TALLY

1. **Capital :** It means the amount which the proprietor has invested in the firm or can claim from the firm. For the business, capital is the liability towards the owner. It is also known as owner's equity. Owner's equity means owner's claim against the assets. It will always be equal to Assets-Liabilities.

   Capital=Assets-Liabilities

   Capital can be of the following kinds :
   a) Fixed capital — It is the capital invested in or represented by fixed assets.
   b) Circulating capital — It is the capital in the form of floating assets.
   c) Working capital — It is the excess of current assets over current liabilities.
2. **Liabilities :** It means the amount which the firm owes to outsiders, i.e. excepting the proprietors. In other word, liabilities are claims of creditors against the enterprise arising out of past activities.

   Liabilities may be of following kinds :
   a) Current Liabilities: These are those liabilities which are payable in near future(generally within 1 year). Examples are creditors, bank overdraft, bills payable, short term loans etc.
   b) Long term Liabilities or Fixed Liabilities: All other liabilities which are not current, are classified under this category. They do not become due for payment in one year (or the normal accounting cycle of the business) and do not require current assets for their payment. Examples are debentures, long term loan etc.
3. **Assets :** The entire property of all kinds possessed by or owing to a person organization is called an asset. In other words, anything which will enable the firm to get cash or benefit in future is called as assets. They may be :
   a) Fixed assets — They are acquired for use and not for resale. Example : land, machinery, Furniture, building, motor car etc.
   b) Floating assets — Assets whose value are constantly changing as the business proceeds. Example : stock, debtors, etc.
   c) Fictitious assets — Assets of no real value but included in the balance sheet for legal or Technical reason. Example : preliminary expenses.
   d) Intangible assets — Assets that can be normally sold in the open market. Example : goodwill.
   e) Liquid assets — Assets that can be easily converted into cash. Example : bank account, bills receivable, etc.
   f) Wasting assets — Those fixed assets which gradually depreciate in value with its use. Example Building, machinery, furniture etc.
4. **Revenue :** Revenue is the income of a recurring nature from any source. It is the monetary expression of the aggregate of products or services transferred by an enterprise to its customer during a period of time. It results in increase in the owner's enquity. Example : receipts from the sale of goods, rent income etc.
5. **Expenses :** it is the amount spent in order to produce and sell the goods and services which produce the revenue. Expenses is the cost of the use of things or services for the purpose of generating revenue. Example : payment of salaries, rent etc.
6. **Purchases :** it includes both cash and credit purchases of goods which are for 'resale' purposes. Purchases return and discount on purchases , if any, should be deducted from the purchases and only net purchases are taken for all practical purposes. Goods purchased for cash are called cash purchases and if goods are purchased on credit, it is referred to as credit purchases.

7. **Sales :** Sales should include both cash and credit sales of those goods which are purchased for resale purpose. Some customers might return the goods sold to them(known as Sales Return). These goods are then deducted from the sales.
8. **Debtors :** The amount to be shown under sundry debtors shall include the amount due in respect of goods sold or service rendered but shall not include the amounts which are in the nature of loans or advances. In simple words, debtors mean a person who owes money or anything else or one who is in debt.
9. **Creditors :** One to whom money is owing. Credit means trust. Giving credit means to deliver goods or some service for payment to be made at some later date. It may include bank overdraft but not bank loan or ant other types of loans.

Classification of accounts

1. **Personal A/cs :** Accounts which relate to individual persons, debtors or creditors are called personal accounts. When the business transactions are made on credit, i.e., when payment for goods or services are postponed for future dates, entries in such A/cs are made. When it refers to some incorporated companies, insurance co. or bank, etc., it is called artificial personal or Notional personal A/cs. Outstanding Rent A/cs, prepaid insurance A/c etc. are the examples of such representative Personal A/cs.
2. **Real A/cs :** These A/cs stand for the resources or the properties of the firm (i.e. relating to tangible things). Which can be touched purchased and sold like cash, goods, building, are classified as tangible real accounts.
   Whereas the accounts(which do not have physical shape) such as goodwill, patents, trade marks etc are classified as intangible real accounts.
3. **Nominal A/cs :** All such A/cs which pertain to the income or expenses of the business concern fall under this category. Examples are Salaries A/cs, Rent A/cs etc. they are also called revenue and expenses A/cs. They have a temporary file till the preparations of final A/cs.

JOURNAL

Journal is the first book of original entry in which all the business transactions are recorded in chronological order. Cash memos, invoices, receipts and various other vouchers become the basic journal entries. Again the journal may be subdivided into various subsidiary boos like cash book, sales book, bills receivable book, bills payment book and so on. It is also known as the primary book of accounts.

Performa of a journal

Date	Particulars	L.F	Debit Amount	Credit Amount

In the first column, the date of the transaction is entered.

In the second column, the name of the account, involved are written in the logical manner. First ,the accounts to be debited is written preceded with a word “By”. In the next line, after leaving a little space, the name of the account to be credited is written preceded by “To”.

In the third column, the page number in the ledger on which the entry is posted will be entered.

In the fourth column, the amount to be debited will be entered.

In the fifth column, the amount to be credited will be entered.

While entering the transactions in journal, take care of the rules discussed earlier according to which the accounts are debited or credited.

The rules are again given below for your convenience:

1. **Debit the receiver and credit the giver.**
2. **Debit what comes in and credit what goes out.**
3. **Debit all expenses and losses and credit all income and gains.**

Sub Division of Journal

All the transactions are first recorded in the book of original entry, i.e. journal, from where they are posted in the appropriate accounts in the ledger. To record all the transactions in a single journal, will not only be cumbersome and inconvenient, but it will also be not possible to get the information instantly which may be required by the trader from time to time. That is why, the journal has subsidiary books. The main reason for doing so are:

1. Journal will become too bulky, if all the transactions are entered into it.
2. Only one person can write journal at a time. As such, division of labour is not possible.
3. It does not provide classification information.
4. With sub division of journal, any person can do the work of writing books simultaneously. This division of work will lead to efficiency as well.

It is because of these reasons, that journal has been sub divided into various books which are called "sub division" or "subsidiary books". The sub divisions are:

1. Cash Book — this is for recording all the cash transactions.
2. Purchases Book — this is for recording all the credit purchases.
3. Sales Book — this is for recording all the credit sales.
4. Purchases Returns Book — this is also called "Returns Outward Book", and is meant for recording all the returns of goods purchased on credit.
5. Sales Returns Book — this is also known as "Returns Inward Book", and is used for recording all the returns of goods sold on credit.
6. Bills Payable Book — this is for recording bills of exchange issued to the creditor In lieu of payment due to them.
7. Bills Receivable Book — this is for recording bills of exchange received from customers in lieu of payment due to them.
8. Journal Proper — it is used to record the transactions which cannot be recorded in any of the above seven books.

Ledger

It is defined as a book or register which contains a permanent record of all transactions in a summarized and classified form. It is the most important book of account. Since final information pertaining to the financial position of a business emerges only from accounts, hence the ledger is called the **principal book.**

Utility of Ledger

Ledger provides necessary information regarding various accounts. It is very difficult to prepare final accounts in the absence of ledger.

Personal accounts in ledger show how much money the firm owes to the creditors and the amount it can recover from its debtors. The real accounts show the value of properties and also the value of stock. Nominal accounts reflects the source of income and also the amount spent on various items.

Performa of Ledger

Debit **Credit**

Date	Particulars	Folio	Amount Rs.	Date	Particulars	Folio	Amount Rs.
	To A/c name To A/c name				By A/c name By A/c name		

Each ledger account is divided into two equal parts by vertical lines. The left hand side is known as the "Debit side" and right hand side as the "Credit side". On each side, there are columns for date, Particulars, Journal Folio(page no. of journal from where entries have come here in ledger) and Amount.

Trial Balance

A trial balance is a statement of debit and credit totals of balances, extracted from the ledger with a view to test the arithmetical accuracy of the books. While balancing the individual accounts in ledger, there are three possibilities.

a. The total of both the sides of the accounts may balance equally. In such a case the account is automatically closed off.
b. The total on the debit side may be more than that on the credit side. This excess of the debit side over the credit side of an account signifies a debit balance.
c. The total on the credit side may be more than that on the debit side. This excess of the credit side over the debit side of an account signifies a credit balance.

Note : 1. Trial balance is always prepared on a particular date. That is why "as on ………..(date)" is always written under the heading.

2. The balance of the debits and credits in a trial balance indicate that the accounting equation has been maintained.

3. Disagreement of a trial balance surely indicates the presence of some error.

Methods of Preparing Trial Balance

1. **By Total Method**
   In this method, total of debit and credit columns are written and if the total of both debit and credit are equal, it is assumed that there is no arithmetical error in the accounts.
   It has four columns :
   (a) Particulars (b) Ledger Folio (c) Debit Total (d) Credit Total
2. **By Balance Method**
   In this method, balance of every account is written instead of its total. This method is more convenient since adding is simpler because of small amounts. It saves both time and labour.

Objects and Functions of trial balance

1. When the trial balance tallies, it is presumed that the posting in ledger have been done without committing any arithmetical error. The ledger position are said to have been proved.
2. It serves as a summary of all the ledger accounts and provides a compete picture of each account in the ledger.
3. It serves as a base for preparation of Final Accounts and other financial statements.
4. It helps in locating errors which might have been committed while posting subsidiary books in ledger.