Accountancy

Financial Accounting

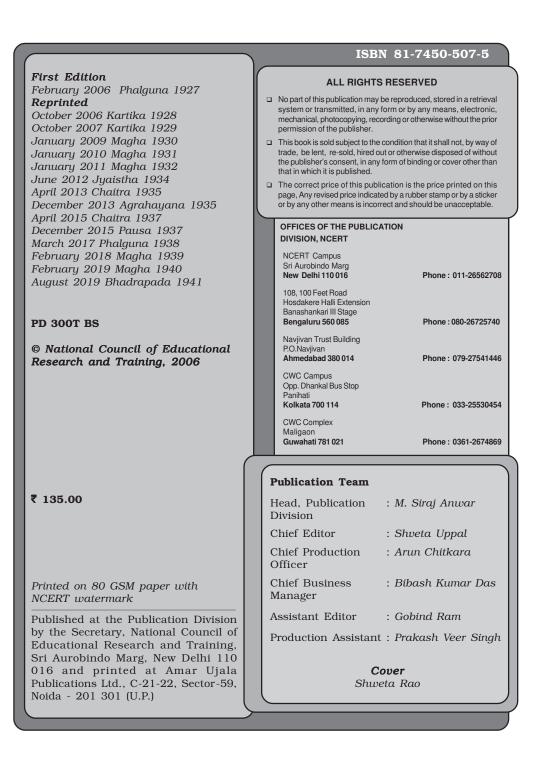
Part I

Textbook for Class XI



विषया ५ मुनमान्ते प्रिया ५ मुनमान्ते एन सी ई आर वी NCEERT

राष्ट्रीय शैक्षिक अनुसंधान और प्रशिक्षण परिषद् NATIONAL COUNCIL OF EDUCATIONAL RESEARCH AND TRAINING



Foreword

The National Curriculum Framework (NCF), 2005, recommends that children's life at school must be linked to their life outside the school. This principle marks a departure from the legacy of bookish learning which continues to shape our system and causes a gap between the school, home and community. The syllabi and textbooks developed on the basis of NCF signify an attempt to implement this basic idea. They also attempt to discourage rote learning and the maintenance of sharp boundaries between different subject areas. We hope these measures will take us significantly further in the direction of a child-centred system of education outlined in the National Policy on Education (1986).

The success of this effort depends on the steps that school principals and teachers will take to encourage children to reflect on their own learning and to pursue imaginative activities and questions. We must recognise that, given space, time and freedom, children generate new knowledge by engaging with the information passed on to them by adults. Treating the prescribed textbook as the sole basis of examination is one of the key reasons why other resources and sites of learning are ignored. Inculcating creativity and initiative is possible if we perceive and treat children as participants in learning, not as receivers of a fixed body of knowledge.

These aims imply considerable change in school routines and mode of functioning. Flexibility in the daily time-table is as necessary as rigour in implementing the annual calendar so that the required number of teaching days are actually devoted to teaching. The methods used for teaching and evaluation will also determine how effective this textbook proves for making children's life at school a happy experience, rather than a source of stress or boredom. Syllabus designers have tried to address the problem of curricular burden by restructuring and reorienting knowledge at different stages with greater consideration for child psychology and the time available for teaching. The textbook attempts to enhance this endeavour by giving higher priority and space to opportunities for contemplation and wondering, discussion in small groups, and activities requiring hands-on experience.

The National Council of Educational Research and Training (NCERT) appreciates the hard work done by the textbook development committee

iυ

responsible for this book. We wish to thank the Chairperson of the advisory group in Social Sciences Professor Hari Vasudevan and the Chief Advisor for this book, Professor R.K. Grover, (Retd.) Director, School of Management Studies (IGNOU), New Delhi for guiding the work of this committee. Several teachers contributed to the development of this textbook; we are grateful to their principals for making this possible. We are indebted to the institutions and organisations which have generously permitted us to draw upon their resources, material and personnel. We are especially grateful to the members of the National Monitoring Committee, appointed by the Department of Secondary and Higher Education, Ministry of Human Resource Development under the Chairpersonship of Professor Mrinal Miri and Professor G.P. Deshpande, for their valuable time and contribution. As an organisation committed to the systemic reform and continuous improvement in the quality of its products, NCERT welcomes comments and suggestions which will enable us to undertake further revision and refinement.

New Delhi 20 December 2005 Director National Council of Educational Research and Training

TEXTBOOK DEVELOPMENT COMMITTEE

CHAIRPERSON, ADVISORY COMMITTEE FOR TEXTBOOKS IN SOCIAL SCIENCES AT UPPER PRIMARY LEVEL

Hari Vasudevan, *Professor*, Department of History, University of Calcutta, Kolkata

CHIEF ADVISOR

R. K. Grover, *Professor, (Retd.)*, School of Management Studies, IGNOU, New Delhi.

MEMBERS

A.K. Bansal, Reader, PGDAV College, Nehru Nagar, New Delhi.

Amit Singhal, Lecturer, Ramjas College, Delhi University, Delhi.

Ashwini Kumar Kala, *PGT Commerce*, Hiralal Jain Senior Secondary School, Sadar Bazar, Delhi.

D.K Vaid, *Professor*, Department of Education in Social Sciences and Humanities, NCERT, New Delhi.

Deepak Sehgal, *Reader*, Deen Dayal Upadhaya College, Delhi University, Delhi.

H.V. Jhamb, Reader, Khalsa College, Delhi University, Delhi.

Ishwar Chand, *PGT Commerce*, Government Sarvodaya Bal Vidyalaya, West Patel Nagar, New Delhi.

K. Sambasiva Rao, *Professor*, Department of Commerce, Andhra University, Visakhapatnam.

M. Srinivas, *Professor*, Department of Commerce, College for Women, Osmania University, Hyderabad.

P.K. Gupta, *Reader*, Department of Management Studies, Jamia Millia Islamia, New Delhi.

Rajesh Bansal, *PGT Commerce*, Rohtagi A.V. Senior Secondary School, Nai Sarak, Delhi.

S.K. Sharma, Reader, Khalsa College, Delhi University, Delhi.

vi

S.S. Sehrawat, *Assistant Commissioner*, Kendriya Vidyalaya Sangathan, Chandigarh.

Savita Shangari, PGT Commerce, Gyan Bharati School, Saket, New Delhi.

Shiv Juneja, *PGT Commerce*, Nirankari Boys Senior Secondary School, Paharganj, Delhi.

Sushil Kumar, *PGT Commerce*, Government Sarvodaya Bal Vidyalaya, Kailash Puri, Delhi.

Vanita Tripathi, *Lecturer*, Department of Commerce, Delhi School of Economics, Delhi University, Delhi.

Member-Coordinator

Shipra Vaidya, *Professor*, Department of Education in Social Sciences NCERT, New Delhi.

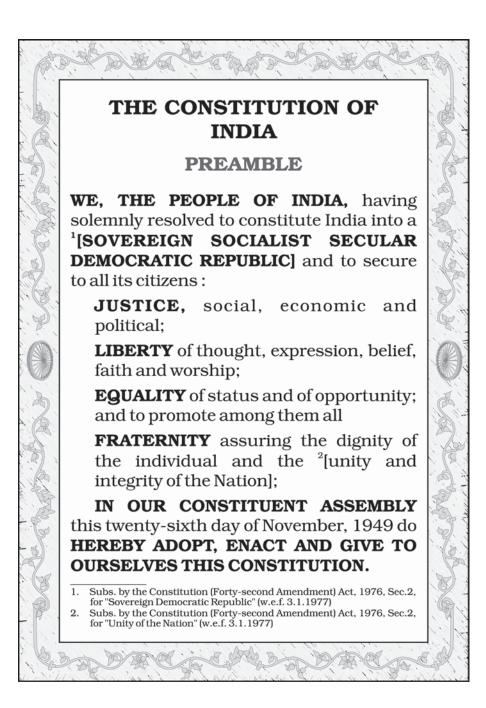
ACKNOWLEDGEMENTS

The National Council of Educational Research and Training acknowledges the valuable contributions of the Textbook Development Committee which took considerable pains in the development and review of manuscript as well.

Special thanks are due to the *Head*, Department of Education in Social Sciences, NCERT for constant support, during the development of this book. We also acknowledge the contribution of all teachers of commerce who developed the extra learning material for QR codes in the textbook.

The Council acknowledges the Contribution of Sanjeev Kumar, *Vice Principal*, Government Boys Senior Secondary School, Mata Sundari Road for reviewing and updating this textbook.

The Contribution of APC-Office, administration of DESS, Publication Department and Secretariat of NCERT in bringing out this book are also duly acknowledged.



CONTENTS

		Foreword	iii
Chapter	1	Introduction to Accounting	1
	1.1	Meaning of Accounting	2
	1.2	Accounting as a Source of Information	6
	1.3	Objectives of Accounting	10
	1.4	Role of Accounting	13
	1.5	Basic Terms in Accounting	14
Chapter 2		Theory Base of Accounting	23
	2.1	Generally Accepted Accounting Principles (GAAP)	24
	2.2	Basic Accounting Concepts	25
	2.3	Systems of Accounting	33
	2.4	Basis of Accounting	34
	2.5	Accounting Standards	35
Chapter 3		Recording of Transactions - I	46
	3.1	Business Transactions and Source Document	46
	3.2	Accounting Equation	50
	3.3	Using Debit and Credit	52
	3.4	Books of Original Entry	60
	3.5	The Ledger	72
	3.6	Posting from Journal	75
Chapter 4		Recording of Transactions - II	99
	4.1	Cash Book	100
	4.2	Purchases (Journal) Book	125
	4.3	Purchases Return (Journal) Book	127
	4.4	Sales (Journal) Book	129
	4.5	Sales Return (Journal) Book	131
	4.6	Journal Proper	139
	4.7	Balancing the Accounts	141
Chapter 5		Bank Reconciliation Statement	160
	5.1	Need for Reconciliation	161
	5.2	Preparation of Bank Reconciliation Statement	166

х

Chapter 6	Trial Balance and Rectification of Errors	180
6.1	Meaning of Trial Balance	180
6.2	Objectives of Preparing the Trial Balance	181
6.3	Preparation of Trial Balance	184
6.4	Significance of Agreement of Trial Balance	189
6.5	Searching of Errors	191
6.6	Rectification of Errors	192
Chapter 7	Depreciation, Provisions and Reserves	226
7.1	Depreciation	226
7.2	Depreciation and other Similar Terms	230
7.3	Causes of Depreciation	230
7.4	Need for Depreciation	231
7.5	Factors Affecting the Amount of Depreciation	232
7.6	Methods of Calculating Depreciation Amount	234
7.7	Straight Line Method and Written Down Method: A Comparative Analysis	238
7.8	Methods of Recording Depreciation	240
7.9	Disposal of Asset	249
7.10	Effect of any Addition or Extension to the Existing Asset	259
7.11	Provisions	262
7.12	Reserves	264
7.13	Secret Reserve	268
Chapter 8	Bill of Exchange	277
8.1	Meaning of Bill of Exchange	278
8.2	Promissory Note	280
8.3	Advantages of Bill of Exchange	281
8.4	Maturity of Bill	282
8.5	Discounting of Bill	282
8.6	Endorsement of Bill	282
8.7	Accounting Treatment	283
8.8	Dishonour of a Bill	290
8.9	Renewal of the Bill	296
8.10	Retiring of the Bill	298