BBA – I Semester

25BBBA13T**: FUNDAMENTALS OF ACCOUNTING**

UNIT – I: INTRODUCTION TO ACCOUNTING

1. Meaning of Accounting

Accounting is the process of identifying, recording, classifying, summarising, analysing and interpreting financial transactions of a business.

Example: Recording purchases, sales, salaries, rent and cash receipts.

2. Definitions of Accounting

Accounting is the systematic process of recording, classifying and summarising financial transactions to provide useful information for decision-making.

3. Need for Accounting

1. To maintain financial records.
2. To calculate profit or loss.
3. To know the financial position.
4. To control business expenses.
5. To help management in decision-making.
6. To provide information to investors and creditors.

4. Objectives of Accounting

- Maintaining systematic records.
- Finding profit or loss.
- Knowing assets and liabilities.
- Providing financial information.
- Helping in business planning.
- Meeting legal and tax requirements.

5. Functions of Accounting

Function	Explanation
Recording	Recording daily transactions
Classifying	Grouping similar transactions
Summarising	Preparing financial statements
Analysing	Examining financial information
Interpreting	Understanding financial results
Communicating	Providing information to users

6. Internal and External Users of Accounting Information

Internal Users

- Owners
- Managers
- Employees
- Department heads

External Users

- Investors
- Creditors
- Banks
- Government
- Suppliers
- Customers

7. Accounting Concepts

Accounting concepts are basic assumptions and rules followed while preparing accounting records.

Concept	Meaning
Business Entity	Business and owner are treated separately
Money Measurement	Only transactions measurable in money are recorded
Going Concern	Business is assumed to continue operations
Dual Aspect	Every transaction has two aspects
Accounting Period	Business results are measured for a specific period
Cost Concept	Assets are initially recorded at purchase cost
Matching Concept	Expenses are matched with related revenue

8. Accounting Conventions

Accounting conventions are commonly accepted practices followed while preparing financial statements.

1. Consistency: Follow the same accounting methods regularly.
2. Conservatism: Anticipate probable losses, but not unrealised profits.
3. Materiality: Give importance to significant financial information.
4. Full Disclosure: Provide all important financial information.

9. GAAP – Generally Accepted Accounting Principles

GAAP refers to generally accepted accounting principles, standards and procedures followed in accounting.

Importance:

- Ensures uniformity.
- Improves reliability.
- Helps comparison.
- Provides transparency.
- Supports financial decision-making.

UNIT – II: ACCOUNTING SYSTEMS

1. Meaning of Book-keeping

Book-keeping is the process of recording day-to-day financial transactions in a systematic manner.

Example: Recording cash purchases, credit sales and salary payments.

2. Double Entry System

The Double Entry System is a method of accounting in which every transaction affects at least two accounts.

One account is debited and another account is credited with equal amounts.

Example: Started business with cash ₹50,000.

Particulars	Debit ₹	Credit ₹
Cash A/c Dr.	50,000	
To Capital A/c		50,000

3. Advantages of Double Entry System

1. Complete recording of transactions.
2. Helps identify accounting errors.
3. Helps prepare Trial Balance.
4. Helps determine profit or loss.
5. Provides financial information.
6. Improves accuracy of accounts.

4. Accounting Cycle

The Accounting Cycle refers to the sequence of steps followed in recording and preparing financial statements.

1. Identification of Transactions

2. Journal Entries

3. Ledger Posting

4. Trial Balance

5. Final Accounts

5. Classification of Accounts

Accounts are classified into three types under the traditional approach.

Account Type	Meaning	Examples
Personal Account	Accounts relating to persons and organisations	Ravi, Ram, SBI Bank
Real Account	Accounts relating to assets and properties	Cash, Furniture, Building
Nominal Account	Accounts relating to expenses, losses, incomes and gains	Salary, Rent, Commission

6. Golden Rules of Accounting

Account	Golden Rule
Personal	Debit the Receiver, Credit the Giver
Real	Debit What Comes In, Credit What Goes Out
Nominal	Debit All Expenses and Losses, Credit All Incomes and Gains

7. Journal

Journal is the book of original entry in which business transactions are recorded first in chronological order.

Example: Paid rent ₹2,000.

Particulars	Debit ₹	Credit ₹
Rent A/c Dr.	2,000	
To Cash A/c		2,000

8. Ledger

A Ledger is the principal book of accounts in which transactions recorded in the Journal are classified into individual accounts.

Example: All cash transactions are recorded in Cash Account.

Importance:

- Shows individual account balances.
- Helps prepare Trial Balance.

- Helps identify debtors and creditors.
- Provides account-wise information.

9. Trial Balance

Trial Balance is a statement containing the debit and credit balances of all ledger accounts on a particular date.

Objectives:

1. To check arithmetical accuracy.
2. To identify certain accounting errors.
3. To summarise ledger balances.
4. To help prepare final accounts.

Format of Trial Balance

Particulars	Debit ₹	Credit ₹
Cash Account	xxx	–
Purchases Account	xxx	–
Furniture Account	xxx	–
Capital Account	–	xxx
Sales Account	–	xxx
Creditors Account	–	xxx
Total	xxx	xxx

UNIT – III: FINAL ACCOUNTS

1. Capital and Revenue Expenditure

Capital Expenditure: Expenditure incurred to purchase fixed assets or improve their earning capacity for a long period.

Examples:

- Purchase of machinery.
- Purchase of land and building.
- Purchase of furniture.

Revenue Expenditure: Expenditure incurred for day-to-day business operations.

Examples:

- Salaries.
- Rent.
- Electricity charges.

- Repairs and maintenance.

Capital Expenditure	Revenue Expenditure
Long-term benefit	Short-term benefit
Creates or improves assets	Maintains daily operations
Shown in Balance Sheet	Generally shown in Profit and Loss Account

2. Final Accounts

Final Accounts are prepared at the end of an accounting period to determine the profit or loss and financial position of a business.

Final Accounts consist of:

1. Trading Account
2. Profit and Loss Account
3. Balance Sheet

3. Trading Account

Meaning: Trading Account is prepared to calculate Gross Profit or Gross Loss from buying and selling goods.

Format:

Debit Particulars	Amount ₹	Credit Particulars	Amount ₹
Opening Stock	xxx	Sales	xxx
Purchases	xxx	Closing Stock	xxx
Direct Expenses	xxx		
Gross Profit c/d	xxx		
Total	xxx	Total	xxx

Formula:

Gross Profit = Net Sales − Cost of Goods Sold.

4. Profit and Loss Account

Meaning: Profit and Loss Account is prepared to calculate Net Profit or Net Loss after considering indirect expenses and incomes.

Examples of Expenses:

- Salaries
- Rent
- Advertisement

- Insurance
- Depreciation

Examples of Incomes:

- Commission Received
- Interest Received
- Discount Received

Formula:

Net Profit = Gross Profit + Indirect Incomes − Indirect Expenses.

5. Balance Sheet

Meaning: Balance Sheet is a statement showing the financial position of a business on a particular date.

It contains:

- Assets: What the business owns.
- Liabilities: What the business owes.
- Capital: Owner's investment in the business.

Format:

Liabilities	Amount ₹	Assets	Amount ₹
Capital	xxx	Cash	xxx
Creditors	xxx	Bank	xxx
Loans	xxx	Furniture	xxx
Outstanding Expenses	xxx	Building	xxx
		Debtors	xxx
Total	xxx	Total	xxx

Accounting Equation:

Assets = Capital + Liabilities.

6. Adjustments in Final Accounts

Important adjustments:

1. Closing Stock
2. Outstanding Expenses
3. Prepaid Expenses
4. Accrued Income
5. Depreciation

6. Bad Debts

These adjustments help determine the correct profit and financial position.

UNIT – IV: DEPRECIATION

1. Meaning of Depreciation

Depreciation is the gradual reduction in the value of a fixed asset due to use, passage of time or obsolescence.

Examples:

- Machinery
- Buildings
- Furniture
- Vehicles
- Computers

2. Causes of Depreciation

1. Wear and Tear – Due to continuous usage.
2. Passage of Time – Assets lose value over time.
3. Obsolescence – New technology makes old assets outdated.
4. Accidents – Damage to assets.
5. Depletion – Reduction in natural resources.

3. Importance of Depreciation

- To calculate correct profit.
- To show assets at appropriate book values.
- To allocate asset cost over its useful life.
- To help in asset replacement planning.
- To follow accounting principles.

4. Methods of Depreciation

Two important methods are:

A. Straight Line Method (SLM)

Under this method, an equal amount of depreciation is charged every year throughout the useful life of an asset.

Difference between SLM and Diminishing Balance Method

Straight Line Method	Diminishing Balance Method
Equal depreciation every year	Depreciation decreases every year

Calculated on original cost less scrap value	Calculated on opening book value
Simple calculation	Requires yearly recalculation
Suitable for assets with uniform usage	Often suitable for machinery and vehicles

UNIT – V: INCOMPLETE RECORDS OF ACCOUNTS

1. Meaning of Incomplete Records

Incomplete Records refer to an accounting system in which all financial transactions are not recorded according to the Double Entry System.

It is commonly followed by small businesses and sole traders.

Examples:

- Small retail shops.
- Small trading businesses.
- Individual business owners.

2. Features of Incomplete Records

1. Not all transactions are recorded.
2. Usually, cash and personal accounts are maintained.
3. Complete ledger accounts are not available.
4. Trial Balance cannot generally be prepared.
5. Profit or loss is calculated through alternative methods.

3. Limitations of Incomplete Records

- Lack of accuracy.
- Difficulty in calculating profit.
- Difficult to detect errors and fraud.
- No complete financial information.
- Difficult to prepare financial statements.

4. Difference Between Single Entry and Double Entry System

Single Entry System	Double Entry System
Incomplete recording	Complete dual recording
Only some accounts maintained	All accounts maintained
Trial Balance generally cannot be prepared	Trial Balance can be prepared
Less reliable	More reliable
Suitable for small businesses	Suitable for all sizes of business

5. Statement of Affairs

Meaning: Statement of Affairs is a statement prepared to ascertain the capital of a business by comparing assets and liabilities.

6. Difference Between Statement of Affairs and Balance Sheet

Statement of Affairs	**Balance Sheet**
Prepared from incomplete records	Prepared from complete books
Balances may be estimated	Balances are based on accounting records
Used to ascertain capital	Shows financial position
Generally less reliable	Generally more reliable