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SPECIAL CLASSES OF QT AND FM

BY NEMANI SIR


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# NEMANI CLASSES



# Class XI Theory Notes

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CHAPTER - 1

# MEANING & OBJECTIVES OF ACCOUNTING

## Need for Accounting:-

1) To ascertain the net profit or net loss made during the year.
2) To know how much capital invested in business.
3) How much the firm is liable to pay to other firms.
4) To know purchases and sales made during the year.
5) To ascertain the financial position of the business.

According to the, **American Institute of Certified Public Accountants :-**

"Accounting is the art of recording, classifying and summarising in a significant manner and in terms of money, transaction and events, which are, in part at least, of a financial character, and interpreting the results thereof."

## Characteristics of Accounting:-

1) **Accounting is an art as well as science :**
   - ☆ **Art :**
   - Art is the technique of attaining some pre-determined objectives.
   - Accounting is an art of recording, classifying and summarising business transactions to ascertain the net profit and financial position of the business.
   - ☆ **Science :**
   - Any organised body of knowledge which is based on certain specified principles is called science.
   - Accounting is a science because it is also an organised body of knowledge based on certain specified principles and accounting standards.
2) **Recording of Financial Transactions only**:
   - Only those transaction and events are recorded in accounting which are of a financial character.
   - There are so many transaction which are very important for business but which cannot be measured in terms of money so will not be recorded.
3) **Recording in terms of money**
4) **Classifying** :
   - It is the process of grouping the transaction of one nature at one place in a separate account called "ledger"
5) **Summarising :**
   - It is the art of presenting the classified data in a understanding and useful manner.
6) **Interpretation of the Results.**
   - The result of the business is presented in such manner that the parties interested can have full information about profitability and financial position of the business.
7) **Communicating**
   - Communication of financial data to the users who analyse them as per their individual requirement.

## Objectives of Accounting:-

1) **To keep systematic record of business transactions :**
   - The main objective of accounting is to keep complete record of business transactions according to specified rules.
   - It helps to avoid the possibility of omission and fraud.
   - **For this purpose -**
     All business transactions are first of all recorded in Journal /Subsidiary books and then posted into Ledger.
2) **To calculate profit or loss :**
   - The another main objective of accounting is to ascertain the net profit earned or loss suffered during a particular period.
   - **For this purpose -**
     Trading and Profit & loss account is prepared at the end of each accounting period.
3) **To know the exact reasons leading to net profit or net loss.**
4) **To ascertain the financial position of the business :**
   - For a businessman, ascertaining profit & loss of the business in not sufficient, he must also know the financial position/financial health of the business.
   - **For this purpose -**
     Balance sheet is prepared which shows the assets and their values on the one hand and the liabilities and capital on the other hand.
     Balance sheet is actually a screen picture of the financial position of the business.
5) **To ascertain the progress of the business from year to year.**
6) **To prevent and detect errors and fraud.**
7) **To provide information to various parties.**

## Functions of Accounting :-

1) **Maintaining Complete and Systematic Records :**
   - The main function of accounting is to keep complete record of business transactions according to specified rules.
   - It helps to avoid the possibility of omission and fraud.
   - **For this purpose -**
     All business transactions are first of all recorded in Journal /Subsidiary books and then posted into Ledger
2) **Communicating the financial results to various parties :**
   - Communicate the information regarding profit or loss, assets, liabilities etc. to the interest parties.
3) **Protecting the Assets of business :**
   - Another function of accounting is to maintain proper record of various assets such as Cash, Bank, Debtors etc.
   - It helps the management to keep proper control over them.
4) **Providing Assistance to Management :**
   - By providing timely information of accounting, it helps the management in planning, controlling and decision-making.
5) **Trusteeship**
6) **Compliance of legal needs :**

- A business firm has to submit various statements such as annual accounts, Income tax & GST returns as per the provisions of Companies Act, I.T Act, GST Act.

7) **Fixing Responsibility :**
   - Another function of accounting is to determine the profitability of each department.
   - It facilitates the fixing of responsibility of each departmental head.

## DISTINCTION BETWEEN BOOK-KEEPING AND ACCOUNTING :-

| Basis of Distinction | Book-keeping | Accounting |
|---|---|---|
| 1. scope | Booking includes :<br>i. Identifying the transaction of financial nature<br>ii. Measuring<br>iii. Recording<br>iv. Classifying | Accounting in addition to Book-keeping includes :<br>i. Summarising<br>ii. Analysing<br>iii. Communicating |
| 2. Stage | Primary stage | Secondary stage |
| 3. Objective | To maintain systematic records | To ascertain the net results |
| 4. Nature | Routine and clerical in nature | Analytical in nature |
| 5. Knowledge level | Limited level of knowledge | Higher level of knowledge in comparison of Book-keeper |
| 6. Analytical skill | Not required | Required |
| 7. Who performs | Junior staff | Senior staff |

## DISTINCTION BETWEEN ACCOUNTING AND ACCOUNTANCY :-

| Basis of Distinction | Accounting | Accountancy |
|---|---|---|
| 1. Meaning | It is concerned with recording, classifying and summarising of transactions. | It is a body of knowledge prescribing certain rules or principles to be observed while recording, classifying and summarising of transactions. |
| 2. Scope | Narrow | Much wider |
| 3. Relation | Depends on Book-keeping | Depends both on Book-keeping and Accounting |
| 4. Function | Its main function is to ascertain the net results and the financial position of the business. | It includes the decision making function. |

## Types or Sub-fields of Accounting :-

1. **Financial Accounting :**
   - The main purpose of this branch
     - ❖ Record the business transaction
     - ❖ Ascertain the profit & loss by preparing a profit & Loss account
     - ❖ Present the financial position of the business by preparing a Balance Sheet
     - ❖ Provide information to various interested parties.
2. **Cost Accounting :**
   - The main purpose of this branch
     - ❖ Ascertain the total cost and per unit cost of goods produced.
3. **Management Accounting :**
   - The main purpose of this branch
     - ❖ It helps the management in planning, controlling and decision-making.
     - ❖ These technique include ratio analysis, budgetary control, fund flow statement, cash flow statement.
4. **Tax Accounting :**
   - This branch of accounting is use for tax purpose.
5. **Social Responsibility Accounting :**
   - Social responsibility accounting is the process of identifying, measuring and communicating the contribution of a business towards the society.
   - **It consist :-**
     - ❖ Providing employment
     - ❖ Environmental contribution
     - ❖ Product safety
     - ❖ Consumer satisfaction

## Accounting as a source of Information :-

- ❖ Accounting is often regarded as the language of business.
- ❖ Main aim of a language is to serve as a resource of communication
- ❖ Accounting communicates the result of business activities to management, owners, investors, creditors, lenders, Govt. etc.
- ❖ Different groups of persons have vested interests in a business organisation.

**Users of Accounting Information/ Parties Interested in Accounting Information**

1) **Internal Users :**
   - Internal users are those persons who have a direct interest in the business enterprise.
   - Owners and Management
2) **External Users :**
   - Individuals or organisation who have present or future interest in the business enterprise but are not part of management are called external users.
   - Potential (new) investors, Creditors, Lenders, Employees and Government.

**Advantages or Uses of Accounting :**

**(1) Helpful in Management of Business (In Planning, In Decision Making and In Controlling)**

**(2) Provides complete and systematic records**
**(3) Information regarding P&L**
**(4) Information regarding financial position**
**(5) Helpful in prevention and detection of errors and frauds**
**(6) Evidence in legal matters**
**(7) Helpful in assessment of tax liability**
**(8) Facilitates in sale of business**
**(9) Helpful in raising loans**
**(10) Helpful in partnership accounts**

**Limitations of Accounting :-**

1. **Affected by window dressing :**
   - Window dressing refers to the practice of manipulating accounts, so that the financial statements may disclose a more favourable position that the actual position.
2. **Based on historical cost :**
   - Accounts are prepared on the basis of historical cost, the outcome of this practice is that balance sheet values of assets are not helpful in estimating the true financial position of the business.
3. **Based on accounting concepts and conventions :**
   - Accounting is prepared on the basis of a number of accounting concepts and conventions. Hence the profitability and the financial position disclosed by it may not be realistic.
4. **Incomplete Information**
5. **Influenced by personal judgements** (Method of Dep. and Valuation of stock)
6. **Omission of qualitative information :**
   - Accounts contain only those informations which can be expressed in terms of money.
   - Qualitative aspects are completely omitted from the books
   - Changes in management, Reputation of the business, Relationship between management-labour are all ignored and omitted from being recorded because all of these are qualitative in nature.
7. **Unsuitable for forecasting :**
   - Financial accounts are only a record of past events so it may not be of much use for forecasting

**Qualitative Characteristics of Accounting Information :-**

1. **Reliability :**
   - Reliability implies that the information must be factual and verifiable.
   - The accounting information is said to have verifiability if such information can be verified from source documents.
   - Verifiability ensures the truthfulness of the recorded transactions
2. **Relevance :**
   - Accounting information depicted by financial statement must be relevant to the objectives of the enterprises
   - Unnecessary and irrelevant information should not be included in financial statement.
   - For example, While reporting debtors in the balance sheet, it is the total amount of debtors which is relevant and not the number of debtors.

3. **Understandability :**
    - Accounting information should be presented in such a simple and logical manner that they are understood easily by their users who does not have any knowledge of accounting terminology.
    - This can be done by giving relevant explanatory notes to explain the information given in the financial statements.
4. **Comparability :**
    - The financial statement should contain the figures of pervious year along with the figures of current year so that the current performance can be compared with past performance.
    - Comparison reveals the strong and weak points of the business entity.
    - Comparability is possible when different firms in the same industry adopt the same accounting principles from year to year.
5. **Faithful Presentation :**
    - Financial statements are required to show a true and fair view of the profitability, financial position and cash flows of an enterprise.

**Role of Accounting :-**

1. **Role of a Language :**
    - It prepares reports and statements which communicate information regarding the business enterprise
2. **Role of Historical Record :**
    - Accounting is viewed as chronological record of all financial transactions in the books of accounts according to specified rules.
3. **Role of determining the Net profit**
4. **Role of Determining the Financial Position**
5. **Role of Information System :**
    - It is capable of providing the kind of information which managers and other interested parties require for taking appropriate decisions.
6. **Role of Service Provider :**
    - Accounting is regarded as a service activity because it provides quantitative financial information which is helpful to the users in different way.

## CHAPTER -2

# BASIC ACCOUNTING TERMS

1. **Business Transactions :**
    - A business transaction is an economic activity of the business that changes it financial position. The change must be capable of being expressed in terms of money.
    - Social activities are not considered as transactions.
    - Transactions may be classified into two types:
        - External Transactions : These are those which involve economic activities between two independent business entity.
        - Internal Transactions : Those economic activities that take place within one business entity.
2. **Event :**
    - An event is the result of a transaction.
3. **Account :**
    - The individual transaction of like nature are recorded, added and subtracted at one place. Such place customarily termed as an account.
    - In accounting we keep a separate record of each individual, assets, liabilities, exp. or income.
    - All accounts are divided into two side. The left side of an account is Debit side and the right side of an account is called Credit side.
4. **Capital :**
    - It refers to the amount invested by the proprietor in a business enterprises
    - Amount may be in the form of cash, goods or assets.
    - **Capital = Assets – Liabilities**
    - Capital is also known as Owners Equity or Net worth or Net assets.
5. **Drawings :**
    - Any cash or value of goods withdrawn by the owner for personal /private use out of business funds is called drawings.
6. **Liability :**
    - It refers to the amount which the firm owes to outsiders.
    - **Liabilities = Assets – Capital**
    - Liabilities may be classified into :
        - Internal Liabilities : All amount which a business entity has to pay to the proprietor /owners
        - External Liabilities : All amount which a business entity has to pay to outsiders
        - Non-Current Liabilities : Those liabilities which fall due for payment normally after more than one year.
        - Current Liabilities : Those liabilities which are to be paid normally within one year.
7. **Assets :**
    - Anything which is in the possession or is the property of business enterprises including the amount due to it from others, is called assets.
    - Assets are valuable resources owned by a business.
    - Main characteristics of an assets :
        - The resources must be valuable
        - The resources must be owned by the business

- ❖ The resources must be acquired at a measurable money cost.
- Assets may be classified into :
  - ➢ Non-Current Assets :
    - ✓ It refers to those assets which are held for continued use for the purpose of producing goods or services and are not meant for sale.
    - ❖ Non- Current Assets/Fixed Assets are further classified into :

    (1) Tangible Assets : Those assets which have a physical existence (can be seen & touch)
    Examples : Land & Building, Plant & Machinery, Furniture & fixture.

    (2) Intangible Assets : Those assets which do not have a Physical existence (cannot be seen or touch)
    Examples : Goodwill, Patents, Copyright, Trademark, Computer Software.
    * Intangible assets are also valuable assets and value of such assets based on the benefit available to the business from such assets.
  - ➢ Current Assets :
    - ✓ It refers to those assets which are meant for sale or which the management would want to convert into cash within one year.
    - ❖ Current assets are also known as short lived assets, active assets, floating assets or circulating assets.
    - ❖ Current assets are usually shown in the balance sheet in the 'Liquidity Order'.
  - ➢ Fictitious or Nominal Assets :
    - ✓ These are the assets which cannot be realised in cash or no further benefit can be derived from it.

**8. Capital & Revenue Receipt :**
- Capital receipt is shown in the Balance sheet (either liabilities or assets).
- Revenue receipt is shown on the credit side of Profit & loss account.

**9. Capital Expenditure :**
- Any expenditure which is incurred in acquiring a fixed assets or increasing the value of a fixed assets is termed as capital expenditure.
- All the capital expenditure shown in the Balance sheet.
- Such expenditure yields benefit over a long period.

**10. Revenue Expenditure :**
- Any expenditure, the full benefit of which is received during one accounting period is termed as revenue expenditure.
- All the revenue expenditure are debited to Trading and P&L a/c.
- Such exp. helps in maintaining the existing earning capacity.

**11. Deferred Revenue Expenditure :**
- Those exp. which are revenue in nature but the benefit of which is likely to be derived over a number of years.
- The benefit of such expenditure generally lasts between 3 to 7 years.

**12. Expenses :**
- Exp. is the cost incurred in producing selling the goods & services.

**13. Income :**
- Surplus of revenue over expenses is called 'Income'.
- **Income = Revenue – Expenses**
- Income is different from 'revenue'. Amount received from sale of goods is called 'Revenue'.

**14. Revenue :**

- Revenue in accounting means the income of a recurring(regular) nature from any source.
  {The amount of capital introduced by the proprietor or borrowing loan is not revenue.}

**15. Profit :**

- **Excess** of total revenues over total expenses of a business.

**16. Loss :**

- The term loss conveys two different meanings
  a) Total expenses exceed the total revenue.
  b) It refers to some fact or activity against which firm receives no benefits.
  ➢ For example : Loss due to fire, theft, accident etc.

**17. Gain :**

- It is a monetary benefit resulting from transactions which are incidental to business such as sale of fixed assets, winning a court case or appreciation in the value of an assets.

**18. Purchase :**

- The term purchase is used only for the purchase of 'Goods' in which the business deals.
  ➢ In Manufacturing Concern : Goods means acquiring of raw material for the purpose of conversion into finished product and then sale.
  ➢ In Trading Concern : Goods are those things which are purchased for resale.
  {The term purchases includes both Cash & Credit Purchases}

**19. Purchase Return :**

- When purchase goods are returned to the suppliers these are known as purchase returns.
- It is also known as 'Returns Outwards'.

**20. Sales :**

- Sales means transfer of ownership of goods or service to customers for a price.
  {The term sales includes both Cash & Credit Sales}

**21. Sales Return :**

- When customer return goods sold to them are known as sales returns.
- It is also known as 'Return Inward'.

**22. Stock :**

- The term 'Stock' includes the value of those goods which are purchase for reselling and which are lying unsold at the end of accounting period.
- The stock may be two types :
  1) Opening stock   2) Closing stock
  {Stock is valued at cost price or market price whichever is less.}

**23. Inventory :**

- In case of a manufacturer, there can be opening and closing inventory of four types :
  1) Inventory of Raw Material   3) Inventory of Finished Goods
  2) Inventory of Work-in-progress   4) Inventory of Stock-in-trade
  {Inventory is wide term which includes stock also.}

**24. Trade Receivables :**

- It refers to the amount receivable on account of sale of goods or services rendered by the company in the normal course of business.
- Trade receivables include both Debtors and Bills Receivables
  ➢ The term 'Debtors' represents those persons or firms to whom goods have been sold or services rendered on credit and payment has not been received from them.

- A bill of exchange becomes bill receivable for the person who draws it and gets it back, after its acceptance from the drawee.

  {The amount specified in such a bill is receivable at a future date}

**25. Trade Payable :**

- It refers to the amount payable on account of goods purchased or services taken in the normal course of business.
- Trade payable include both Creditors and Bill Payables.
  - The term 'Creditors' represents those person or firms from whom goods have been purchased or services procured on credit and payment has not been made to them.
  - A bill of exchange becomes bill payable for the person who accepts it and returns it to the drawer.

**26. Goods :**

- Goods include all those things which are purchase for resale, which are used for producing the finish products or which are also meant to be sold.

**27. Voucher :**

- A voucher is a document on the basis of which the business transactions are first of all recorded in the books of accounts.

**28. Discount :**

- It is a rebate or an allowance given by the seller to the buyer. It is of two types :

  **a) Trade Discount :**
  - It is allowed by wholeseller or manufacturer to the retailer at a fixed percentage on the list price of goods.
  - It is related to the purchases and not to the payment.
  - It is allowed when goods are purchase in bulk {large quantity}
  - It is not recorded in the books of accounts {No Separate Entry}
  - It is deducted from the invoice of the goods.

  **b) Cash Discount :**
  - It is allowed to the customers for making prompt or early payment.
  - It is recorded separately in the books of accounts.
  - It is not deducted from the invoice of the goods.

**29. Goods & Service Tax (GST) :**

- All indirect taxes(Like excise duty, sales tax, VAT) have been merged into a single tax known as GST.
- GST is paid at the time of purchase and GST is collected at the time of sale.

**30. Entry :**

- When a transaction or event is recorded in the books of accounts is called entry.

**31. Bad Debts :**

- It is the amount that has become irrecoverable from a debtor.
- It is a business loss and is debited to P&L a/c as an exp.

**32. Insolvent :**

- A person or an enterprise which is not in a position to pay its debts is called insolvent.
  - A person or an enterprise which is in a position to pay its debts is called solvent.

**33. Stores :**

- The term stores is used to denote materials held by an enterprise for the purpose of consumption in the business and not for resale.

**34. Revenue from operation :**

- It includes revenue from sale of goods and revenue from sale of services.

**35. Entity :**

- An entity or business entity means an economics unit which it formed for earning income by providing service or selling goods.

**36. Turnover :**

- It means total sale made in a particular period.

**37. Live stock :**

- Domestic animals such as cattle or horses are known as livestock.

**CHAPTER – 3**

# ACCOUNTING PRINCIPLES

**Meaning of Accounting Principles :**
Accounting principles are the rules and guidelines that business must follow when reporting financial data.

**Kind of Accounting Principles :**

A. Accounting Concepts = 11 Concepts
B. Accounting Convention = 03 Conventions

A. **Accounting concepts**

1. **Going Concern Concepts:**
As per this concept it is assumed that the business will continue to exist for a long period in the future. The transactions are recorded in the books of the business on the assumption that it is a continuing enterprise. It is on this concept that we record fixed assets at their original cost and depreciation is charged on these assets without reference to their market value. For example, if machinery is purchased which would last, say, for the next 10 years, the cost of this machinery will be spread over the next 10 years for calculating the net profit or loss of each year. Because of the concept of going concern the full cost of the machine would not be treated as an expense in the year of its purchase itself.
It is also because of the going concern concept that outside parties enters into long-term contracts with the enterprise, give loans. Also without this concept, the classification of current and fixed assets and short and long term liabilities cannot be made and such classification would be difficult to justify

2. **Consistency Concept :**
This concept states that accounting policies and practices followed by enterprises should be uniform and consistent over the period of time so that results are comparable. If a firm adopts different accounting principles in two accounting periods, the profits of current period will not be comparable with the profits of the preceding period. For example, the method of stock valuation or making provision for likely bad debts should remain consistent with the previous years otherwise the decisions taken on the basis of accounts will be misleading.
But the consistency concept should not be taken to mean that it does not allow a firm to change the accounting methods according to the changed circumstances of the business.

3. **Accrual Concept :**
In accounting, accrual basis is used for recording of transactions. It provides more appropriate information about the performance of business enterprise as compared to cash basis. Accrual concept applies equally to revenues and expenses. In accrual concept revenue is recorded when sales are made or services are rendered and it is immaterial whether cash is received or not. Similarly, according to this concept, expenses are recorded in the accounting period in which they assist in earning the revenues whether the cash is paid for them or not. Thus, to ascertain true profit or loss for an accounting period and to show the true financial position of the enterprise at the end of the accounting period all expenses and incomes relating to the accounting period are recorded whether actual cash has been paid or received or not. Accrual concept is often described as matching concept

4. **Business Entity Concept :**
Business entity concept explains that business is treated as a unit separate and distinct from its owners, creditors, managers and others. Business unit should have a completely separate set of books and we have to record business transactions from firm's point of view and not from the point of view of the proprietor. The proprietor is treated as a creditor of the business to the extent of capital invested by him in the business. The capital is treated as a liability of the firm because it is assumed that the firm has borrowed funds from its own proprietors instead of borrowing it from outside parties. It is for this reason

that we also allow interest on capital and treat it as an expense of the business. Similarly, the amount withdrawn by the proprietor from the business for his personal use is treated as his drawings.

Because of the concept of separate entity, the proprietor's house, his personal car and personal income and expenditure are kept separate from the accounts of the business entity. In the absence of the concept of separate entity, the net profits and financial position of a business entity cannot be known. The concept of separate entity is applicable to all forms of business organisations, *i.e.,* sole proprietorship, partnership or a company.

This concept assumes that business has distinct and separate entity from its owners.

5. **Money Measurement Concept :**

According to money measurement concept only those transactions and events are recorded in accounting which is capable of being expressed in terms of money. An event, even though it may be very important for the business, will not be recorded in the books of the business unless its effect can be measured in terms of money with a fair degree of accuracy. For example, accounting does not record a quarrel between the production manager and sales manager; it does not report that a strike is beginning and it does not reveal that a competitor has placed a better product in the market. These facts or happenings cannot be expressed in money terms and thus are not recorded in the books

6. **Accounting Period Concept :**

As the business is intended to continue indefinitely for a long period, the true results of the business operations can be ascertained only when the business is completely wound up. But ascertainment of profit after a very long period will be of little use to the proprietors, managers, investors and others because it will be too late to take corrective steps at that time. Thus, the entire life of the firm is divided into time-intervals for the measurement of the profits of the business. Twelve month period is usually adopted for this purpose. According to the amended income tax law, a business has compulsorily to adopt financial year beginning on 1st April and ending on 31st March in the next calendar year, as its accounting period.

7. **Historical Cost Concept :**

According to this concept, an asset is ordinarily recorded in the books of accounts at the price at which it was acquired. This cost becomes the basis of all subsequent accounting for the asset. Since the acquisition cost relates to the past, it is referred to as historical cost. This cost is the basis of valuation of the assets in the financial statements. For example, if a business entity purchases a building for ` 5,00,000, it would be recorded in the books at this figure. Subsequent increase or decrease in the market value of the building would not be recorded in the books of accounts. If two years later the market value of the building shoots up to ` 10,00,000, the increased value will not be ordinarily recorded in the books of accounts.

8. **Dual Aspect Concept :**

According to this concept, every business transaction is recorded as having a dual aspect. In other words, every transaction affects at least two accounts, if one account is debited, any other account must be credited. The system of recording transactions based on this concept is called as 'Double Entry System'. It is because of this principle that the two sides of the Balance Sheet are always equal and the following accounting equations will always hold good at any point of time:

Assets = Liabilities + Capital

OR

Capital = Assets – Liabilities

Whenever a transaction is to be recorded, it has to be recorded in two or more accounts to balance the equation. If a transaction affects (increases or decreases) the one side of the equation, it will also affect (increase or decrease) the other side of the equation or increase one account and decrease another account on the same side of the equation. Equation remains balanced whenever a transaction takes place. For example, X commences business with ` 5 Lakhs in cash and takes a loan of ` 1 Lakh from the bank, and these 6 Lakhs are used in buying some assets, say, plant and machinery. The equation will be as follows:

| Assets | = | Liabilities | + | Capital |
|---|---|---|---|---|
| 6 Lakhs | = | 1 Lakh | + | 5 Lakhs |

9. **Revenue Recognition Concept :**
Revenue means the amount which is added to the capital as a result of business operations. Revenue is earned by sale of goods or by providing a service. Concept of revenue recognition determines the time or the particular period in which the revenue is realised. Revenue is deemed to be realised when the title or the ownership of the goods has been transferred to the purchaser. It should be remembered that revenue recognition is not related with the receipt of cash. For example, if a firm gets an order of goods on 1st January, supplies the goods on 20th January and receives the cash on 1st April, the revenue will be deemed to have been earned on 20th January, as the ownership of goods was transferred on that day. Revenues in case of incomes such as rent, interest, commission etc. are recognised on a time basis.

10. **Matching Concept :**
This concept is very important for correct determination of net profit. According to this concept, in determining the net profit from business operations, all costs which are applicable to revenue of the period should be charged against that revenue. Accordingly, for matching costs with revenue, first revenues should be recognised and then costs incurred for generating that revenue should be recognised. Following points must be considered while matching costs with revenue:

(1) When an item of revenue is included in the profit and loss account, all expenses incurred on it, whether paid or not, should be shown as expenses in the profit and loss account. On the basis of this principle, outstanding expenses, though not paid in cash are shown in the profit and loss account
(2) When some expense, say insurance premium is paid partly for the next year also, the part relating to next year will be shown as an expense only next year and not this year. This means that, that part of the insurance premium against which benefit will be derived or revenue will be earned in future should be shown in the balance sheet as an asset and the rest is treated as an expense during the current year.
(3) Cost of the goods remaining unsold at the end of the year together with the expenses incurred on it must be carried forward to the next year, as these goods will be sold only during the next period. As such, the closing stock is carried over to the next period as opening stock
(4) Similarly, incomes receivable must be added in revenues and incomes received in advance must be deducted from revenues.

11. **Objectivity Concept :**
This concept requires that accounting transaction should be recorded in an objective manner, free the personal bias either management or the accountant who prepares the accounts.
It is possible when each transaction is supported by verifiable documents and vouchers such as cash memos, invoices, sales bill, pay-in-slip etc.

B. **Accounting Conventions :**

Difference between Accounting Concepts and Accounting Conventions:

The Main difference between accounting concepts and conventions is that accounting concepts are officially recorded, whereas accounting conventions are not officially recorded and are followed as generally accepted guidelines.

1. **Convention of Full Disclosure :**
This principle requires that all significant information relating to the economic affairs of the enterprise should be completely disclosed. In other words, there should be a sufficient disclosure of information which is of material interest to the users of the financial statements such as proprietors, present and potential creditors, investors and others. The principle is so important that the Companies Act makes ample provisions for the disclosure of essential information in the financial statements of a Company. The proforma and contents of Balance Sheet and Profit and Loss Account are prescribed by Companies Act. Various items or facts which do not find place in accounting statements are shown in the Balance Sheet by way of footnotes

2. **Convention of Materiality :**
Convention is an exception to the convention of full disclosure. According to this convention, items having an insignificant effect or being irrelevant to the user need riot be disclosed. These unimportant items are either left out or merged with other items, otherwise accounting statements will be unnecessarily overburdened. American Accounting Association (AAA) defines the term materiality as under:
"An item should be regarded as material if there is reason to believe that knowledge of it would influence decision of informed investor."

3. **Convention of Conservatism or Prudence :**
According to this convention, all anticipated losses should be recorded in the books of accounts, but all anticipated or unrealized gains should be ignored. In other words, conservatism is the policy of playing safe. Provision is made for all known liabilities and losses even though the amount cannot be determined with certainty. Likewise, when there are different alternatives for recording a transaction, the one having least favourable immediate effect on profits or capital should be adopted. Following are the examples of the application of the principle of conservatism:
1. Closing stock is valued at cost price or realisable value whichever is less.
2. Provision for doubtful debts is created in anticipation of actual bad-debts.
3. Provision for a pending law suit against the firm, which may either be decided in its favour

CHAPTER - 4

# PROCESS AND BASES OF ACCOUNTING

**Process of Accounting :**

Following steps are followed in accounting process

**(I) Identification of Transactions :**

- Accounting deals with business transactions which are monetary in nature.
- For recording business transaction, it is necessary that these transaction are evidence by an appropriate document such as cash memo, purchase invoice, cheque book etc.
- A document which provides evidence of the transaction is called the Source Document.

**(II) Preparation of Vouchers :**

- On the basis of source documents entries are first of all recorded on vouchers and then made in the journal.
- Vouchers are printed separately by all the firms in their own name.
- A separate voucher is prepared for each transaction

**(III) Recording in Books of Original Entry :**

- The books in which transactions are recorded for the first time form a voucher are called 'Books of Original Entry'.
- Journal is one of the books of original entry in which transactions are recorded in a chronological order according to the principles of double entry system.

**(IV) Posting to Ledger :**

- The next step in the accounting process is to transfer all entries recorded in journal or subsidiary books to respective accounts in ledger.
- A ledger is a principle book of account in which all the transaction find their place under their respective account in a duly classified form.
- In ledger separate accounts are opened in the name of each person whether customer or supplier.

**(V) Preparation of Trial Balance and Financial Statements :**

- Last step in the accounting process is the balancing of ledger accounts and preparation of Trial Balance with the help of such balances.
- A Trial Balance is a statement, prepared to check the arithmetical accuracy.
- Trial Balance contains the balances of all ledger accounts; it provides a basis for preparation of financial statements namely Trading and P&L A/c and Balance Sheet.

**Bases of Accounting :**

**(i) Cash Basis** **(ii) Accrual Basis**

| **Basis of Distinction** | **Cash Basis of Accounting** | **Accrual Basis of Accounting** |
|---|---|---|
| 1. Recording of cash & Credit Transactions | Records only the cash transactions | Records cash as well as credit transaction |
| 2. Timing of Recording of incomes | Only those incomes are recorded which have been received in cash | All incomes are recorded whether cash is received for them or not |
| 3. Timing of Recording of Expenses | Only those exp. are recorded which have been paid in cash | All exp. are recorded whether cash is paid for them or not |

| | | |
|---|---|---|
| 4. Outstanding and Prepaid exp., Accrued income and income received in advance | Does not take into consideration all such items | Takes into consideration all such items |
| 5. Legal Position | Not recognised under the Companies Act 2013 | Recognised under the Companies Act 2013 |
| 6. Ascertainment of correct profit or loss | Does not ascertain correct profit or loss | Ascertain correct profit or loss |
| 7. Suitability | Suitable for professional people like doctors, lawyers etc. | It is adopted by business enterprises with profit motive. |

**Hybrid or Mixed Basis of Accounting:**

- This basis of accounting is mixture of cash basis and accrual basis.
- Under hybrid basis of accounting revenue and assets are recorded on cash basis whereas expenses and liabilities are recorded on accrual basis.
- Usually professional people such as doctors, lawyers etc. adopted this method and prepare receipt and Expenditure account to ascertain their net income during a period.

## CHAPTER – 5

# ACCOUNTING STANDARDS AND IFRS

Meaning of Accounting Standards (AS):

Accounting standards are the written statements consisting of rules and guidelines, issued by the accounting institutions, for the preparation of uniform and consistent financial statements.

**Nature of Accounting Standards:**

1. **Serve as a Guide to the Accountants**
   - Provide basis on which accounts are prepared.
   - For Example:- They provide the method of valuation of inventories.
2. **Act as a Dictator**
   - Helps accountant as a dictator
   - For Example:- Format of Cash Flow Statement
3. **Serve as a Service Provider**
   - Define certain terms
   - Specifying standards &
   - Explaining disclosures.
4. **Act as a Harmoniser**
   - AS are not biased
   - Facilitate solutions

**Objectives of Accounting Standards**

1. **For Bringing Uniformity in Accounting methods**
   - Accounting standards are required to bring uniformity in accounting methods by proposing standard treatment to the accounting issue.
   - For example, AS-6 (Revised) states the methods of depreciation accounting.

2. **Simplify The Accounting Information**
    - Accounting standards prevent the users from reaching any misleading conclusions and make the financial data simpler for everyone.
    - For example, AS-3 (Revised) clearly classifies the flows of cash in terms of operating activities, investing activities and financing activities.
3. **Prevent Frauds and Manipulations**
    - Accounting standards prevent manipulation of data by the management and others.

**Limitations of Accounting Standards**

1. **Rigid in Nature:**
   Accounting standards are rigid in nature. They restrain the accountants from using a more suitable alternative solution to a particular problem.
2. **Based on Historical Cost :**
   Accounting Standards are based on historical cost concept. Assets are shown in the Balance Sheet at historical cost and as such depreciation is also charged on such historical cost.
3. **Obstruct the Judgment of Auditors :**
   Accounting Standards obstruct the judgment of the auditors as the standards are mandatory.

## CHAPTER - 6

# ACCOUNTING EQUATION

- Prior to understanding an accounting equation, it is essential to know about a balance sheet.
- Format of Balance Sheet

| Capital & Liabilities | Amount | Assets | Amount |
|---|---|---|---|
| | | | |

**Explanation:** In Balance Sheet assets are recorded on the right side and Capital & Liabilities are recorded in left side.
The total of the both sides of the balance sheet should always equal.

- An accounting equation is a formula of accounting which shows that the assets of a business are always equal to the total of capital and liabilities

**Assets = Capital + Liabilities**

- **Purpose of accounting equation:**
  1. It ensures the accuracy in recording the business transaction.
  2. It helps in the preparation of balance sheet.

- **Calculation of profit :**
  Closing capital + Drawing - Additional capital – Opening capital
- **Meaning of Debit & Credit :**
    - All accounts are divided into two sides
    - The left side of an account is called Debit side. (Arbitrarily or Traditionally)
    - The right side of an account is called Credit side.
    - In the abbreviated form, Debit is written as Dr. and Credit is written as Cr, and account is written as A/c.

☆ Format of account

| Debit (Dr) | | Name of Account | Credit (Cr) |
|---|---|---|---|
| Particulars | Amount | Particular | Amount |
| | | | |

✍ **<u>Rules of Debit & Credit :</u>**

There are <u>two approaches</u> :-

(I) American approach or Morden approach

(II) English approach or Traditional approach or Double entry system

**(I) <u>American Approach :</u>**

☆ The rule of debit and credit depend on the <u>nature</u> of an account.

☆ For this purpose, all the accounts are classified into 5 categories. **<u>(CLEAR)</u>**

1. Assets Accounts
2. Liabilities Accounts
3. Capital Accounts / Owner's Equity Account
4. Revenue or Income Account
5. Expenses or Losses Account

**Assets Accounts**

| | | | |
|---|---|---|---|
| <u>Increase</u> in assets will be recorded in this side | Amount | Decrease in assets will be recorded in this side | Amount |

**Liability Accounts**

| | | | |
|---|---|---|---|
| <u>Decrease</u> in liability will be recorded in this side | Amount | Increase in liability will be recorded in this side | Amount |

**Capital Accounts**

| | | | |
|---|---|---|---|
| <u>Decrease</u> in Capital will be recorded in this side | Amount | Increase in Capital will be recorded in this side | Amount |

**Revenue /Income Accounts**

| | | | |
|---|---|---|---|
| Decrease in revenue/gain/income will be recorded in this side | Amount | <u>Increase</u> in revenue/gain/income will be recorded in this side | Amount |

**Expenses / Losses Accounts**

| | | | |
|---|---|---|---|
| <u>Increase</u> in losses/expenses will be recorded in this side | Amount | Decrease in losses/expenses will be recorded in this side | Amount |

☆ Increase or Decrease depending on the nature of an account

☆ In case of <u>assets & expenses</u>, debit represent increase and credit represent decrease.

☆ In case of <u>liability, capital & income</u>, debit represent decrease and credit represent increase.

**CHAPTER - 7**

# DOUBLE ENTRY SYSTEM

- Double entry system is the most progressive, scientific and complete system of recording the financial transactions of a business.
- According to this system there are two accounts involved in every business transactions. One of them is debited (Dr) and the other one is credited (Cr).
- A book on the double entry system was, first of all written in ***1494 by "Luca Pacioli"***, a resident of the city of Venice in Italy.
    - This book was translated into English by ***Huge Old Castle in 1544.***
    - Later on, many changes were incorporated in the system and finally a complete book named as ***"English System of Book-Keeping"*** was written on this system by ***Edward Jones in 1785.***

**Meaning of Double Entry System**

☆ Double entry system refers to a system of accounting in which every transaction affects at least two accounts simultaneously. One of them is debited and other one is credited.
{Double entry does not mean that a transaction is recorded twice. But it means that at least two accounts are affected by a transaction.}

***Definitions :-***

❖ "The Double entry system seeks to record every transaction in money or money's worth in its double aspect- The receipt of a benefit by one account and the surrender of a like benefit by another account, the former entry being of the debit of the account receiving and the latter to the credit of that account surrendering."

**William pickles**

❖ "Every business transaction has a two-fold effect and that it affects two accounts in opposite directions and if a complete record were to be made of each such transaction, it would be necessary to debit one account and credit another account. It is this recording of the two fold effect of every transaction that has given rise to the term Double entry system."

**J.R. Batliboi**

**Principles or Characteristics of Double Entry System**

{Double Entry System is based upon the principle that "Every debit has a credit and every credit has a debit"}

1. **Every business transaction affects two accounts** :-
    - Every business transaction affects two accounts simultaneously, one of them is debited and the other one is credited.
    - Certain transactions may affect more than two accounts.
2. **Recording of both personal and impersonal aspects** :-
    - It is possible that both the aspects of a transaction may be personal or both may be impersonal or one may be personal and the other may be impersonal.
3. **Recording is made according to certain specified rules** :-
    - In double entry there are certain rules for debiting and crediting and debit and credits are made on the basis of these rules.

4. **Preparation of Trial Balance** :-
    - One account is debited and the other is credited, total of all debits is always equal to the total of all credits.
    - This helps in finding out the arithmetical accuracy of the accounting.
    - This is done by preparing a trial balance.

**Classification of Accounts :-**

(1) Personal Accounts (2) Real Accounts (3) Nominal Accounts

1. **Personal Accounts :-**
    - The accounts which relate to an **individual, firm, company or an institution** are called personal accounts.
    - **Rule of Personal Account**
        - Debit the Receiver
          Credit the Giver
    - **Object**
        - Object of preparing a personal account is to ascertain as to how much amount a personal account owes to the business and how much amount is owed to a personal account from the business.
    - **Classification of Personal Accounts**
        i. Natural Personal Accounts {accounts of human beings}
        ii. Artificial Personal Accounts {accounts do not have physical existence as human beings}
        iii. Representative Personal Accounts {when an a/c represents a particular person or group}
2. **Real Accounts :-**
    - All those things whose value can be measured in terms of money and which are the properties of the business are termed as Real Account.
    - **Rule of Real Account**
        - Debit what comes in
        - Credit what goes out
    - **Object**
        - It indicates the financial position of the business.
    - **Classification of Real Accounts**
        i. Tangible Real Accounts
        ii. Intangible Real Accounts
        {It should be noted that Bank A/c is not a real a/c but it is an Artificial Personal A/c}
3. **Nominal Accounts :-**
    - These accounts include the accounts of all exp. and incomes.
    - **Rule of Nominal Account**
        - Debit all expenses & losses
        - Credit all income, gains & profits
    - **Object**
        - These accounts are opened simply to explain the nature of head for which Cash has been paid.
    - **Note** : 1. Nominal accounts are those accounts which are in name only and which do not really exist.
      2. When any word (as a prefix or as a suffix) is added to a Nominal Account, it becomes a Personal Account.

**Stages or Parts of Double Entry System**

1. **Original Records : -**
   - Recording in Journal or in its subsidiary books is the first stage of double entry system. This stage is also known as original record stage.
2. **Classification : -**
   - All the transaction recorded in the Journal or its subsidiary books are transferred in a classified form to another book which is called 'Ledger'. Posting in ledger is also known as classification stage.
3. **Summary :-**
   - In this stage, all the accounts in the ledger are balanced off and put in a list. The list so prepared is called a Trial Balance. If two sides of the trail balance are equal, the arithmetical accuracy of accounts is proved.
   - With the help of Trial Balance Trading and P&L account is prepared to ascertain the profit or loss during a particular period, and
   - Balance sheet is prepared to show the financial position of the business.

**Advantages of Double Entry System**

1. Scientific System
2. Complete record of every transactions
3. Preparation of Trial Balance
4. Preparation of Trading and P&L a/c
5. Preparation of Balance Sheet
6. Lesser possibility of fraud
7. Legal Approval
8. Comparative Study
9. Helps management in Decision Making
10. Suitable for all types of Business

**Disadvantages of Double Entry System**

1. This system is quite expensive
2. Proper education, practical knowledge and training is required
3. Only arithmetical accuracy is checked
   Following four type of errors are not disclosed under this system :
   (a) **Error of Omission** : {Unrecorded}
   (b) **Error of Commission** : {Wrong amount}
   (c) **Error of Principle** : {Wrong account}
   (d) **Compensating Errors** : {effect of one error is cancelled by the effect of some other errors}

CHAPTER – 8

# SOURCE DOCUMENTS OF ACCOUNTANCY

- A source document is a written document containing details of the transactions.
- A source document is of prime importance in accounting because accounting is based on factual financial information, i.e. evidence.
  They are also known as Supporting Documents.
- Kind of source documents: cash memo, cash receipt, invoice or bill, debit and credit notes, pay-in-slip, cheque.
- Such documents report the date, the amount, parties involved and the nature of the transaction.
- Source documents are the written and authentic proof of the correctness of the recorded transaction.
- Source documents are required for audit and tax assessments.
- Source documents are also serve as the legal evidence in case of dispute.

1. **Cash Memo :**
   - When a trader sell goods for cash, he gives a cash memo and when he purchases goods for cash he receives a cash memo which contains details regarding the item, quantity, rate and the total price.
2. **Invoice and Bill :**
   - When a trader sells goods on credit, he prepares a sale invoice which contains the name of the party to whom goods are sold, rate, quantity and the total amount of sale.
   - Original copy of the sale invoice is sent to the purchaser and duplicate copy is kept by seller for making records.
3. **Cash Receipt :**
   - When a trader receives cash from a customer, he issues cash receipt containing the date, amount and the name of the customer.
4. **Debit Note :**
   - When we return goods to a supplier, we prepare a debit note and send it to supplier with the returned goods.
5. **Credit Note :**
   - When goods are received back form a customer a credit note is sent to him indicating that the customer's account has been credited in our books.
6. **Pay-in-Slip :**
   - This is a form available from a bank and is used to deposit money in the bank.
7. **Cheque :**
   - A cheque is an order in writing drawn upon a bank to pay a specified amount to the bearer or the person named in it.

{In addition to the above bills receivable, bills payable, wages sheet etc. also serves as the source documents.}

**Vouchers :**

- On the basis of source documents entries are first of all recorded on vouchers and then on the basis of Vouchers recording is made in the Journal or Books of Original Entry.
- Vouchers are printed separately by all the firms in their own names.
- Vouchers are prepared by an accountant and each voucher is counter signed by an authorised person of the firm.
- A serial number is put on each voucher and the relative source documents are attached with the Voucher.

**Types of Vouchers :**

Vouchers may be classified into two categories :

1) Cash Vouchers
   (a) Debit Vouchers for Cash Payment
   (b) Credit Vouchers for Cash Receipt
2) Non-Cash Vouchers

**Difference between source documents and vouchers**

| Source Documents | Vouchers |
|---|---|
| 1. It is a support to the voucher. | 1. It is supported by the source documents. |
| 2. It is not prepared to record transactions. | 2. It is prepared for the purpose of recording of transactions. |
| 3. It contains full details of transactions. | 3.It puts emphasis on which account is to be debited and which account is to be credited. |
| 4. It is evidence of the transactions. | 4. It is documents of correct recording of a transactions. |

**Compound Voucher :**

- A document showing a transaction that contains multiple debits and one credit or which contain multiple credits or one debit is called compound voucher.
- Compound voucher classified into two types :
  a) Debit Voucher
  (Multiple debits and one credit)
  b) Credit Voucher
  (Multiple credits or one debit)

CHAPTER - 9

# JOURNAL

- Journal is a book of Original Entry in which the transactions are recorded first of all from a source document
- Transactions are recorded in chronological order according to the principle of "Double Entry System".

| In Small Business | In Big Business |
|---|---|
| Where the number of transactions is quite small, all transactions are first of all recorded in a book called 'Journal'. | When the number of transactions is quite large, the Journal is further sub-divided into various subsidiary books<br>➢ Types of Subsidiary books :<br>1. Cash Book<br>2. Purchase Book<br>3. Sales Book<br>4. Purchase Return Book<br>5. Sales Return Book<br>6. Bills Receivable Book<br>7. Bills Payable Book<br>8. Journal Proper |

**Note :** A businessman need not maintain all of above subsidiary-books.

**Features of a Journal:**

1. Transactions are recorded first of all, as and when they take place
2. Books of Primary(original) Entry
3. Daily accounting records
4. Transactions are recorded in a chronological order
5. Provide complete picture of one entry
6. Followed principles of 'Double Entry System'
7. Each entry is followed by a brief explanation of the transactions which is called 'Narration'

**Functions of a Journal :**

1. To keep a chronological record of all transactions
2. To analyse each transaction into debit and credit aspects by using principles of 'Double Entry System'
3. To provide a basis for posting into ledger

**Advantages of a Journal :**

1. Possibility of omission is minimised
2. Easy to locate particular transactions when required
3. Analysis each transaction into debit & credit aspects
4. Carries Narration (Brief Explanation)
5. Identity of each transactions
6. Facilitates of cross checking of ledger accounts

**Limitation of a Journal :**

1. When the number of transactions is large it will become bulky & voluminous
2. Many transactions are repetitive in nature
3. Journal doesn't provide the required information on prompt basis
4. Cash transactions are usually recorded in a separate book called 'Cash Book'. Thus cash transactions need not be recorded in Journal.

**Format of Journal :**

Journal

| Date | Particulars | L.F | Amount Dr | Amount Cr |
|---|---|---|---|---|
| | | | | |

**JOURNALISING :**

- The process of recording transactions in the journal is called 'Journalising'.

**Date :**

- In the first column date of the transaction is entered
- The sequence of the dates and months should be strictly maintained

**LEDGER FOLIO (L.F.) :**

- Ledger Folio is the page number of the ledger account where the posting has been made from the journal.

**NARRATION :**

- After each entry, a brief explanation of the transaction together with necessary details is given. This explanation is called "Narration".

- **Compound Journal Entries :**
  - Sometimes, two or more transaction relating to one particular account takes place on the same date. In such cases, instead of passing separate entries for all such transactions, only one entry is passes. Such a Journal entry is termed as 'Compound Entry'.
- **Opening Entry :**
  - Opening entry is a compound entry which carries forward all the balances of assets and liabilities of previous year to the current year.

- **Some Special Entries :**

1. **Bad Debts Recovered :**
   - Sometimes, it so happens that the bad debts previously written off are subsequently recovered.

   Cash A/c Dr
   To Bad Debts Recovered A/c
2. **Outstanding Expenses :**
   - There are certain expenses which are yet to be paid at the end of accounting year due to one reason or the other.
   - Outstanding exp. account is a liability
   - It is a representative personal account

   Expenses A/c Dr
   To Outstanding Expenses A/c
3. **Prepaid Expenses :**
   - There are certain expenses which are related to the next year but have been paid during the current year in advance. These are called prepaid expenses
   - Prepaid exp. account is an asset
   - It is a representative personal account

   Prepaid Expenses A/c Dr
   To Expenses A/c
4. **Depreciation :**
   - It is the permanent and continuing decrease in the value of assets on account of wear and tear and passage of time.
   - It is a business exp. though it is not paid in cash
   - Depreciation is a nominal account

   Depreciation A/c Dr
   To Assets A/c
5. **Interest on Capital :**

   Interest on Capital A/c Dr
   To Capital A/c
6. **Interest on Drawings :**

   Drawings A/c Dr
   To Interest on Drawings A/c

# CHAPTER – 10

# ACCOUNTING FOR GST

- Goods & Service tax (GST) is an indirect tax levied at prescribed rate on every supply of goods and services except on petroleum and alcohol for human consumption.
- It is based on the principle of 'One Nation One Tax'.
- GST Act was passed on 24th March 2017.
- GST Act comes into effect from 1st July 2017.
- GST has replaced many indirect taxes levied by Central Govt. and State Govt.
    - Central level taxes: Excise duty, Service tax, Central Sales Tax.
    - State level taxes : Purchase tax, Entertainment tax, VAT, Luxury tax, Octroi and Entry tax, tax on lottery
- GST Rate Structure :
    - Essential items including food 0%
    - Common use items 5%
    - Standard rate 12%
    - Maximum Goods and all services standard rate 18%
    - Luxury items and tobacco 28%
- GST paid (Input GST) on purchase goods and services
- GST collected (Output GST) on sale of goods and services
  {**Note :** Input GST is set off against Output GST}
    - If GST paid on purchase of goods and services is set off against GST collected, in such case it is not a cost for the purchaser but it is an assets.
    - In certain cases GST paid cannot be set off against GST collected, in such case GST paid on purchase of goods and services is a cost for the purchaser.

**Special Note :**

Following goods and services are exempted from levy of GST.
- Payment of Wages and Salaries
- Supply of services to Govt. or to Embassies of other countries
- Electricity and water bills
- Educational Services
- Health Services
- Travelling Exp.
- Interest

**Characteristics of GST :**

1. **GST is a comprehensive Indirect Tax :**
    - All indirect taxes have been merged in a single tax i.e. GST
2. **Uniform GST rates :**
    - Across all the States and Union Territories
3. **GST paid is not a cost :**
4. **GST is a value added tax :**

**Advantages of GST :**

1. Decrease in the Cost of Goods
2. Ease of Doing Business
3. Goods become cheaper
4. Developing common national market
5. Reduction in tax evasion
6. Attracting foreign investment

**Types of taxes under GST :**

1. Central GST {CGST}
2. State GST {SGST} or Union Territory GST {UTGST}
3. Integrated GST {IGST}

# ACCOUNTS BY NEMANI SIR

# ECONOMICS BY RAVI SIR

# I.P BY KRISHAN SIR

# BST BY ANISHA MA'AM