

- Thus, this concept requires that a balance sheet and profit and loss account should be prepared at regular intervals for different purposes like, calculation of profit, ascertaining financial position etc.

**Accounting cost concept**

Accounting cost concept states that all assets are recorded in the books of accounts at their purchase price, which includes cost of acquisition, transportation and installation and not at its market price. It means that fixed assets like building, plant and machinery, furniture, etc are recorded in the books of accounts at a price paid for them.

For example, a machine was purchased by XYZ Limited for Rs.500000, for manufacturing shoes. An amount of Rs.1,000 were spent on transporting the machine to the factory site. In addition, Rs.2000 were spent on its installation. The total amount at which the machine will be recorded in the books of accounts would be the sum of all these items i.e. Rs.503000. This cost is also known as historical cost.

**Matching Concept**

- The matching concept states that the revenue and the expenses incurred to earn the revenues must belong to the same accounting period. So once the revenue is realised, the next step is to allocate it to the relevant accounting period.
- The matching concept implies that all revenues earned during an accounting year, whether received/not received during that year and all cost incurred, whether paid/not paid during the year should be taken into account while ascertaining profit or loss for that year.

**Dual aspect concept**

Dual aspect is the foundation or basic principle of accounting. It provides the very basis of recording business transactions in the books of accounts. This concept assumes that every transaction has a dual effect, i.e. it affects two accounts in their respective opposite sides. Therefore, the transaction should be recorded at two places. It means, both the aspects of the transaction must be recorded in the books of accounts. For example, goods purchased for cash has two aspects which are (i) Giving of cash (ii) Receiving of goods.

These two aspects are to be recorded. Thus, the duality concept is commonly expressed in terms of fundamental accounting equation

$$\text{Assets} = \text{Liabilities} + \text{Capital}$$

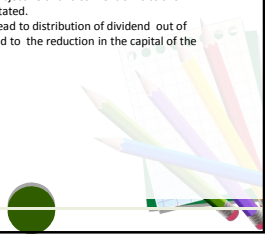
**Realisation concept**

This concept holds to the view that profit can only be taken into account when realization has occurred. According to this concept revenue is recognized when a sale is made. Sale is considered to be made at the point when the property in goods passes to the buyer and he becomes legally liable to pay.

Revenue is said to have been realized when cash has been received or right to receive cash on the sale of goods or services or both has been created

### Conservatism

The convention is based on principle that, **"Anticipate no profit, but provide for all possible losses"**. It provides guidance for recording transactions in the books of accounts. It is based on the policy of playing safe in regard to showing profit. The main objective of this convention is to show minimum profit. Profit should not be overstated. If profit shows more than actual, it may lead to distribution of dividend out of capital. This is not a fair policy and it will lead to the reduction in the capital of the enterprise



### Consistency

The convention of consistency means that same accounting principles should be used for preparing financial statements year after year. For example: if a stock is valued at "cost or market price whichever is less", this principle should be followed year after year.

Example : under deprecation used fixed installment method.



## CONSIGNMENT ACCOUNTING

### Meaning of consignment

Consignment means the transaction of sending goods by one person to another, who is to sell goods on behalf of the first person. The person who sends the goods is known as consignor and the person whom the goods are sent is known as consignee. The legal relationship between these two persons is that of principal and agent.

A shipment of goods by a manufacturer or wholesale dealer to an agent to be sold by him on commission basis, on the risk and account of the former, is known as **consignment**. The person who sends the goods to the agent to be sold by him on commission basis is called **consignor**. The person to whom the goods are sent for sale on commission basis is called the **consignee**.

### Consignor

The owner of the goods who sends the goods to an agent for sale.

### Consignee

Who sells the goods for the consignor.

Sells the goods and collects the money from the customers. Will pay the consignor the net proceeds (Proceeds - Expenses - Commission) and provide the consignor an account sales showing all the proceeds and expenses.

### Consignment

Consignor (Owner of the goods) • Consignment account • Consignee account  
• Goods sent on Consignment account • Consignee account • Profit/Loss account  
Goods Net proceeds Consignee (Agent) • Consignor account  
• Commission Receive account

### Characteristics:-

1. The relationship is that of Principal & Agent.
2. The consignee sells the goods for the commission.
3. The actual ownership of goods remain with the consignor.
4. Goods sent on consignment are the property of the consignor until the goods are sold.
5. The consignor should include all the unsold goods on consignment in his closing stock.

### Objectives:-

1. To increase the sales by creating a new market for a product.
2. To get the advantage of the skill of an agent relating to a particular place.
3. To get the advantage of price differentiation of goods prevailing at different places.

### some important terms:

**Performa invoice:-** consist of information relating to the nature, price, quantity, weight, minimum sale price etc. of the goods sent by the consignor.

**Expenses on consignment:-** a) non-recurring: incurred to bring goods to the godown or place of agent e.g. freight, custom duty, insurance in transit, unloading charges. b) Recurring: incurred after the goods reached the place of consignee e.g. godown expenses, selling expenses, repair expenses, etc.

**Commission:-** given on amount of sales.

- a) Del-credere: given on total sales to make the consignee bear the loss on account of bad debts.
- b) Overriding commission: Given to make the consignee sell the goods at higher prices. It is paid as per the agreement and on the excess price.

**Advance amount by consignee:-** may be in the form of cash, bank draft is given by consignee as security for the goods sent on consignment.

**Bad debts of Consignments:** A consignee(agent) sells goods and collects money on behalf of the consignor. If he can't collect the debts, these debts should be treated as the bad debts of the consignor.

Accounting entries in the books of the consignor:  
Dr Consignment  
Cr Consignee

**Del Credere:** If a consignee receives an additional commission (del credere commission), he must bear all the losses from the bad debts. In case of a bad debts arising from sales of goods on consignment, no entry is required in the books of the consignor.

Accounting entries in the books of the consignee Dr Bad debts Cr Debtors (with the bad debts borne by the consignee personally)

Valuation of stock If there are unsold goods on consignment at the end of the accounting period, the value of the unsold stock will be carried down to the following period.

Valuation of closing stock Cost of goods unsold = xxx Add consignee expense expense/total Q\*Q of unsold goods = xxx Add consignor expense expense/total Q\*Q of unsold goods =xxx Total closing stock =xxx

**Normal loss:** Normal losses are avoidable. They may rise due to natural causes like breaking in bulk, evaporation, leakage, drying etc. **Abnormal loss:** Abnormal losses in consignment may arise owing to reasons such as, theft, fire etc.

**Illustration**

1) Shri Sundaram sells 700 cases at Rs. 140 per case and incurs the following expenses: Clearing charges 850 Warehousing and storage 1,700 Packing and selling expenses 600 It is found that 50 cases have been lost in transit and 100 cases are still in transit. Shri Sundaram is entitled to a commission of 10% on gross sales. Draw up the Consignment Account and Sundaram's Account in the books of Shri Mehta.

2) Riaz Sugar Factory of Multan, consigned to Mr. Shahid of Lahore 400 bags of sugar at 25 per bag. They also paid cartage, freight, etc. 250. The consignor drew on consignee as an advance against the consignment at 3 months for 6,000 which they discounted at their bank at 5 percent. The consignee sold off the goods and rendered an account sales showing that the goods realized 12,000, out of which he deducted his charges amounting to 80 and his commission at 5 percent.

Required: Make journal entries in respect of the above transactions in the books of consignor as well as the consignee

# FINAL ACCOUNTS

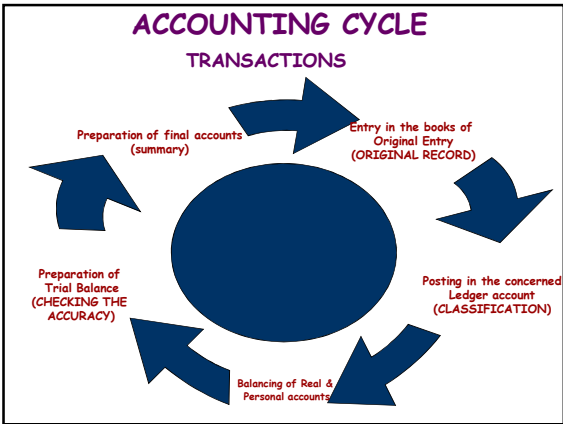
## FINAL ACCOUNTS

- Final Accounts is the last step in the accounting process. Trial Balance is prepared at the end of all the accounting year to know the balances of all the accounts & to test the arithmetic accuracy of accounts. But the basic objective of accounting is to know about the profit or loss during the previous year & present financial position. This can be known only if Trading account and Profit & Loss account and Balance Sheet are prepared at the end pf year. These are also known as FINANCIAL STSTEMENTS which are prepared

From Trial Balance. Final Accounts include the preparation of :

- 1) Trading and Profit & Loss account and
- 2) Balance Sheet

as these two statements are prepared to give the final results of the business, both of these are collectively called as final accounts. Accounting cycle finally ends with these statements as shown in next slide:



## Types of Financial Statement

Final accounts or financial statements can be divided in two parts:-

- 1) Trading and Profit & Loss Account
- 2) Balance Sheet

## Trading Account

- Trading account is prepared by trading concerns i.e., concerns which purchase and sell finished goods, to know the gross profit or gross loss incurred by them from buying and selling of goods during a particular period of time. Gross profit or gross loss is the difference between the cost of goods sold and the proceeds of their sale. If the sale proceeds exceed the cost of goods sold , gross profit is made. Otherwise,gross loss is made.

### Specimen Proforma of Trading Account

Particulars	Amt.	Particulars	Amt.
To Opening Stock		By Sales	
To Purchases		Less: Returns	
Less: Returns		By Closing Stock	
To Direct Expenses:		By Gross Loss c/d*	
Carriage Inward			
Wages			
Wages & salaries			
Fuel & power			
Coal, water & gas			
Octroi			

### Profit & Loss Account

- For non-corporate business organisation Profit & Loss account is second part of income statement. It is prepared to know the net loss of business during a particular period. Every businessman has to spend on expenses other than on manufacture or purchase of goods which are called indirect expenses. There can be other incomes except sales. So gross profit or loss is adjusted keeping in view these indirect expenses and other incomes to find out net profit or net loss.

### Proforma of Profit & Loss Account

Particulars	Particulars
To Gross Loss b/d	By Gross Profit b/d
To Establishment Charges	By other expenses
To Administrative Charges	By Net Loss
To Selling & Distribution expenses	(transferred to capital account)
To Financial Charges	

### Balance Sheet

Balance Sheet is a component of financial statements which shows balances of capital, liabilities & assets. All nominal accounts are closed by transferring these to Trading & Profit & Loss Account. Only personal & real accounts are left.

Balance Sheet is the final phase in accounting cycle. It is a 'mirror' which reflects the true position of the assets & liabilities of the business on a particular date.

"A statement of financial position of economic unit disclosing as at a given moment of time its assets, liabilities & ownership equities. Eric L.kohler

### Balance Sheet as on

.....	
Liabilities	Assets
Capital	Fixed Assets:
Add: Net Profit	Goodwill
Less: Drawings	Land and Buildings
Fixed Liabilities:	Plant & Machinery
Long term loan	Motor Vehicles
Public deposits	Furniture
Current Liabilities:	Patents & Trade Marks
Unexpired Income	Live Stock
Short Term Loans	Loose Tools
Trade Creditors	Investments
Bank Overdraft	

Thanks you

## DEPRECIATION

### Introduction :

- A business or concern holds fixed assets for regular use and not for re-sale. The capability of a fixed asset to render service cannot be unlimited. Except land, all other fixed assets have a limited useful life. The benefit of a fixed asset is received throughout its useful life.

## DEPRECIATION Concept

- The latin word 'depretium' literally means 'reduction of value'. So depreciation means the reduction in value of assets which has to be considered for determining revenue.
- Long-term fixed assets are used in the process of earning revenue. Due to regular use such assets gradually lose their service potentials. Such losses are considered as expired costs which have to be matched against the periodic revenues.

## DEFINITION

**R. S. Anthony and J. S. Reece** observed that "the cost of an asset that has a long but nevertheless limited life is systematically reduced over that life by the process called depreciation."

**International Accounting Standard (IAS)-4** provides that "Depreciation is the allocation of the depreciable amount of an asset over its estimated useful life."

## CAUSES OF DEPRECIATION

### A. Internal

- (i) **Wear and tear** : Plant & Machinery, Furniture, Motor Vehicles etc. suffer from loss of utility due to vibration, chemical reaction, negligent handling, rusting etc.
  - (ii) **Depletion (or exhaustion)** : The utility or resources of wasting assets (like mines etc.) decreases with regular extractions.

## CAUSES OF DEPRECIATION

### B. External or Economic causes

- (i) **Obsolescence** : Innovation of better substitutes, change in market demand, imposition of legal restrictions may result into discarding an asset.
- (ii) **Inadequacy** : Changes in the scale of production or volume of activities may lead to discarding an asset.

## CAUSES OF DEPRECIATION

**C. Time element** : With the passage of time some intangible fixed assets like lease, patents, copy-rights etc., lose their value or effectiveness, whether used or not. The word "amortization" is a better term to speak for the gradual fall in their values.

- **D. Abnormal occurrences** : An Accident, fire or natural calamity can damage the service potential of an asset partly or fully. As a result the effectiveness of the asset is affected and reduced.

## METHODS OF CHARGING DEPRECIATION

### 1. Fixed / Equal Instalment OR Straight Line Method

#### • Features :

- (i) A fixed portion of the cost of a fixed asset is allocated and charged as periodic depreciation.
- (ii) Such depreciation becomes an equal amount in each period.
  - Depreciation =  $(V-S)/n$

• Where,

• V= Cost of the Asset

• S= Residual value or the expected scrap value

• n= estimated life of the asset

## METHODS OF CHARGING DEPRECIATION

### 2. Reducing / Diminishing Balance Method OR Written Down Value Method Features :

- (i) Depreciation is calculated at a fixed percentage on the original cost in the first year. But in subsequent years it is calculated at the same percentage on the written down values gradually reducing during the expected working life of the asset.
- (ii) The rate of allocation is constant (usually a fixed percentage) but the amount allocated for every year gradually decreases.

**E-Content**

Department : Commerce

Session: 2024-2024

Semester- 2 (Honours)

**Subject : Financial Accounting-I****Topic: Joint Venture****Definition**

**Joint Venture is a temporary partnership of more than one persons set up for a particular business plan or venture. Its duration is limited. The business does not use a firm name. It is concluded as the venture is completed. The persons who form it are called covenanters. Their liabilities are limited to the venture for which they contribute capital and share profits and losses.**

**Features of joint venture**

- 1. The relationship between the Co venturers is that of owners or partners
- 2. The venturers share profit and losses.
- 3. The partnership act and the contract between the venturers govern it.
- 4. It is terminated as soon as the venture is over.
- 5. There are different methods or ways of recording transactions

**How joint venture transactions are recorded**

- The nature, purpose and duration of each joint venture is not the same. The following are the main methods of recording joint venture transactions, such as 1. separate set of books 2. No separate set of books.
- One. Separate set of books:
  - A. Joint venture account in place of trading and profit and loss account.
  - B. Joint venture accounts where a separate bank account is opened by the venturers in joint name
- C. Co venturers account (Capital Account).
- Journal entries in the books of joint venture:
  - 1.Amount contributed by the venturers:
    - Joint bank account ...Dr.
    - To venturers account
  - 2.Purchase on account of joint venture:
    - Joint venture account ... Dr.
    - To joint bank account

**How joint venture transactions are recorded**

- 3. Goods supplied by any venture:
  - Joint venture account .... Dr.
  - To Venturer account
- 4. Joint venture expenses:
  - Joint venture account .... Dr.
  - To joint bank account
  - To Venturer account
- 5. Sale on account of joint venture:

**How joint venture transactions are recorded**

- Joint bank account....Dr.
- sundry debtor account ... Dr.
- Venturer account ....Dr.
- To venture account
- 6. Collections out of credit sales :
  - joint bank account ...Dr.
  - joint venture account...Dr.
  - To Saturday detour account
- 7. Payment on account of credit purchase:
  - Vendor/ Creditor Account...Dr.
  - To Joint Bank A/c
  - To Joint Venture A/c

**How joint venture transactions are recorded**

- **8. Unsold goods taken by venturer**
- Venturer account ...Dr.
- To joint venture account
- **9. If any venturer is entitled to any Commission for managing the venture:**
- Joint venture account ....Dr.
- To Venturer account
- **10. If any venturer account shows any Debit balance :**
- joint bank account ..... Dr.
- To Venturer A/c
- **11. In case of credit balance, the venturers are paid off:**
- Venturer A/c...Dr.
- To joint bank account