# Basics of Accounts

1) **Asset** :- Any Resource (Tangible / Intangible) which generates Future Economic Benefits (FEB) & on which Entity has Control

Control → Right

Right: Exchange, to transfer, to sell, to use, demolish

Ownership < Legal (or) Deemed

Asset = Control + FEB

Control means = Decision making process

10,000 Cost incurred

Expenditure

advertisement
June

Substance Over Legal form

सच्चाई

Actual
Legal owner

1) Salary
To Bank

2) P&L
To Salary

2) Liability :- Outflow of Resources (Assets) Under the present obligation

Obligation → Present → Chances to Pay are more than 50%.

Obligation → Possible → Contingent Liability

Possible → Chances are less than 50%.

Liability = Outflow + Present obligation

Liability includes provisions.

Fixed outflow = Liability

Estimated outflow (not fixed) = Provision

# Prov. for B.D, Depreciation

## Types of Provisions

**provisions in nature of outflow**

⇓

Liability nature

↓

B/S

| | |
|---|---|
| ✓ | X |

**provision in the nature of Losses.**

↓

Reduction of Assets

eg. Prov. For B.D

↓

B/S

| | |
|---|---|
| X | Asset<br>(−) provision |

Asset / Liabilities

Monetary Assets / Liab.

Any Asset from which recovery is fixed or determinable

Any Liabilities which is to be settled in fixed Amt.

Non-monetary

Other than monetary

B/S

| | |
|---|---|
| Loans. | Property |
| Creditors | Debtors |
| provisions For I.T. | Cash |
| | Investments in shares or GOLD |

Goodwill ⇒ Non-monetary

Share Capital ⇒ Non-monetary

15/- MV assume

B/S

| | |
|---|---|
| Capital 40 lacs. (400000 no. of 10/-) | Assets 50 lacs. |
| Liab. ~~10~~ 10 lacs. +2 | MV 80 |

40 lacs. BV Networth.

3) Incomes :-

Income = Revenue + Other Incomes.

Revenue → Income from Business operations.

Other Incomes → includes Gains/Losses. → (2000)

Trading P&L

| | |
|---|---|
| To Exp. 4 lacs. | By Sale 5 lacs. |
| | By Interest 1 lac. on FD |
| | By Gain on Sale of Ipad 2K |
| To profit 2.02 lacs. | By Loss |
| To Tax 1.02 lacs. | |
| To Earning | |

Ipad 50K cost
52K Sale

Income :- means inflow of Resources Which either Increase your Asset, (or) decrease your Liability and Increase your Capital also Other than Owner's Contribution
Additional Capital

Creditors Dr ~~200000~~

~~To Bank 190000~~

To Dis. Income 10000

P&L

Asset ↑ Dr. ↓ Cr.

Liab. ↑ Cr. ↓ Dr.

Exp ↑ Dr. ↓ Cr.

Income ↑ Cr. ↓ Dr.

P&L

| | |
|---|---|
| RFO | |
| **Other Income** | |
| Interest | xxx |
| Gain xxx | |
| (-) Losses (xxx) | xxx |

How to Record purchase of Inventory?
(What are methods to record purchase of goods/Inventory)

1) Purchased goods of Costing 100000/- (not yet SOLD)

Inv ~~purchase~~ a/c Dr. 100000
To Cash 100000

P&L
Exp.

Trading

| | |
|---|---|
| To ~~Purc.~~ Inv. 100000 | By Sale 0 |
| | By Closing Stock |

Closing stock
To Trading

Asset → B/S

2) Inventory Dr. 100000

To Bank 100000

Trad./P&L

Now if Inventory sold in 2nd yr.

COGS Dr.

To Inventory

Cash

To Sale

COGS | Sale
--- | ---
GP |

Rev. − COGS = GP

Profit EBIT

(−) Int

Profit EBT (PBT)

(−) Tax

EAT → For SH

Debtors = 100000

Collection 98000

2000 BD

# Inventory Treatment :-

Ex:- This is our first year of Business (FY 24-25), We purchased Goods Costing 100,000/- But in CY there is No Sale & in next year (FY 25-26), Goods Costing £ 80,000 were SOLD at £ 125000 (No New purchase)

How to record these transactions in the Books ?

Sol) :-

Approach 1

**FY 24-25**

~~purchase~~ a/c Dr. 100000
To Cash a/c 100000

Exp Income

Trading a/c Dr. 100000
To ~~purchase~~ a/c 100000

As soon we purchase the Inventory we treat it as Expense

(Abhi take Benefit mila nahi par expense maan liya)

This is No Sale in Cy

It means Cy मे Benefit nahi mila, matlab Jo Exp Book hua Hai Usko Reverse Kardo Aur Asset Bana do because Benefit तो Future मे ~~मिलेगा~~

This is Called matching principle

Asset

Reversal of Exp.

Stock a/c Dr. 100000

To Trading a/c 100000

Trading a/c

| | |
|---|---|
| To purch 100000 | By Sale 0 |
| To GP 0 | By Clo. stock 100000 |

## Fy 25-26

1/4/25 — 31/3/26

Sale
Cost = 80000
Sale = 125000
GP = 45000

Closg stock
20000

Trading a/c Dr. 100000
To stock 100000

iss Baare Benefit Hoga isliye Asset Ko reverse Karo aur expense record Karo

Cash 125000
To Sales 125000

Benefit mila par pura nahi mila, because still 20000 goods are unsold

Stock Dr. 20000
To Trading 20000

Reversal of exp because itna Benefit Future में Hoga

Sales a/c Dr. 125000
To Trading 125000

Trading a/c (25-26)

| | |
|---|---|
| To op. stock 100000 | By Sales 125000 |
| To GP 45000 | By Closg stock 20000 |

Note:- COGS = Cost of goods Sold

| | |
|---|---|
| Op stock | 100000 |
| (+) purchases | 0 |
| (-) Closg stock | (20000) |
| | 80000 |

## Approach-2

Jab tak Benefit nahi milega Tab Tak Exp. Book mat Karo, Tab Tak Vo Asset Hai

Fy 24-25

Stock a/c Dr. 100000
To Cash 100000
(Being goods purchased)

it's an Asset

There is no sale

B/S

Stock 100000

Trading

GP 0

## fy 25-26

1/4/25

Op stock
100000
(Asset)

B/S

| |
|---|
| Stock 100000 |

Sale

Cost
80000

itne Exp Ka Benefit mil gaya

Reverse Asset
& Create Exp.

SP
125000

mujhe Benefit mil gaya

1) Cash 125000
To Sale 125000

2) Sales 125000
To Trading 125000

Expense 1) COGS a/c Dr. 80000
To Stock 80000

2) Trading a/c Dr. 80000
To COGS a/c 80000

## Trading a/c

| | |
|---|---|
| To COGS 80000 | By Sales 125000 |
| To GP 45000 | |

## B/S

| | |
|---|---|
| | Stock 20000 |

# PPE & its provision for Depreciation

Org Cost 100000

## 1) Journal Entry for Depreciation

| | |
|---|---|
| Exp. Depreciation Dr. 10000<br>To Asset 10000 | Depreciation Dr.<br>To provision for Dep. (Reduction of Asset) |
| P&L a/c Dr.<br>To Depreciation | P&L a/c Dr.<br>To Depreciation |
| **B/S**<br>Asset 90000 | **B/S**<br>Asset<br>Gross 100000<br>(-) prov. 10000<br>90000 |

Example :- On 1/4/24 Asset Costing 1200000 (multiple Assets) purchased. Rate of Depreciate = 10% WDV.

Next year (25-26), a machine whose Org. Cost was 300000, Sold on 30/6/25 at 270000/-

1200000 Org. Cost

| | Org. Cost | Org. Cost |
|---|---|---|
| | 300000 | 900000 |
| Dep | (-) 30000 | (-) 90000 Dep |
| | 270000 | 810000 |
| | - 6750 | |

263250

On 1/11/25, New machine purchased Costing 500000/-

Calculate Total Depreciation in Both years & Gain/Loss on Sale.

Solution :-

Working Note

| Particulars | Amt. |
|---|---|
| 1/4/24 Purchases | 12,00,000 |
| 31/3/25 Depreciation @ 10% (Full year) | (120000) |
| 31/3/25 Balance | 10,80,000 |
| (-) 30/6/25 WDV of Asset Sold | (263250) |
| (+) 1/11/25 Purchase | 500000 |
| (-) 31/3/26 Depreciation :- | (108583) |

$810000 \times 10\% = 81000$

$270000 \times 10\% \times \frac{3}{12} = 6750$

$500000 \times 10\% \times \frac{5}{12} = 20833$

31/3/26 Closg Balance = 12,08,167

Working Note :-

Sale Value = 270000

(-) WDV on the date of Sale = (263250)

6,750 Gain on Sale

1st

Machine a/c Dr. ~~1200000~~

To Cash a/c 1200000

P&L

Depreciation a/c Dr. 120000

To provision for Dep 120000

B/S

Notes to Accounts :-

| Particulars | Gross (org. Cost) | Prov. For Dep | Net |
|---|---|---|---|
| Opening Bal | 0 | 0 | 0 |
| (+) purchases | 1200000 | - | 1200000 |
| (-) Depreciation | - | 120000 | (120000) |
| | | | 10,80,000 |

## 2nd year

| | | | |
|---|---|---|---|
| 30/6 | Depreciation Dr. | 6750 | |
| | To provision For Dep. | | 6750 |
| 30/6 | Bank Dr. | 270000 | |
| | Provision For Dep Dr. | ~~36750~~ | |
| | To Machine | | ~~300000~~ |
| | To Gain on Sale | | 6750 |
| 1/11 | Machine Dr. | 500000 | |
| | To Bank | | 500000 |
| 31/3 | Depreciation a/c Dr. | 101833 | |
| | To provision For Dep. | | 101833 |

Prov. For Dep a/c

| Dr. | | Cr. | |
|---|---|---|---|
| To Bal c/d (Cr. Bal.) | 120000 | 1st By Dep. | 120000 |
| | | 2nd By Bal. b/d (30 + 90) | 120000 |
| | | By Depreciation | 6750 |

36750

Asset a/c

| | |
|---|---|
| 1st To Cash 1200000 | By Bal. c/d 1200000 (3+9) |
| 2nd To Bal. 1200000 (3+9) | Dr. Bal. 300000 |

B/S

| | |
|---|---|
| Machine | 1080000 |

1/4/24 — Dep 30000 — 31/3/25 — D 6750 — 30/6

Org. = 300000

Org 300000
Prov. (30000)

Org 300000 Dr.
Prov. 36750 Cr. Bal.

## 2nd Yr.

| Particulars | Gross | Prov. For Dep. | Net |
|---|---|---|---|
| Opng Bal. | 1200000 | 120000 30K | 1080000 |
| Dep. during the year | | 108583 6750 | (108583) |
| (-) Sale | (300000) | (36750) | (263250) |
| (+) Purchase | 500000 | - | 500000 |
| | 1400000 | 191833 | 1208167 |

Dep + (-)

| | | | |
|---|---|---|---|
| (-) Sale | (300000) | (36750) | 263" |
| (+) Pur | 500000 | | 500000 |

Ex:- 1/4/25 Opng Balances.

Gross 1800000 (org. Cost)

Provision for Dep 342000 (Dep till 1/4/25)

On 1/6/25, New Asset purchased = 600000

10m Dep.

On 1/10/25, Asset org Cost 500000 purchased on 1/4/23 Was sold at 400000

50000 23-24
45000 24-25
95000
6m Dep 20250
115250

Dep Rate 10% p.a. (WDV)

Prepare Notes to A/C with workings

115250

## Solution

## Working Note

### 1) Asset which is sold During the year

| Particulars | Amt. |
|---|---|
| Original Cost (1/4/23) | 5,00,000 |
| (-) Depreciation @ 10% For the year | (50,000) |
| WDV as on 31/3/24 | 450000 |
| (-) Depreciation @ 10% for the year | (45000) |
| WDV as on 31/3/25 | 4,05,000 |
| (-) Depreciation for 6 months till 1/10/25 @ 10% P.a. | (20,250) |
| WDV as on 1/10/25 | 3,84,750 |
| Sale proceeds | 4,00,000 |
| Gain on sale = | 15,250 |

Provision for Depreciation as on 1/10/25 on Asset sold = 1,15,250
(50000 + 45000 + 20,250)

(It is to be reversed)

## 2) Remaining Assets :-

a) 1/4/25 Gross Value of All Assets = 1800000

b) (Less) Gross Value of Asset SolD = (500000)

c) 1/4/25 Gross Value of Remaining Assets 13,00,000

d) 1/4/25 Bal. of Provision for Dep of All Asset = 342000

e) Less:- Bal. of provision for Dep of Asset SolD (1/4) = (95000)

F) 1/4/25 Bal. of Provision for Dep on Remaining Assets = 247000

g) Depreciation on Remaining Assets = 105300
(1300000 − 247000) x 10%

h) 1/6/25 New Machine Purchased (org. Cost) = 600000

i) Depreciation on New Machine = 50000
600000 x 10% x 10/12

J) Total Depreciation Charged during the year = 175550

(20250 + 105300 + 50000)

## Journal entries

1) Depreciation a/c Dr. 175550
To provision For Depr. a/c 175550

2) Bank a/c Dr. 400000
Provision For Dep. a/c Dr. 115250
To Machine a/c 500000
To Gain on Sale a/c 15250

402300
Cr. Bal.

Gross
190000
Dr.

## Notes to ACCOUNTS :-

| Particulars | Gross Amt. (Dr.) | Prov. for Dep. (Cr.) | Net Amt (Dr. – Cr. = Dr.) |
|---|---|---|---|
| Opng. Bal. | 1800000 | 342000 95000 | 1458000 |
| (+/-) Depreciation during the year | – | 175550 20250 6m | (175550) Dep → (50000) |
| (-) Sale of Asset | (500000) | (115250) | (384750) |
| (+) purchase | 600000 | – | Gross 600000 |
| | 1900000 | 402300 | 1497700 |

Asset = Control + FEB

Control → ownership → Legal / Deemed → Substance

FEB → Sales, Incomes, Other Benefits

Expenditure
- Rev. Benefit received (P&L)
- Cap. Benefit receivable (B/S Asset)

Liability => Outflow + Present obligation

Outflow → of any Asset

Present obligation → Chances to settle are more than 50%.

Liability → includes provisions.

Provisions
- in the nature of outflow → Liability side
- & In the natures of Losses (or) Reduction of Asset (Asset minus)

Incomes ⇒ ROF + Other Incomes

&

- Asset ↑ (or) Liab ↓
- Capital ↑ other than owners Contribution

Monetary Assets & Liabilities

- Amt receivable is fixed or determinable
- Amt to be settle is fixed or determinable

Inventory

- Opening stock in Trading → Reversal of Asset & Creation of Exp
- Closing stock in Trading → Exp = Reversal, Creation of Asset

Inventory (2nd Approach)

When purchased

Treat Asset

Stock a/c Dr.

When sold

Reversal of Asset

COGS Dr.
To Stock

Reversal

Cash
To sales.

transfer to Trading.

Important Summary points for Depreciation & its provision :-

1) When we Use the Asset, we Charge Depreciation

(P&L) Depreciation A/c Dr.
To provision For Dep. a/c

this Bal. is C/F & presented as reduction from Asset in B/s

F. Asset Bal. => Dr.

Gross Asset = 50 lacs. Dr. Y-1

prov. For Dep ₹ 20 lacs. Cr. Y

B/S

| | | |
|---|---|---|
| | Asset 50<br>Prov. For Dep (20) | 30 |

2) When we Sale the Asset (or) When we W/off the Asset :-

Provision For Depreciation Balance of such Asset is reversed.

Provision a/c Will be Debited.

3) Journal entry Of Sale Of Asset :-

Bank a/c Dr. (Sales Proceeds)
Provision For Dep Dr. (till date Dep on Such Asset)
To Asset a/c (org. Cost)

(Any Difference in above entry is Gain or Loss on Sale)

Bank Dr. 400000
Prov. For Dep Dr. 115250
To Machine a/c 500000
To Gain on Sale a/c 15250 (P&L)

# Schedule - III

(Part of Companies Act, 2013)

- Division I
  - Applicable for Companies whose Financial Statements are prepared as per "Accounting Standards"
- Division II
  - Applicable for Companies whose Financial Statements are prepared as per "Indian Accounting Standards" (Ind AS)
- Division III
  - Applicable for Banks, Insurance, Electricity Co.

Note:- Division I is applicable for CA Inter

Which Company shall follow Division I

All Unlisted Companies whose Networth is less than Rs. 250 Crores.

&

Those Companies whose Shares are listed in SME exchange

# Components of Financial Statements

1) Balance Sheet (CY & PY)
2) Statement of P&L (SPL) (CY & PY)
3) Statement of Cash Flows (CY & PY)
4) Notes to Accounts
   - (i) Accounting policies followed by Company
   - (ii) Details of all Subheading
   - (iii) Estimates & Judgement taken
   - (iv) Additional Notes
     - EPS working
     - Directors information
     - Trade payables Ageing

~~Dividend~~
~~Bonus~~
Redemption

# Dividend
## Declared & Paid by Company

1) Dividend is not Expense for Company: it is a distribution of profit to ESH.

2) Dividend is always distributed after paying Income Tax.

3)

| | |
|---|---|
| Gross profit | xxx |
| (+) other Income | xxx |
| (–) Indirect Expense | (xxx) |
| | NPBT |
| (–) Tax | (xxx) |
| Profit/earnings available for Shareholders. | NPAT |
| (–) Preference Dividend | (xxx) |
| (Earnings available for ESH) | EAESH 100 |
| (–) Equity Dividend | (xxx) (20) |
| | Retained Earnings |

4) Dr. P&L a/c

| | | | |
|---|---|---|---|
| To Salary | 200000 | By GP | 1200000 |
| To Interest on Loans | 150000 | | |
| To Depreciation | 50000 | | |
| To Advst. | 100000 | | |
| To Rent | 80000 | | |
| To Audit Fees | 60000 | | |
| To NPBT | 560000 | | |
| To Tax Exp. | 168000 | | |
| To NPAT | 392000 | | |
| To Pref Divd | 60000 | | |
| To Eq Divd | 70000 | | |
| To GR | 100000 | | |
| To Balance | 162000 | | |

R/E

Charge against profit

Appropriation

P&L
To Salary

5) Journal entry of Dividend :-

a) ~~Dividend a/c Dr.~~
To Dividend Payable a/c

b) P&L
To Dividend a/c

c) Divd Payable
To Bank

# Bonus issue

1) Bonus issue is announced for Existing SH.

2) Bonus issue is out of Company's profits. Hence it is called distribution of profit (just like Dividend)

3) Therefore Bonus issue is not expense for Company, it is appropriation of profit.

4) For Bonus issue, following profits can be used :-

General Reserve
Cr. Bal. of P&L a/c } Free Reserves.

Securities prem. a/c
CRR*

5) Journal entry :- ~~Bonus to ESH Dr.~~
To ESC a/c

GR Dr.
P&L Dr.
SP Dr.

CRR Dr.
To ~~Bonus~~ to ESH a/c

6) Example :-

B/S (before Bonus) Extract

| | |
|---|---|
| 1,00,000 no. ESC (10/-) 10,00,000 | |
| GR 20,00,000 | |

Net worth 30 lacs.

Company announced Bonus of 1:4

⇓

O/s no. 1,00,000

∴ Bonus issue = $\frac{100000}{4}$ = 25000 no.

Bonus Amt = 25000 × 10/-
= 250000

General Reserve Dr. 250000
To ESC a/c 250000

Revised B/S (extract) after Bonus

| | |
|---|---|
| 1,25,000 no. ESC 10/- 12,50,000 | |
| GR 1750,000 | |

N worth 30,00,000

Note:- Bonus issue is Known as Capitalization of Reserves.

Effect on Networth

Bonus issue
↓
Nil

Dividend
↓
NW will be reduced because it is paid in Cash

Net worth
3000000
÷
125000

Price per share ↓