Course Name : BBA / BCOM

Subject Name: Basic Accounting

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Accountancy

Accountancy is the profession which deals with Accounting

Accounting:

Accounting is the language of business

According to American Institute of Certified Public Accountants (AICPA)
Accounting is the art of

- Recording
-Classifying and
-Summarizing
-In a significant manner and in terms of money
- Transactions and Events
- In part at least, of a financial character,
-And interpreting the result thereof

According to American Accounting Association (Widely Accepted Definition
The process of identifying, measuring and communicating economic information to
permit informed judgements and decisions by the users of accounts.

Book-Keeping

Book-Keeping is the ***science and art*** of correctly recording in the books of account all those business transactions that result in the transfer of money or money's worth.

-Accounting and book-keeping are not one and the same. Accounting is a wider term. Accounting includes Book-Keeping.

Book-Keeping Accounting
It is a process concerned with recording of
transactions
It is a process concerned with summarizing of
the recorded transactions
Managerial Decisions cannot be taken Managerial Decisions can be taken
There are no sub-fields It have branches or sub-fields like financial
accounting, management accounting, cost

accounting etc.
Financial Position cannot be ascertained Financial Position can be ascertained
It constitutes the bases for accounting It is considered as the language of business
Financial statements do not form part of this
process
Financial statements are prepared in this
process on the basis of book-keeping records. Accounting includes Book-Keeping.

Users Need for Information

Creditors (Suppliers) To determine whether the principal and the interest thereof will be paid in when due
Directors To take prompt decisions to manage the business efficiently
Employees Their earning capacity like salary, bonus, retirement benefits etc. depends upon the earning capacity of the business.
Financiers To determine whether the principal and the interest thereof will be paid in when due
Government Tax liabilities
Holders of Capital Dividend
Investors To ensure the safety of their investment, return on investment or to take decision as to whether invest or not

the objectives of Accounting

1. Systematic Record of Transactions
2. Ascertainment of Results of the Above transactions
3. Ascertainment of the financial position of the business
4. Providing information to the users for rational decision-making
5. To know the solvency position

Branches of Accounting

i) Financial Accounting:

-Covers the preparation and interpretation of financial statements and communication to the users of accounts

-It is historical in nature as it records transactions which had already been occurred

- It primary helps in determination of the net result for an accounting period (trading and Profit and Loss account) and the financial position (Balance sheet) as on a given date.

ii) Management Accounting:

- Concerned with internal reporting to managers of a business unit

-In order plan, control and take decision, management needs variety of information.
Preparing reports as desired by the managers for performing their functions is referred as Management Accounting

-Cost accounting is the important component of Management Accounting

iii) Cost Accounting:

- Deals with the process of ascertaining the cost, controlling the cost

iv) Social Responsibility Accounting:

-The is the new concept which has been evolved due to social awareness

-It is concerned with accounting for social costs and social benefit incurred by the enterprise

v) Human Resource Accounting:

-It is an attempt to identify, quantify and report investments made in human resources of an organization

-These are not presently accounted for under conventional accounting practice

. ***Transactions***
those activities
which involve transfer of money or goods or services
between two persons or two accounts

Example:
1. Purchase of goods
2 Sale of goods
3 Borrowing money from bank
4 Investing money in bank

Cash Transaction:
A cash receipt or payment is involved ***immediately***

Credit Transaction:
A cash receipt or payment is involved ***later but not immediately***

Proprietor
A person who owns the business is called as proprietor.

Capital
The amount with which business is started is capital. This amount will be increased by
profits and additional capital introduced.

Asset

- The expenditure which results in acquiring of some property or benefit of a lasting nature or something that can be converted into cash.

-Example: Building, stock, bills, patent etc.

Intangible Assets: Those assets which have no physical existence. But their possession gives some rights and benefits to owners. It cannot be seen or touched

Assets can be classified into Tangible Assets and Intangible Assets.

Tangible Assets can further be classified into fixed assets and current assets

Intangible Assets: Those assets which have no physical existence. But their possession gives some rights and benefits to owners. It cannot be seen or touched

Fixed assets: The assets which are acquired only for use and not for resale.
Example: building, Plant and Machinery, land etc.

Current Assets: The Assets which can be converted into cash as soon as possible.
Example: Cash, Bank Balance, Stock, Debtors, Bills etc.
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Drawings

The amount of cash or value of goods withdrawn from the business by the proprietor for
his personal use. It is deducted from capital

.Debtors

A person who receives a benefit without giving money or money's worth immediately,
but liable to pay in future or in due course of time. They are asset for the enterprise

Creditors

A person who gives the benefit without giving money or money's worth immediately, but
will claim in future or in due course of time. They are liability for the enterprise

Purchases

-Amount of goods bought by business for resale or for use in the production.

-When it is purchased for cash, it is cash purchases

- When it is purchased on credit, it is credit purchases

-Total purchases = Cash Purchases + Credit Purchases

.***Purchases return or Return Outward***

- When goods are returned to suppliers it is called as purchase return

-Net Purchases = Total Purchases – Purchase returns

Sales

-The amount of goods sold that are already bought or manufactured by the business

-When goods are sold for cash, they are cash sales

-When goods are sold any payment is not received at the time of sale, it is credit sales.

-Total Sales = Cash Sales + Credit Sales

Sales Return or Return Outwards

-When goods are returned from the customers it is called as sales return

-Net Sales = Total Sales – Sales Return

Stock

-Goods unsold on a particular date

- It may be closing stock or opening stock

- Opening stock means goods unsold in the beginning of the accounting period

-Closing stock means goods unsold at the end of the accounting period

-Closing stock of the previous year is the opening stock of the current year

Revenue

The amount receivable or realized from sale of goods and earnings from interest, dividend, commission etc.

Expense

The amount spent in order to produce and sell goods and services Example: purchase of
raw materials, payment of salaries, etc.

. Income

Difference between revenue and expense

. Voucher

- It is a written document in support of a transaction

-It is a proof that a particular transaction has taken place for the value sta
voucher
Example: Cash Receipt, Invoice, bank pay-in-slip etc.

Invoice

-It is a document which is prepared by the seller of goods when he sells

- It contains the information like name, address of seller and buyer, date of sale and clear description of goods with quantity and price

Receipt

-It is an acknowledgement for cash received

- It is issued to the party paying cash

ACCOUNTING CYCLE

The Series of business transactions which occur from the beginning of an accounting period to the end of an accounting period is referred any specific period of time for which a summary of business's transaction is prepared.

Steps in Accounting Cycle:-

1. Journalizing (Recording)
2. Posting to Ledger (Classifying)
3. Final Account (Summarizing)

Now Explain Steps:-

1 Recording:- This is the basic function of accounting. All business transaction, as evidenced by some documents such as Sale bill, Pass book, Salary Slip ect are recorded in the books of account. This is called recording process.

2. Classifying:- All entries in the Journal or books of Original Entry should be posted to the appropriate ledger accounts to find out at a glance the total effect of all such transactions in a particular account.

3. Summarizing:- It is concerned with the preparation and presentation of the classified data in a manner useful to the Internal a well as the external users of financial statements. This process leads to the preparation of the following financial statements:-

a) Trial Balance
b) Profit & Loss Account
c) Balance Sheet
d) Cash flow Statement.

DIFF. BETWEEN BOOK KEEPING AND ACCOUNTING

BOOK KEEPING	ACCOUNTING
1. It is a Process concerned with recording of transaction.	1. It is a process concerned with Summarizing of the recorded transaction.
2. It is the basic of accounting.	2. It is the basic for business language.
3. Person responsible for book-keeping are called book keeper.	3. Personal responsible for accounting are called accountant.
4. It does not required any special skill or Knowledge.	4. It required special Skill &

	knowledge.
5. Personal judgment of the book-keeper is not required.	5. Personal Judgment of the accountant is essential.
6. Financial statement are not prepared from book-keeping record.	6. Financial statement are prepared from accounting record.
7. It does not give the complete picture of the financial condition of the business unit.	7. It gives the complete picture of the financial conditions of the business unit.
8. It does not help complying with legal formalities.	8. Legal formalities can be complied with help of accounting.
9. It does not provide any information for talking managerial decision.	9. It provides Information for talking managerial decision.
10. It has no Branches.	10. It has several branches like Financial accounting, cost accounting, Management accounting ect.

DOBULE ENTRY SYSTEM

Under this system a proper and full record of all transaction is made every transaction has a double or dual aspect. It is based upon the principal that every receiver implies giver and every giver implies receiver. This method writhing every transaction in two accounts is given debit side and the other account is given credit with an equal amount. Thus, on any date, the total of all debits must be equal to the total of all credit because every debit entry has a corresponding credit.

For example, ram purchased goods from Kewal, of Rs.5000. here ram is receiver of goods and hence, debtor of Kewal, who is the giver of goods, that is, he is the creditor of Ram. Similarly, Salary paid to manager is in lieu of the benefit received by the business, in terms of the service rendered ect. Thus, all transaction will have two aspect and a proper record of the transaction is necessary for this, it has to be recognized that.

1.) Each transaction is to be dealt with as standing alone having no preceding ar succeeding connection, and

2.) A business is regarded as a separate entity quite distinct from its proprietor and the exchange in transaction takes place between the business and the outsider.

ACCOUNTING CONCEPT

Accounting Concept defines the assumptions on the basis of which Financial Statements of a business entity are prepared. Certain concepts are received assumed and accepted in accounting to provide a unifying structure and internal logic to accounting process. The word concept means idea or nation, which has universal application. Financial transactions are interpreted in the light of the concepts, which govern accounting methods. Concepts are those basis assumption and conditions, which form the basis upon which the accountancy has been laid. Unlike physical science, Accounting concepts are only results of broad consensus. These accounting concepts lay the foundation on the basis of which the accounting principals are formulated.

Now we shall study in detail the various concept on which accounting is based. The following are the widely accepted accounting concepts.

1.) **Entity Concept:-** Entity Concept says that business enterprises is a separate identity apart from its owner. Business transactions are recorded in the business books of accounts and owner’s transactions in this personal back of accounts. The

concept of accounting entity for every business or what is to be excluded from the business books. Therefore, whenever business received cash from the proprietor, cash a/c is debited as business received cash and capital/c is credited. So the concept of separate entity is applicable to all forms of business organization.

2.) **Money Measurement Concept:-** As per this concept, only those transactions, which can be measured in terms of money are recorded. Since money in the medium of exchange and the standard of economic value, this concept requires that these transactions alone that are capable of being measured in terms of money be only to be recorded in the books of accounts. For example, health condition of the chairman of the company, working conditions of the workers, sale policy ect. do not find place in accounting because it is not measured in terms of money.

3.) **Cost Concept:-** By this concept, the value of assets is to be determined on the basic of historical cost. Transaction are entered in the books of accounts at the amount actually involved. For example a machine purchased for Rs. 80000 and may consider it worth Rs. 100000, But the entry in the books of account will be made with Rs. 80000 or the amount actually paid. The cost concept does not mean that the assets will always be shown at cost. The assets may be recorded at the time of purchase but it may be reduced its value be charging depreciation.

Many assets de not have acquisition cost. Human assets of an enterprises are an example. The cost concept fails to recognize such assets although it is a very important assets of any organization.

4.) **Going Concern Concept:-** According to this concept the financial statements are normally prepared on the assumption that an enterprises is a going concern and will continue in operation for the foreseeable future. Transaction are therefore recorded in such a manner that the benefits likely to accrue in future from money spent. It is because of this concept that fixed assets are recorded at their original cost and depreciation in a systematic manner without reference to their current realizable value.

5.) **Dual aspect Concept:-** This concept is the care of double entry book-keeping. Every transaction or event has two aspect. If any event occurs, it is bound to have two effect. For Rs.50000, on the other hand stock will increase by Rs.50000 and

other liability will increase by Rs.50000. similarly is X starts a business with a capital of Rs. 50000, while on the other hand the business has to pay Rs. 50000 to the proprietor which is taken as proprietor's Capital.

6.) **Realization Concept: -** It closely follows the cost concept any change in value of assets is to be recorded only when the business realize it. i.e. either cash has been received or a legal obligation to pay has been assumed by the customer. No Sale can be said to have taken place and no profit can be said to have arisen. It prevents business firm from inflating their profit by recording sale and income that are likely to accrue, i.e. expected income or gain are not recorded.

7.) **Accrual Concept:-** Under accrual concept the effect of transaction and other events are recognized on mercantile basic. When they accrue and not as cash or a cash equivalent is received or paid and they are recorded in the accounting record and reported in the financial statements of the periods to which they relate financial statement prepared on the accrual basic inform users not only of past events involving the payment and receipt of cash but also of obligation to pay cash in the future and of resources that represent cash to be received in the future. For Example:- Mr. Raj buy clothing of Rs. 50000,a paying cash Rs. 20000 and sells at Rs. 60000 of which customer paid only Rs. 40000. So his revenue is Rs. 60000, not Rs. 40000 cash received. Exp. Or Cash is Rs. 50000, not Rs. 20000 cash paid. So the accrual concept based profit is Rs. 10000 (Revenue- Exp.)

8.) **Accounting Period Concept:-** This is also called the concept of definite periodicity concept as per going concept on indefinite life of the entity is assumed for a business entity it causes inconvenience to measure performance achieved by the entity in the ordinary causes of business. Therefore, a small but workable fraction of time is chosen out of infinite life cycle of the business entity for measure the performance and loading at the financial position 12 months period is normally adopted for this purpose accounting to this concept accounts should be prepared after every period & not t the end of the life of the entity. Usually this period is one calendar year. In India we follow from 1st April of a year to 31st March of the immediately following years. Now a day because of the need of management, final accounts are prepared at shoter intervals of quarter year or in some cases a month such accounts are know a interim account.

9.) **Matching Concept:-** In this concept, all exp. Matched with the revenue of that period should only be taken into consideration. In the financial statements of the organization. If any revenue is recognized that exp. Related to earn that revenue should also be recognized. This concept as it considers the occurrence of exp. And income and do not concentrate on actual inflow or outflow of cash. This leads to adjustment of certain items like prepaid and outstanding expenses, unearned or accrued income.

It is not necessary that every exp. Identity every income. Some exp. Are directly related to the revenue and some are directly related to sale but rent, salaries etc. are recorded on accrual basis for a particular accounting period. In other words periodicity concept has also been followed while applying matching concept.

10.) **Objective Concept:-** As per this concept, all accounting must be based on objective evidence. In other words, the transactions recorded should be supported by verifiable documents. Only than auditors can verify information record as true or otherwise. The evidence should not be biased. It is for this reasons that assets are recorded at historical cost and shown thereafter at historical lass depreciation. If the assets are shown on replacement cost basis, the objectivity is lost and it become difficult for auditors to verify such value, however, in resent year replacement cost are used for specific purpose as only they represent relevant costs. For example, to find out intrinsic value of share, we need replacement cost of assets and not the historical cost of the assets.

ACCOUNTING CONVENTIONS

The term “Accounting Conventions” refers to the customs or traditions which are used as a guide in the preparation of accounting reports and statements. The conventions are derived by usage and practice. The accountancy bodies of the world may charge any of the convention to improve the quality of accounting information accounting conventions need not have universal application. Following are important accounting conventions in use:

1.) **Convention of consistency:-** According to this convention the accounting practices should remain unchanged from one period to another. It requires that working rules once chosen should not be changed arbitrarily and without notice of the effect of change to those who use the accounts. For example, stock should be valued in the same manner every year. Similarly depreciation is charged on fixed assets on the same method year after year. If this assumption is not followed, the fact should be disclosed together with reasons.

The principle of consistency plays its role particularly when alternative accounting methods is equally acceptable. Any change from one method to another method would result in inconsistency; they may seem to be inconsistent apparently. In case of valuation of stocks if the company applies the principle “at cost or market price whichever is less” and if this principle accordingly result in the valuation of stock in one year at cost and the market price in the other year, there is no inconsistency here. It is only an application of the principle.

An Enterprise should change its accounting policy in any of the following circumstances only.

(i) To bring the books of accounts in accordance with the issued accounting standard.

(ii) To compliance with the provision of law.

(iii) When under changed circumstances it is felt that new method will reflect more true and fair picture in the financial statement.

2.) **Convention of Conservatism:-** This is the policy of playing sale game. It takes into consideration all prospective losses but leaves all prospective profits financial statements are usually drawn up on a conservative basis anticipated profit are ignored but anticipated losses are taken into account while drawing the statements following are the examples of the application of the convention of conservatism.

(i) Making the provision for doubtful debts and discount on debtors.

(ii) Valuation of the stock at cost price or market price which ever is less.

(iii) Charging of small capital items, like crockery to revenue.

(iv) Showing joint life policy at surrender value as against the actual amount paid.

(v) Not providing for discount on creditors.

3.) **Convention of Disclosure:-** Apart from statutory requirement, good accounting practice also demands that significant information should be disclosed in financial statements. Such disclosures can also be made through footnotes. The purpose of this convention is to communicate all material and relevant facts concerning financial position and results of operations to the users. The contents of balance sheet and profit and loss account are prescribed by law. These are designed to make disclosures of all materials facts compulsory. The practice of appending notes relative to various facts and items which do not find place in accounting statements is in pursuance to the convention of full disclosure of material facts. For example;

(a) Contingent liability appearing as a note.

(b) Market value of investments appearing as a note.

The convention of disclosure also applies to events occurring after the balance sheet date and the date on which the financial statement are authorized for issue. Such events include bad debts, destruction of plant and equipment due to natural calamities', major acquisition of another enterprises, etc. such events are likely to have a substantial influence on the earnings and financial position of the enterprises. Their not-disclosure would affect the ability of the users for evaluations and decisions.

4.) **Convention of Materiality:-** According to this conventions, the accountant should attach importance to material detail and ignore insignificant details in the financial statement. In materiality principle, all the items having significant economics effect on the business of the enterprises should be disclosed in the financial statement.

The term materiality is the subjective term. It is on the judgment, common sense and discretion of the accountant that which item is material and which is not. For example stationery purchased by the organization though not used fully in the concept. Similarly depreciation small items like books, calculator is taken as 100% in the year if purchase through used by company for more than one year.

This is because the amount of books or calculator is very small to be shown in the balance sheet. It is the assets of the company.

JOURNAL

Introduction:- The word 'Journal means' a daily record. Journal is derived from French word 'Jour' which means a day. It is a book of original or prime entry written up from the various sources documents. Every transaction is recorded in the first instance and than it is posted to the ledger. The form in which it is recorded is called journal entry and recording or entering a transaction in the journal is known as Journalizing.

Rules of Journalizing:- The process of passing an entry in a journal is called Journalizing. The rule for Journalizing is same as that of rules of debit and credit. It is based on two facts. First is accounting equation and other is accounting approach.

1.) Based on Accounting Equation:-

a) Increases in assets are debits, decreases are credit.
b) Increased in liability are credit, decreases are debits.
c) Increases in capital are credits, decreases are debits.
d) Increases in profits are credits, decreases are debits.
e) Increases in expenses are debits, decreases are credits.

2.) Based on Traditional Approach:-

a) Debit the receiver, credit the giver
b) Debit what comes in, credit what goes out.
c) Debit all expenses and losses, credit all income and gains.

CASH BOOK

Every business activity ultimately result in cash, therefore, recording of transaction involving cash must be recorded in a separate journal. This journal is called cash book. It may be defined as the record of transaction relating to receipt of and payment in cash.

Therefore, all cash transaction began to be recorded separately in a book called the cash book, which later began to be used to record bank book and discount transaction as well besides cash transaction by doing so daily checking of cash in hand and periodical checking of cash in hand and periodical checking of bank balance was rendered quick and easy. Although cash book is a book of

original entry, the use of cash book as a subsidiary book is often dispensed with. It is an integral part of ledger. But nonetheless, it serves the dual purpose of journal as well as ledger.

PETTY CASH BOOK

The cash book as seen above is used for recording all major payments. But, in every business a number of petty (small) Payment like that for postage, carriage, stationery, entertainment, cartage, conveyance etc. are paid frequently even in a single day. If all these petty expenses are to be recorded in the main cash book. It would be come too bulky and difficult to handle therefore, it is usual for the business units to maintain a separate cash book to record small payments only. Such a cash book is known as petty cash book. Petty cash book can be of two types.

a) Simple petty cash book and
b) Analytical petty cash book.

1.) **SIMPLE PETTY CASH BOOK:-** A simple petty cash book is written just like the cash book. The amount received by the petty cashier from the head cashier is recorded on the debit side of the petty cash book and payment on the credit side of the petty cash book. Expenses account is individually debited in the ledger.

2.) **AN ANALYTICAL PETTY CASH BOOK:-** An Analytical petty cash book is employed by a large concern having a number of transactions of petty amount such petty. Cash book contains individual columns for each expense every small payment is recorded on the credit side. One of the total payment column and second in one of the analytical amount columns. The periodic total of expenses column is posted to the expenses accounts concerned while the total of expenses column is posted to the expenses accounts. Concerned while the total of payment column serves to find out the balance of cash with the petty cashier.

IMPREST SYSTEM

The petty cash book is usually maintained on the basis of imprest system. Under it, a fixed amount, solely determined by the Head Cashier, is advanced to the Petty Cashier at the beginning of the period, may be, a week or a fortnight, or a month, by the Head Cashier. The petty cashier submits his accounts at the end of the period to the Head Cashier and the head cashier after examining the

accounts gives him a fresh advance equivalent to the amount spent by him during the period. Thus, in the beginning of each period, the petty cashier has a fixed balance. The amount so advance to him is termed as "Imprest" or "Float".

JOURNAL PROPER

It must have been understood by this time that Journal is used for recording only those transactions for which there is no special subsidiary book. Moreover, if the number of transactions of a particular type (say returns inward or outward) is not large, there is no point in having a separate subsidiary book for such transactions. These transactions may be journalized. The method of recording transactions in Journal has already been explained.

Following transactions are still recorded in the journal:

1. **Opening entries:-** At the beginning of the year, the opening balances of assets and liabilities are journalized.
2. **Closing Entries:-** At the end of the year final accounts are prepared. For preparing these accounts various are to be transferred to the trading and profit and loss account which is done by means of journal entries.
3. **Rectification entries:-** When any error is detected in writing up the books then it is rectified by means of suitable journal entry.
4. **Adjustment entries:-** Since accounting follows "accrual concept" therefore adjustment has to be done at the end of the year regarding:
   a) Expenses incurred but not paid,
   b) Expenses paid but benefit to be available in the next period,
   c) Income becoming due but not received,
   d) Income received in advance, and
   e) Charging depreciation on fixed assets, etc.

5. **Transfer entries:-** If any amount is to transferred from one ledger account to the other, then it is done by means of journal entries.
6. **Miscellaneous entries:-**
   a.) Purchase and sale of fixed asses on credit,
   b.) Writing off of losses due to bad debt, fire, accidents etc,
   c.) Any extra concession to be allowed to any customer or any charge to be levied after the issue of the invoice, and
   d.) Any other item for which no subsidiary book has been maintained.

SUBSIDIARY BOOKS

As transactions occur, it is possible, at least in theory, to record them from source documents directly to the proper accounts in the Principal Book(s). but in actual practice, with hundreds of different accounts and thousands of transactions occurring every day, such a procedure would become cumbersome and confusing. Furthermore, after several recordings it world become difficult to locate a particular transaction. Not only this, the identity of individual transaction is lost and the purpose of recording it cannot be easily ascertained. For example, if the cash account, he might not succeed in his efforts unless he goes through the entire general ledger. A separate record of each transaction is therefore, necessary.

Need for Subsidiary Books

Ledger, as already noted, is the principal book of account which contains information relating to all business transaction both as regards debits and credit aspects. It provides a cumulative analysis of the effect of business transactions.

The use of ledger alone, though the principal book of accounts, such procedure usually is inadvisable. It fails to meet all the requirements of a complete accounting system. Various reasons why ledger is an incomplete record and why subsidiary books must also be maintained are as follows:

1.) **Chronological history not available:-** If business transactions are entered directly In individual accounts in ledger, the trader would not have as adequate picture of what occurs in his business. It is lacking when only ledger is used.

   A business enterprises should keep a chronological record of its transactions in order to simplify references to its activities according to date.

2.) **Complete transaction not shown at one place:-** information disconnected each business transaction affects more than one account. When the debit and credit aspects of a transaction are entered in two shown at one place. Consequently, if there are a large number of accounts in ledger, it would become difficult to trace any transaction.

3.) **Detail inadequate- ledger too bulky:-** only meager information concerning a transaction can be shown conveniently in the accounts in ledger. If, however complete information is given in the ledger, it would become too bulky to be handled efficiently.

4.) **Division of labour hampered:-** only one person at a time con efficiently make entries in the ledger. He must have the entire ledger available in order to record the transaction in each account affected. A large enterprise, with a

multitude of transactions to record, must use a more efficient system which permits many employees to work on the books at the same time.

5.) **Errors difficult to locate:-** Making the entries directly in the ledger increases the probability that errors will occur and makes errors mode difficult to locate and correct. The following are a few examples.

a.) Omitting one part of a transaction

b.) Entering part of a transaction on the wrong side of an account.

c.) Entering the wrong amount in an account.

d.) Entering an amount in the wrong account.

These five reasons sufficiently explain the desirability of having. Subsidiary books where the transactions are shown—

a.) In chronological order

b.) Complete in one place, and

c.) With adequate explanations as to their nature.

DIFFERENCE BETWEEN TRADE AND DISCOUNT AND CASH DISCOUNT

Trade Discount	Cash Discount
1. It is offered at the time of sale or purchase.	1. It is offered at the time of getting quick payment.
2. It is usually offered or allowed on account of purchases made beyond a prescribed quantity.	2. It is usually offered or allowed for full or part settlement of account at an earlier date.
3. It is deducted from the list price in the invoice.	3. It is not deducted at the time of preparation of the invoice.
4. It is not recorded in the books of account.	4. It is duly recorded in the books of the account.
5. It is usually given in percentage.	5. It may be given in percentage or in absolute figure.

DEBIT & CREDIT NOTE

A Debit note is prepared when goods are returned by the purchaser due to some reason. Two copies of this note are prepared. The original copy is sent to the party (i.e. Seller of goods) to whom goods are returned and the duplicate copy is kept in the office record. It is called a debit note because the party's account is debited with the amount written in this note for the goods returned. The same debit note becomes credit note from the receiving party's point to view because he credits the account of the party from whom he received the note along with the goods.

A credit note, as stated above, is like a debit note. It is sent by the seller to the purchaser for the goods returned by the latter to the former. It is called a credit note because the party's account is credited with the amount written in this note for the goods returned by the party. The same credit note becomes debit note for the party sending this for the goods received.

The object of sending a credit note to a customer is to inform him that he has been credited in our books. A credit note is also sent to the customer in the following cases:

1.) When he is allowed some discount or allowance in defective, damaged or unsatisfactory goods.
2.) When an excessive charge was made by mistake.
3.) When cartons or containers are returned by the customer.

TRIAL BALANCE

We know that the fundamental principle of Double Entry System id accounting is that for every debit, there must be a corresponding credit, thus, for every debit or a series of debits given to one or several accounts, there is a corresponding credit or a series of credit of n equal amount given to some other account or accounts and vice versa. It follows, therefore, that the sum total of debit accounts should equal the credit amounts of the ledger at any date. But if the various accounts in the ledger are balanced, then the total of all debit balance must be equal to the total of all credit balances if the books of accounts are arithmetically accurate.

Thus, at the end of the financial year o at any other time, the balances of all the ledger accounts are extracted and are written up in a statement known as Trial Balance and finally totaled up to see if the total of debit balances is equal to the total of credit balances. A Trail Balance may thus be defined as a statement of

debit and credit totals or balance extracted from the various accounts in the ledger with a view to test the arithmetical accuracy of the books.

The agreement of the Trial Balance reveals that both the aspects of each transaction have been recorded and that the books are arithmetically accurate. If the Trial Balance does not agree, it shows that there are some errors which must be detected and rectified link between the ledger accounts and the final accounts.

OBJECTIVES OF TRIAL BALANCE

The following are the main objectives of preparing the trial balance:

(i) To have balances of all the accounts of the ledger in order to avoid the necessity of going through the pages of the ledger to find it out.

(ii) To have a proof that the double entry of each transaction has been recorded because of its agreement.

(iii) To have arithmetic accuracy of the books of accounts because of the agreement of the trial balance.

(iv) To have material for preparing the profit and loss account and balance sheet of the business.

LIMITATIONS OF TRIAL BALANCE

The following are the main limitations of the trial balance:

(i) Trial balance can be prepared only in those concerns where double entry system of accounting is adopted. This system is very costly and cannot be adopted by the small concerns.

(ii) Through trial balance gives arithmetic accuracy of the books of accounts but there are certain errors which are not disclosed by the trial balance. That is why it is said that trial balance is not a conclusive proof of the accuracy of the books of accounts.

(iii) If Trial Balance is not prepared correctly then the final accounts prepared will not reflect the true and fair view of the state of affairs of the business. Whatever conclusions and decisions are made by the various groups of persons will not be correct and will mislead such persons.

ERROR DISCLOSED BY TRIAL BALANCE

It the two sides of a trial balance are not equal, it is the proof of the existence of error. There may, of course, be more than one error.

The main reasons of such errors are given below;

1.) An item omitted to be posted from a subsidiary book into the ledger i.e., A purchase of Rs.1000 from Navin omitted to be credited to his account. As a

result of this error, the figure of sundry creditors to be shown in the Trial Balance will reduce by Rs.1000 and the total of the credit side of the Trial Balance will b Rs.1000 less as compared to the debit side of the Trial Balance.

2.) Posting of wrong amount to a ledger account i.e., A Credit sale of Rs. 2000 to Aarti wrongly posted to her account as Rs.200. the effect of this error will be that the figure of sundry debtors will be reduced by Rs.1800 and the total of the debit side of the Trial Balance will be Rs.1800 Less than the total of the credit side of the Trial Balance.

3.) Posting an amount to the wrong side of the ledger account i.e., Rs.50 Discount allowed to a Customer wrongly posted to the credit instead of the debit side of the discount account. As a result to this error, the credit side of the Trial Balance will exceed by Rs.100 (double the amount of the error).

4.) Wrong additions or balancing of ledger accounts i.e., while Balancing Capital account at the end of the financial year, credit balance of Rs.89000 wrongly taken as Rs.79000. as a result of this error, the credit total of the Trial Balance will Rs.10000 too short.

5.) Wrong totaling of subsidiary books i.e., Sales Book is overcast by Rs.10 as result of this error, credit side of the Trial balance will be Rs.10 too much because sales account will appear at a higher figure on the credit side of the Trial Balance.

6.) An item in the subsidiary book posted twice to a ledger account i.e., Payment of Rs.1000 to a creditor posted twice to his account.

7.) Omission of Balance of an account in the Trial Balance Cash and Bank Balance may have been omitted to be included in the Trial Balance.

8.) Balance of Some account wrongly entered in the Trial Balance i.e., A Balance of Rs. 513 in Stationery Account wrong entered as Rs.315in the Trial balance.

9.) Balance of some account written to the wrong side of the Trial Balance i.e., Balance of Commission earned account wrongly shown to the side instead of the credit side of the Trial Balance.

10.) An error in the Totaling of the Trial Balance will bring the disagreement of the Trial Balance.

ERROR NOT DISCLOSED BY A TRIAL BALANCE

It is certain that the error exists of the debits of trial balance are not equal to its credits. But the fact that trial balance is in balance does not prove the accuracy of accounts. There is a possibility of mistakes which will not upset

the equilibrium of the equality of debits and credits and thus is a proof only of arithmetic accuracy of posting.

The following are the cases of such error which are not disclosed by a trail balance:

1.) **Omission of an entry in a subsidiary book:-** if an entry has not been recorded in a subsidiary book both the debit and credit of that transaction would be omitted and the agreement of the trial balance will not be affected in any way.

2.) **A wrong entry in a subsidiary book:-** If a Credit purchase of Rs.465 from Annu is Wrongly written as Rs.564 in the Purchase book, such an error will not be disclosed by the trial balance. As the posting on both the debit side of purchases account and credit side annu's account will be with the wrong amount of Rs.564, so the trial balance will agree.

3.) **Posting an item to the correct side but in the wrong account:-** If a purchase of Rs.500 from Vasant Desai has been credited to Himanshu Desai in stead of Vasant Desai, it will not affect the agreement of the Trial Balance, so the Trial Balance will not detect such an error.

4.) **Compensating error:-** These are errors which compensate themselves in the net result, i.e., over-debits or under-debits of various accounts being neutralized by the over-credits or under-credits to the same extent of some other accounts. For example under-posting of Rs.500 on the debit side of a certain account would be compensated by under-posting of Rs.100 on the credit side of another account and an omission of credit posting of Rs.400 to a third account. It is quite possible that this error may also be neutralized by over-posting of Rs.500 on the debit side in some other account or accounts or accounts.

5.) **Errors of Principle:-** These errors will not affect the agreement of the trial balance as they arise from the debiting or crediting of wrong heads of accounts as would be inconsistent with the fundamental principles of double entry accounting. For Example Rs.6550 spent in extension of building wrongly debited to repairs account instead of building account will not affect the agreement of the Trial balance. Thus, such errors arise whenever an asset is treated as an expense or vise versa or a liability is treated as an income or vise versa.

METHOD OF PREPARATION OF TRIAL BALANCE

Preparation of Trial Balance is the third step in accounting process. It is preceded by recording of transaction in subsidiary nooks and posting of the accounts in the ledger, and succeeded by preparation of final accounts.

A Trial Balance can be prepared at ant time as and when desired, but it must be prepared at the end of each financial year after the accounts have been closed. There are three methods of preparing the Trial balance.

1. **TOTAL METHOD:-**Under this method, every ledger account is totaled and that total amount (both of debit side and credit side) is transferred to trial balance. In this method, trial balance can be prepared as soon as ledger account is totaled. Time taken to balance the ledger accounts is saved under this method as balance can be found out in the trial balance itself. The difference of totals of each ledger account is the balance of that particular account. This method is no commonly used as it cannot help in the preparation of the financial statements.
2. **BALANCE METHOD:**- Under this method every ledger account is balanced and those balances only are carry forward to the trial balance. This method is used commonly by the accountants and helps in the preparation of the financial statements. Financial statements are prepared on the basis of the balance of the ledger accounts.
3. **TOTAL AND BALANCE METHOD:**- Under this method, the above two explained methods are combined. Under this method statement of trial balance contains seven columns instead of five columns. This has been explained with the help of the following example:

S.No.	Heads of Account	Debit Total	Credit Total

1.	Cash Account	30000	19800
2.	Furniture Account	3000	
3.	Salaries Account	2500	
4.	Shyam's Account	21500	25000
5.	Purchase Account	26000	
6.	Purchase Return Account		500
7.	Ram's Account	30000	25100
8.	Sales Account		30500
9.	Sale Return Account	100	
10.	Capital Account	500	1000
11.	Bank Account	5000	8200
	TOTAL	119100	191100

DEPARTMENTAL ACCOUNTING

INTRODUCTION: - When a business deals in different finds of articles or services under one roof, it is divided into number of divisions which are known as departments. This is generally done to have smooth and efficient running of business. A department is a physical part of the rest of the business. It is like decentralization of business activities. Each department is given freedom to take decision relation to purchases, pricing, adding of new products ect. The accounting system is so devised as to enable the management to find out turnover, expenses and profit of each department separately.

OBJECTIVES:- When all the divisions of a business are located under one roof and separate trading, profit and loss accounts of various departments of an organization are prepared, the information available there from is helpful to the management to find out relative performance of departments. The following are the objectives of departmental accounting.

2) To determine the profitability of each department and compare it with previous year's result and also with the other departments of the same concern.

3) To provide information regarding which department has high operation expenses so that policy may be formulated to control such expenses.

4) To help the management in deciding which department shall be expanded to maximize profitability of the business.

5) To provide information regarding improving efficiency of departments with lower profit or losses.

6) Which departments are to be closed because of lower sales volume and high operating costs.

7) When departmental manager's are to be paid commission on the basis of profit achieved by their department.

8) To generate information which may be helpful for planning, control, evaluation of their departments.

9) To help the proprietor in formulating policy to expend the business on proper lines so as to optimize the profits of the concern.

10) When a business is dealing in different types of goods or services, it is not enough to prepare one trading profit and loss account for the entries business. It may show profit made by the whole business but still there may be loss in some of the departments which reduces the overall profits of the business. Such departments must be closed down. Because of this reason separate trading profit and loss account of each department shall be prepared.

ADVANTAGES OF DEPARTMENTAL ACCOUNT

1) The trading results of each department may help to evaluate the performance of each department. The sales of that department which fives maximum profit may be pushed up by special efforts.

2) The profitability of each department may help the management for taking decision whether to drop a department or add a new one.

3) The growth potentials of a department can be evaluated by having comparison with the other departments.

4) The users of accounting information can be provide mode detailed information like the shareholder, investors, creditors etc.

5) The overall profits of the organization can be increased by having friendly rivalries between different departments.

6) The departmental managers and staff can be suitably rewarded on the basis of the departmental results.

7) It helps the management to determine the justification of proper use of capital invested in each department.

8) It helps to have comparison of various expenses of each department with the previous period or with other departments of the same concern.

9) It helps to know he efficiency of each department by calculating stock turnover ratio of each department to reveal the fast or slow moment of various items of stock.

10) The information provided by departmental accounts may be helpful to the management for future intelligent planning and control.

ALLOCATION OF DEPARTMENTAL EXPENSES

The problems arise only in indirect expenses which are common for the concern as a whole and may be relating to sales, distribution, administration, finance and till these are distributed among the departments on same suitable basis, the net profits of difference departments cannot be ascertained. Direct expenses are easily indentified with a particular department is known as direct expenses like purchase, wages, salary, carriage etc. these expenses are directly charged to respective department. Such expenses which cannot be directly related to a particular department or cannot have precise allocation may be divided among the different departments as follows:

1.) **Selling Expenses:-** These expenses include discount allowed, bad debts, selling commission, carriage on sales and should be divided among the different departments on the basis of sales. It must be noted carefully that sales for this purpose also include transfers to other departments.

2.) **Building Expenses:-** Rent and rates, insurance on building, repairs, etc. are expenses which are relating to building premises and should be distributed among the different departments according to the space occupied by each department. It any department is enjoying any special benefit then charge for these expenses must be adjusted according to the special benefit enjoyed by a particular department. Departments having front location must bear more charges than the departments in rear part of the building.

3.) **Heating and lighting:-** if there are no separate meters, these may be apportioned among the different departments on the basis of points, lamps used, area or inversely to the number of windows.

4.) **Power:-** It should be apportioned on the basis of probable usage as determined by numbers and types of machines adjusted where necessary according to running hours in absence of separate meters for each department.

5.) **Advertising:-**It should be apportioned on the basis of advertising space used by the different departments or on the basis of advertisement for the benefit of all departments must be apportioned equally among the departments.

6.) **Insurance Premium:-** It must be seen whether the insurance premium has been paid for stock, premises or loss of profit or workmen's compensation and should be apportioned on the basis of stock carried, proportion of premises occupied, profits earned in the preceding years and wages respectively but if there exists any abnormal feature relating to any department, that may be considered while apportioning such expenses.

7.) **Depreciation:-** it should be allocated among the different departments on the basis of assets employed in each department.

8.) **Labour Welfare expenses:-** These should be apportioned among the different departments on the basis of number of employees working in each department.

9.) **Carriage inward:-** Carriage Inward are related to the purchases so these exp. Should be apportioned among the different departments on the basis of Purchases of each department.

10.) **Works manager's salary:-** works manager's salary should be allocated among the different departments on the basis of time spent in each department.

EXPENSES WHICH CANNOT BE ALLOCATED

There are Certain expenses which cannot be allocated on some equitable basis such as director fees, managerial remuneration, debenture interest, share transfer, income tax, office expenses, general manager's salary, dividend paid etc., are cannot be allocated or apportioned. These expenses shall be charged to general or combined profit and loss account. Profit of all departments should be brought down in one total and such expenses should be debited and non-departmental profits credited to this profit without making any effort for its apportionment among different departments in combined income account.

HIRE PURCHASE & INSTALMENT PURCHASE

INTRODUCTION:- With an Increasing demand for better life, the consumption of goods has been on the expending sale. There are different ways by which goods can be sold. First is goods can be sold for cash, Second is goods can sold for Hire-Purchase and third is sold from Installment.

Under Cash Sale the ownership and possession is immediately passed from seller to buyer and buyer makes the payment in cash at the time of taking the delivery of Goods.

Under Hire-Purchase System the buyer acquires the possession of the goods immediately and agrees to pay the total price in installment. Each installment treated as hire charges until the payment of the payment of the last Installment when the ownership of goods passes. The ownership of goods is transferred to the buyer when the last Installment is paid. I the buyer default in the payment of the Installment (Even last Installment) the Hire-Vendor has right to repossess the goods without compensation the buyer. But buyer pays Installments regularly, the Seller has no right to repossess the goods.

Under Installment Purchase System the buyer acquires the possession & Ownership of the goods immediately and payment of the total price will be made in Installment if the buyer is any default in the payment of any Installment, the Seller has no right to repossess the goods. Because the ownership of the goods is transfer immediately from Seller to Buyer at the time of signing the contract. He can only go to the court and sue the purchaser for unpaid balance.

FEATURE OF HIRE-PURCHASES

1) The hire vendor transfer possession of goods immediately to the Purchaser
2) The Buyer will make Payment in Installment over a period of time.
3) The Ownership of the goods will remain with the seller and passed to the buyer on the payment of the last Installment.
4) Each Installment is treated as hire-Charges until the last Installment is paid.
5) The hire purchaser generally makes a down payment on signing the agreement.
6) In case of default in respect of even the last Installment, the hire vendor has the right to takes the goods back without making any compensation.

FEATURE OF INSTALLMENT PURCHASES

1) The buyer acquires possessions of the goods immediately at the time of agreement.
2) The Buyer will make Payment in Installment over a period of time.
3) Each Installment pay with some Interest.
4) The Ownership of the goods transfer of the goods at the time of agreement.
5) The hire purchaser generally makes a down payment on signing the agreement.
6) In case of default in respect of even the last Installment, the seller has no right to possess the goods. The Can only sues for unpaid balance.

DIFF. BETWEEN HIRE-PURCHASE AND INSTALLEMNT

HIRE-PURCHASE	**INSTALLMENT**
1. The ownership of the goods passes to the Hire-vendor on the payment of last Installment.	1. The ownership of the goods passes to the buyer immediately when the agreement is signed.
2. It is a agreement of Hiring.	2. It is a agreement of Sale.
3. The hires can return the goods if he does not want to continue with the agreement.	3. The buyer cannot return the goods to the seller.
4. The hires cannot sell transfer or pledge the goods.	4. The buyer can do all such thing.
5. If the hires make default in payment of Installment or any other terms of agreement the seller can repossess the goods.	5. In case of default seller can only sue the in the court of law and cannot repossess the goods.

Ratio Analysis: It is concerned with the calculation of relationships, which after proper identification & interpretation may provide information about the operations and state of affairs of a business enterprise. The analysis is used to provide indicators of past performance in terms of critical success factors of a business. This assistance in decision-making reduces reliance on guesswork and intuition and establishes a basis for sound judgments.

Types of Ratios

Liquidity Measurement	Profitability Indicators	Financial Leverage/Gearing	Operating Performance	Investment Valuation
Current Ratio	Profit Margin Analysis	Equity Ratio	Fixed Assets Turnover	Price/Earnings Ratio
Quick Ratio	Return on Assets	Debt Ratio	Sales/ Revenue	Price/Earnings to Growth ratio
	Return on Equity	Debt-Equity Ratio	Average Collection Period	Dividend Yield
	Return on Capital Employed	Capitalization Ratio	Inventory Turnover	Dividend Payout Ratio
		Interest Coverage Ratio	Total assets Turnover	

Liquidity Measurement Ratios

Liquidity refers to the ability of a firm to meet its short-term financial obligations when and as they fall due. The main concern of liquidity ratio is to measure the ability of the firms to meet their short-term maturing obligations. The greater the coverage of liquid assets to short-term liabilities the better as it is a clear signal that a company can pay its debts that are coming due in the near future and still fund its ongoing operations. On the other hand, a company with a low coverage rate should raise a red flag for investors as it may be a sign that the company will have difficulty meeting running its operations, as well as meeting its obligations.

Ratio	**Formula**	**Meaning**	**Analysis**
Current Ratio	**Current Assets/Current Liabilities** Current assets includes cash, marketable securities, accounts	The number of times that the short term assets can cover the short term debts. In other words, it indicates an ability to meet the short term	Higher the ratio, the better it is, however but too high ratio reflects an in-efficient use of resources & too low ratio leads to insolvency. The ideal

	receivable and inventories. Current liabilities includes accounts payable, short term notes payable, short-term loans, current maturities of long term debt, accrued income taxes and other accrued expenses	obligations as & when they fall due	ratio is considered to be 2:1.,
Quick Ratio or Acid Test Ratio	**(Cash+Cash Equivalents+Short Term Investments+Accounts Receivables) / Current Liabilities**	Indicates the ability to meet short term payments using the most liquid assets. This ratio is more conservative than the current ratio because it excludes inventory and other current assets, which are more difficult to turn into cash	The ideal ratio is 1:1. Another beneficial use is to compare the quick ratio with the current ratio. If the current ratio is significantly higher, it is a clear indication that the company's current assets are dependent on inventory.

Profitability Indicators Ratios

Profitability is the ability of a business to earn profit over a period of time.The profitability ratios show the combined effects of liquidity, asset management (activity) and debt management (gearing) on operating results. The overall measure of success of a business is the profitability which results from the effective use of its resources.

Ratio	**Formula**	**Meaning**	**Analysis**
Gross Profit Margin	**(Gross Profit/Net Sales)*100**	A company's cost of goods sold represents	Higher the ratio, the higher is the profit

		the expense related to labor, raw materials and manufacturing overhead involved in its production process. This expense is deducted from the company's net sales/revenue, which results in a company's gross profit. The gross profit margin is used to analyze how efficiently a company is using its raw materials, labor and manufacturing-related fixed assets to generate profits.	earned on sales
Operating Profit Margin	**(Operating Profit/Net Sales)*100**	By subtracting selling, general and administrative expenses from a company's gross profit number, we get operating income. Management has much more control over operating expenses than its cost of sales outlays. It Measures the relative impact of operating expenses	Lower the ratio, lower the expense related to the sales
Net Profit	**(Net Profit/Net**	This ratio measures	Higher the ratio, the

Margin	**Sales)*100**	the ultimate profitability	more profitable are the sales.
Return on Assets	**Net Income / Average Total Assets** (Earnings Before Interest & Tax = Net Income)	This ratio illustrates how well management is employing the company's total assets to make a profit.	Higher the return, the more efficient management is in utilizing its asset base
Return on Equity	**Net Income / Average Shareholders Equity*100**	It measures how much the shareholders earned for their investment in the company	Higher percentage indicates the management is in utilizing its equity base and the better return is to investors.
Return on Capital Employed	**Net Income / Capital Employed** Capital Employed = Avg. Debt Liabilities + Avg. Shareholders Equity	This ratio complements the return on equity ratio by adding a company's debt liabilities, or funded debt, to equity to reflect a company's total "capital employed". This measure narrows the focus to gain a better understanding of a company's ability to generate returns from its available capital base.	It is a more comprehensive profitability indicator because it gauges management's ability to generate earnings from a company's total pool of capital.

Financial Leverage/Gearing Ratios

These ratios indicate the degree to which the activities of a firm are supported by creditors' funds as opposed to owners as the relationship of owner's equity to borrowed funds is an important indicator of financial strength. The debt requires fixed interest payments and repayment of the loan and legal action can be taken if any amounts due are not paid at the appointed time. A relatively high proportion of funds contributed by the owners indicates a cushion (surplus) which shields creditors against possible losses from default in payment.
Financial leverage will be to the advantage of the ordinary shareholders as long as the rate of earnings on capital employed is greater than the rate payable on borrowed funds.

Ratio	Formula	Meaning	Analysis
Equity Ratio	**(Ordinary Shareholder's Interest / Total assets)*100**	This ratio measures the strength of the financial structure of the company	A high equity ratio reflects a strong financial structure of the company. A relatively low equity ratio reflects a more speculative situation because of the effect of high leverage and the greater possibility of financial difficulty arising from excessive debt burden.
Debt Ratio	**Total Debt / Total Assets**	This compares a company's total debt to its total assets, which is used to gain a general idea as to the amount of leverage being used	With higher debt ratio (low equity ratio), a very small cushion has developed thus not giving creditors the security they require.

		by a company. This is the measure of financial strength that reflects the proportion of capital which has been funded by debt, including preference shares.	The company would therefore find it relatively difficult to raise additional financial support from external sources if it wished to take that route. The higher the debt ratio the more difficult it becomes for the firm to raise debt.
Debt – Equity Ratio	**Total Liabilities / Total Equity**	. This ratio measures how much suppliers, lenders, creditors and obligors have committed to the company versus what the shareholders have committed. This ratio indicates the extent to which debt is covered by shareholders' funds.	A lower ratio is always safer, however too low ratio reflects an in-efficient use of equity. Too high ratio reflects either there is a debt to a great extent or the equity base is too small
Capitalization Ratio	**Long Term Debt / (Long Term Debt + Shareholder's Equity)**	This ratio measures the debt component of a company's capital structure, or capitalization (i.e., the sum of long-term debt liabilities and shareholders' equity) to support a company's operations and growth.	A low level of debt and a healthy proportion of equity in a company's capital structure is an indication of financial fitness. A company too highly leveraged (too much debt) may find its freedom of action restricted by its

			creditors and/or have its profitability hurt by high interest costs. This ratio is one of the more meaningful debt ratios because it focuses on the relationship of debt liabilities as a component of a company's total capital base, which is the capital raised by shareholders and lenders.
Interest Coverage Ratio	**EBIT / Interest on Long Term Debt**	This ratio measures the number of times a company can meet its interest expense	The lower the ratio, the more the company is burdened by debt expense. When a company's interest coverage ratio is only 1.5 or lower, its ability to meet interest expenses may be questionable.

Operating Performance Ratios:

These ratios look at how well a company turns its assets into revenue as well as how efficiently a company converts its sales into cash, i.e how efficiently & effectively a company is using its resources to generate sales and increase shareholder value. The better these ratios, the better it is for shareholders.

Ratios	Formula	Meaning	Analysis
Fixed Assets Turnover	**Sales / Net Fixed Assets**	This ratio is a rough measure of the productivity of a company's fixed assets with respect to generating sales	High fixed assets turnovers are preferred since they indicate a better efficiency in fixed assets utilization.
Average Collection Period	**(Accounts Receivable/Annual Credit Sales)*365 days**	The average collection period measures the quality of debtors since it indicates the speed of their collection.	The shorter the average collection period, the better the quality of debtors, as a short collection period implies the prompt payment by debtors. An excessively long collection period implies a very liberal and inefficient credit and collection performance. The delay in collection of cash impairs the

			firm's liquidity. On the other hand, too low a collection period is not necessarily favorable, rather it may indicate a very restrictive credit and collection policy which may curtail sales and hence adversely affect profit.
Inventory Turnover	**Sales / Average Inventory**	It measures the stock in relation to turnover in order to determine how often the stock turns over in the business. It indicates the efficiency of the firm in selling its product.	High ratio indicates that there is a little chance of the firm holding damaged or obsolete stock.
Total Assets Turnover	**Sales / Total Assets**	This ratio indicates the efficiency with which the firm uses all its assets to generate sales.	Higher the firm's total asset turnover, the more efficiently its assets have been utilised.

Investment Valuation Ratios:

These ratios can be used by investors to estimate the attractiveness of a potential or existing investment and get an idea of its valuation.

Ratio	Formula	Meaning	Analysis
Price Earning Ratio (P/E Ratio)	**Market Price per Share / Earnings Per Share**	This ratio measures how many times a stock is trading (its price) per each rupee of EPS	A stock with high P/E ratio suggests that investors are expecting higher earnings growth in the future compared to the overall market, as investors are paying more for today's earnings in anticipation of future earnings growth. Hence, stocks with this characteristic are considered to be growth stocks. Conversely, a stock with a low P/E ratio suggests that investors have more modest expectations for its future growth compared to the market as a whole.
Price Earnings to Growth Ratio	**(P/E Ratio) / Earnings Per Share**	The price/earnings to growth ratio, commonly referred to as the PEG ratio, is obviously closely related to the P/E ratio. The PEG ratio is a refinement of the	The general consensus is that if the PEG ratio indicates a value of 1, this means that the market is correctly valuing (the current P/E ratio) a stock in

		P/E ratio and factors in a stock's estimated earnings growth into its current valuation. By comparing a stock's P/E ratio with its projected, or estimated, earnings per share (EPS) growth, investors are given insight into the degree of overpricing or under pricing of a stock's current valuation, as indicated by the traditional P/E ratio.	accordance with the stock's current estimated earnings per share growth. If the PEG ratio is less than 1, this means that EPS growth is potentially able to surpass the market's current valuation. In other words, the stock's price is being undervalued. On the other hand, stocks with high PEG ratios can indicate just the opposite - that the stock is currently overvalued.
Dividend Yield Ratio	**(Annual Dividend per Share / Market Price per** **Share) *100**	This ratio allows investors to compare the latest dividend they received with the current market value of the share as an indictor of the return they are earning on their shares	This enables an investor to compare ratios for different companies and industries. Higher the ratio, the higher is the return to the investor
Dividend Payout Ratio	**(Dividend per Share / Earnings per Share) * 100**	This ratio identifies the percentage of earnings (net income) per common share allocated to	

		paying cash dividends to shareholders. The dividend payout ratio is an indicator of how well earnings support the dividend payment.	

Introduction:

Meaning of ABC:

Activity Based costing is an accounting methodology that assign costs to activities rather than products or services. This enables resources & overhead costs to be more accurately assigned to products & services that consume them.

The emergence of ABC systems

During the 1950s the limitations of traditional product costing systems began to be widely publicised. These systems were designed decades ago when most companies manufactured a narrow range of products, and direct labour and materials were the dominant factory costs. Goetz (1949) advocated ABC principles first.

Need for emergence of activity based costing :

- Traditional product costing systems were designed when most companies manufactured a narrow range of products.

- Direct materials and direct labour were the dominant cost factors of production. Then their ratio with overhead was 100:20

- Companies were in sellers' market.

- Overheads were relatively small and distortions due to inappropriate treatment were not significant.

- Cost of processing information was high.

Today companies produce a wide range of products. Overheads are considerable importance.

- Simple methods of apportioning overheads on direct labour or machine hour basis are not justified as dir cost : overhead is 100: 800.

- Intense global competition calls for correct costing of products to avoid errors in decision making. i.e. apply the cause & effect relationship.

- Traditional systems can measure volume related costs.

- Non volume related activities like material handling, set up etc. are important and their costs cannot be apportioned on volume basis.

Definitions:

A cost object: It is an item for which cost measurement is required e.g. a product or a customer.

A cost Driver: It is a measure of the quantity of resources consumed by an activity. It is used to assign the cost of a resource to an activity or cost pool.

An Activity Cost Driver: It is a measure of the frequency and intensity of demand, placed on activities by cost objects. It is used to assign activity costs to cost objects.

The cost driver for business functions viz,. Research & Development and customer Service are as below:

Business functions:

	Cost Driver
Research & Development	-- Number of research products
	-- Personal hours on a project
	-- Technical complexities of projects
Customer Service	-- Number of Service calls
	-- Number of products serviced
	-- Hours spent on servicing products.

Stages in Activity Based Costing:

The different stages in activity based costing are listed below:

1. **Identification of the activities that may take place in an organization:** Usually the number of cost centers that a traditional overhead system uses are quite small, say up to fifteen. In ABC the number of activities will be much more, say 200; the exact number will depend on how the management sub-divides the organization's acidities. It is possible to break the organization down into many very small activities. But if ABC is to be

acceptable as practical system it is necessary to use larger groupings, so that, say, 40 activities may be used in practice. The additional number of activities over cost centers means that ABC should be more accurate than the traditional method regardless of anything else.

2. **Assigning costs to cost pool for each activity:** Both support and primary activities, that caused them. This creates ‘cost pools’ or ‘cost buckets’. This will be done using resource cost drivers that reflect causality.

3. **Support activities are then spread across the primary activities:** on some suitable base, which reflects the use of the support activity. The base is the cost driver that is the measure of how the support activities are used.

4. **Determine the cost drivers for each activity:** That will be used to relate the overheads collected in the cost pools to the cost objects/products. This is based on the factor that drives the consumption of the activity. The question to ask is-What causes the activity to incur costs? In production scheduling, for example, the driver will probably be the number of batches ordered.

5. **Assigning the costs of activities to products according to product demand for activities:** The requires to calculate cost driver rate for each activity, just as an overhead absorption rate would be calculated in the traditional system:

Activity cost driver rate = Total cost of activity ÷Activity driver

The activity driver rate can be used to cost product, as in traditional absorption costing, but it can also cost other cost objects such as customers/customers segments and distribution channels. The possibility of costing objects other than products is part of the benefit of ABC. The activity cost driver rates will be multiplied by the different amount of each activity that each product/other cost object consumes.

Benefits

ABC is more expensive than the traditional system. So a cost-benefit analysis is desirable. The benefits of ABC are many.

1. In ABC managers focus attention on activities rather than products because activities in various departments may be combined and costs of similar activities ascertained e.g. quality control, handling of materials, repairs to machines, etc

2. Costs are identified with activities and then allocated to products or services, based on appropriate cost drivers. So more accurate product/service costs are obtained Since overhead or indirect costs occupies a significant proportion of the total costs of the firm, the overall impact of allocation of indirect costs to products/ services more accurately is significant.

3. Managers manage activities and not products. Change in activities lead to changes in costs. Therefore, if the activities are managed well, costs will fall and resulting products will be more competitive.

4. To manage activities better and to make wiser economic decisions, managers need to identify the relationships of activities and costs in a more detailed and accurate manner.

5. ABC highlights problem areas that deserve management's attention and more detailed analysis.

Weakness of ABC

ABC is not free from certain weakness. They are mentioned below:

1. ABC fails to encourage managers to think about changing work processes to make business more competitive.
2. ABC does not conform to generally accepted accounting principles in some areas. For example, ABC encourages allocation of such non-product costs as research and development to products while committed product costs such as factory depreciation and not allocated to products.

3. Using ABC for short-run decisions may sometimes prove costly in the long run. In a competitive environment (when other companies may be willing to meet the customers' needs); long term profits may suffer due to elimination of small orders.
4. ABC does not encourage the identification and removal of constraints creating delays and excesses.

Activity based cost Management (ABM):

In the previous section of this chapter we have focused on Activity Based product costing. Empirical studies of ABC implementation have frequently shown that the greater benefit derived from its adoption is in Cost Management rather in providing accurate product cost. The use of ABC as a costing tool to manage costs at activity I level is known as Activity Based Cost Management (ABM) is a discipline that focuses on the efficient and effective management of activity as the route to continuously improving the value received by customers and the profit received by providing this value. ABM utilizes cost information gathered through ABC. Through various analysis, ABM manages activities rather than resources. It determine what drives the activities of the organization and how these activities can be improved to increase the profitability.

Marginal costing - definition

Marginal costing distinguishes between fixed costs and variable costs as convention ally classified.

The marginal cost of a product –" is its variable cost". This is normally taken to be; direct labour, direct material, direct expenses and the variable part of overheads.

Marginal costing is formally defined as:
'the accounting system in which variable costs are charged to cost units and the fixed costs of the period are written-off in full against the aggregate contribution. Its special value is in decision making'. (Terminology.)

The term 'contribution' mentioned in the formal definition is the term given to the difference between Sales and Marginal cost. Thus

MARGINAL COST = VARIABLE COST DIRECT LABOUR
+
DIRECT MATERIAL
+
DIRECT EXPENSE
+
VARIABLE OVERHEADS

CONTRIBUTION =SALES - MARGINAL COST
The term marginal cost sometimes refers to the marginal cost per unit and sometimes to the total marginal costs of a department or batch or operation. The meaning is usually clear from the context.

Note
Alternative names for marginal costing are the contribution approach and direct costing In this lesson, we will study marginal costing as a technique quite distinct from absorption costing.

The principles of marginal costing

The principles of marginal costing are as follows.

a. For any given period of time, fixed costs will be the same, for any volume of sales and production (provided that the level of activity is within the 'relevant range'). Therefore, by selling an extra item of product or service the following will happen.

- Revenue will increase by the sales value of the item sold.
- Costs will increase by the variable cost per unit.
- Profit will increase by the amount of contribution earned from the extra item.

b. Similarly, if the volume of sales falls by one item, the profit will fall by the amount of contribution earned from the item.
c. Profit measurement should therefore be based on an analysis of total contribution. Since fixed costs relate to a period of time, and do not change with increases or decreases in sales volume, it is misleading to charge units of sale with a share of fixed costs.
d. When a unit of product is made, the extra costs incurred in its manufacture are the variable production costs. Fixed costs are unaffected, and no extra fixed costs are incurred when output is increased.

Features of Marginal Costing

The main features of marginal costing are as follows:

1. ***Cost Classification***
   The marginal costing technique makes a sharp distinction between variable costs and fixed costs. It is the variable cost on the basis of which production and sales policies are designed by a firm following the marginal costing technique.
2. ***Stock/Inventory Valuation***
   Under marginal costing, inventory/stock for profit measurement is valued at marginal cost. It is in sharp contrast to the total unit cost under absorption costing method.
3. ***Marginal Contribution***
   Marginal costing technique makes use of marginal contribution for marking various decisions. Marginal contribution is the difference between sales and marginal cost. It forms the basis for judging the profitability of different products or departments.

Advantages and Disadvantages of Marginal Costing Technique

Advantages

1. Marginal costing is simple to understand.
2. By not charging fixed overhead to cost of production, the effect of varying charges per unit is avoided.
3. It prevents the illogical carry forward in stock valuation of some proportion of current year's fixed overhead.
4. The effects of alternative sales or production policies can be more readily available and assessed, and decisions taken would yield the maximum return to business.

5. It eliminates large balances left in overhead control accounts which indicate the difficulty of ascertaining an accurate overhead recovery rate.
6. Practical cost control is greatly facilitated. By avoiding arbitrary allocation of fixed overhead, efforts can be concentrated on maintaining a uniform and consistent marginal cost. It is useful to various levels of management.
7. It helps in short-term profit planning by breakeven and profitability analysis, both in terms of quantity and graphs. Comparative profitability and performance between two or more products and divisions can easily be assessed and brought to the notice of management for decision making.

Disadvantages

1. The separation of costs into fixed and variable is difficult and sometimes gives misleading results.
2. Normal costing systems also apply overhead under normal operating volume and this shows that no advantage is gained by marginal costing.
3. Under marginal costing, stocks and work in progress are understated. The exclusion of fixed costs from inventories affect profit, and true and fair view of financial affairs of an organization may not be clearly transparent.
4. Volume variance in standard costing also discloses the effect of fluctuating output on fixed overhead. Marginal cost data becomes unrealistic in case of highly fluctuating levels of production, e.g., in case of seasonal factories.
5. Application of fixed overhead depends on estimates and not on the actuals and as such there may be under or over absorption of the same.
6. Control affected by means of budgetary control is also accepted by many. In order to know the net profit, we should not be satisfied with contribution and hence, fixed overhead is also a valuable item. A system which ignores fixed costs is less effective since a major portion of fixed cost is not taken care of under marginal costing.
7. In practice, sales price, fixed cost and variable cost per unit may vary. Thus, the assumptions underlying the theory of marginal costing sometimes becomes unrealistic. For long term profit planning, absorption costing is the only answer.

Presentation of Cost Data under Marginal Costing and Absorption Costing

Marginal costing is not a method of costing but a technique of presentation of sales and cost data with a view to guide management in decision-making.

The traditional technique popularly known as total cost or absorption costing technique does not make any difference between variable and fixed cost in the calculation of profits. But marginal cost statement very clearly indicates this difference in arriving at the net operational results of a firm.

Following presentation of two Performa shows the difference between the presentation of information according to absorption and marginal costing techniques:

MARGINAL COSTING PRO-FORMA

	£	£
Sales Revenue		xxxxx
Less Marginal Cost of Sales		
Opening Stock (Valued @ marginal cost)	xxxx	
Add Production Cost (Valued @ marginal cost)	xxxx	
Total Production Cost	xxxx	
Less Closing Stock (Valued @ marginal cost)	(xxx)	
Marginal Cost of Production	xxxx	
Add Selling, Admin & Distribution Cost	xxxx	
Marginal Cost of Sales		(xxxx)
Contribution		xxxxx
Less Fixed Cost		(xxxx)
Marginal Costing Profit		xxxxx

ABSORPTION COSTING PRO-FORMA

	£	£
Sales Revenue		xxxxx
Less Absorption Cost of Sales		
Opening Stock (Valued @ absorption cost)	xxxx	
Add Production Cost (Valued @ absorption cost)	xxxx	
Total Production Cost	xxxx	
Less Closing Stock (Valued @ absorption cost)	(xxx)	
Absorption Cost of Production	xxxx	
Add Selling, Admin & Distribution Cost	xxxx	
Absorption Cost of Sales		(xxxx)
Un-Adjusted Profit		xxxxx
Fixed Production O/H absorbed	xxxx	
Fixed Production O/H incurred	(xxxx)	
(Under)/Over Absorption		xxxxx
Adjusted Profit		xxxxx

Reconciliation Statement for Marginal Costing and Absorption Costing Profit

	$
Marginal Costing Profit	xx

ADD (Closing stock – opening Stock) x OAR	xx
= Absorption Costing Profit	xx

Where OAR(overhead absorption rate) = $\frac{\text{Budgeted fixed production overhead}}{\text{Budgeted levels of activities}}$

Marginal Costing versus Absorption Costing

After knowing the two techniques of marginal costing and absorption costing, we have seen that the net profits are not the same because of the following reasons:

1. Over and Under Absorbed Overheads

In absorption costing, fixed overheads can never be absorbed exactly because of difficulty in forecasting costs and volume of output. If these balances of under or over absorbed/recovery are not written off to costing profit and loss account, the actual amount incurred is not shown in it. In marginal costing, however, the actual fixed overhead incurred is wholly charged against contribution and hence, there will be some difference in net profits.

2. Difference in Stock Valuation

In marginal costing, work in progress and finished stocks are valued at marginal cost, but in absorption costing, they are valued at total production cost. Hence, profit will differ as different amounts of fixed overheads are considered in two accounts.

The profit difference due to difference in stock valuation is summarized as follows:

a. When there is no opening and closing stocks, there will be no difference in profit.
b. When opening and closing stocks are same, there will be no difference in profit, provided the fixed cost element in opening and closing stocks are of the same amount.
c. When closing stock is more than opening stock, the profit under absorption costing will be higher as comparatively a greater portion of fixed cost is included in closing stock and carried over to next period.
d. When closing stock is less than opening stock, the profit under absorption costing will be less as comparatively a higher amount of fixed cost contained in opening stock is debited during the current period.

The features which distinguish marginal costing from absorption costing are as follows.

a. In absorption costing, items of stock are costed to include a ‘fair share’ of fixed production overhead, whereas in marginal costing, stocks are valued at

variable production cost only. The value of closing stock will be higher in absorption costing than in marginal costing.

b. As a consequence of carrying forward an element of fixed production overheads in closing stock values, the cost of sales used to determine profit in absorption costing will:
    i. include some fixed production overhead costs incurred in a previous period but carried forward into opening stock values of the current period;
    ii. exclude some fixed production overhead costs incurred in the current period by including them in closing stock values.

    In contrast marginal costing charges the actual fixed costs of a period in full into the profit and loss account of the period. (Marginal costing is therefore sometimes known as period costing.)

c. In absorption costing, 'actual' fully absorbed unit costs are reduced by producing in greater quantities, whereas in marginal costing, unit variable costs are unaffected by the volume of production (that is, provided that variable costs per unit remain unaltered at the changed level of production activity). Profit per unit in any period can be affected by the actual volume of production in absorption costing; this is not the case in marginal costing.
d. In marginal costing, the identification of variable costs and of contribution enables management to use cost information more easily for decision-making purposes (such as in budget decision making). It is easy to decide by how much contribution (and therefore profit) will be affected by changes in sales volume. (Profit would be unaffected by changes in production volume).

    In absorption costing, however, the effect on profit in a period of changes in both:

    i. production volume; and
    ii. sales volume;

       is not easily seen, because behaviour is not analysed and incremental costs are not used in the calculation of actual profit.

Limitations of Absorption Costing

The following are the criticisms against absorption costing:

1. You might have observed that in absorption costing, a portion of fixed cost is carried over to the subsequent accounting period as part of closing stock. This is an unsound practice because costs pertaining to a period should not be allowed to be vitiated by the inclusion of costs pertaining to the previous period and vice versa.

2. Further, absorption costing is dependent on the levels of output which may vary from period to period, and consequently cost per unit changes due to the existence of fixed overhead. Unless fixed overhead rate is based on normal capacity, such changed costs are not helpful for the purposes of comparison and control.

The cost to produce an extra unit is variable production cost. It is realistic to the value of closing stock items as this is a directly attributable cost. The size of total contribution varies directly with sales volume at a constant rate per unit. For the decision-making purpose of management, better information about expected profit is obtained from the use of variable costs and contribution approach in the accounting system.

Budgetary control

There are two types of control, namely budgetary and financial. This chapter concentrates on budgetary control only. This is because financial control was covered in detail in chapters one and two. Budgetary control is defined by the Institute of Cost and Management Accountants (CIMA) as:

"The establishment of budgets relating the responsibilities of executives to the requirements of a policy, and the continuous comparison of actual with budgeted results, either to secure by individual action the objective of that policy, or to provide a basis for its revision".

Budgetary control methods

a) **Budget:**

• A formal statement of the financial resources set aside for carrying out specific activities in a given period of time.

• It helps to co-ordinate the activities of the organisation.

An example would be an advertising budget or sales force budget.

b) Budgetary control:

• A control technique whereby actual results are compared with budgets.

• Any differences (variances) are made the responsibility of key individuals who can either exercise control action or revise the original budgets.

Budgetary control and responsibility centres;

These enable managers to monitor organisational functions.

A responsibility centre can be defined as any functional unit headed by a manager who is responsible for the activities of that unit.

There are four types of responsibility centres:

a) *Revenue centres*

Organisational units in which outputs are measured in monetary terms but are not directly compared to input costs.

b) *Expense centres*

Units where inputs are measured in monetary terms but outputs are not.

c) *Profit centres*

Where performance is measured by the difference between revenues (outputs) and expenditure (inputs). Inter-departmental sales are often made using "transfer prices".

d) *Investment centres*

Where outputs are compared with the assets employed in producing them, i.e. ROI.

Advantages of budgeting and budgetary control

There are a number of advantages to budgeting and budgetary control:

- Compels management to think about the future, which is probably the most important feature of a budgetary planning and control system. Forces management to look ahead, to set out detailed plans for achieving the targets for each department, operation and (ideally) each manager, to anticipate and give the organisation purpose and direction.

- Promotes coordination and communication.

- Clearly defines areas of responsibility. Requires managers of budget centres to be made responsible for the achievement of budget targets for the operations under their personal control.

- Provides a basis for performance appraisal (variance analysis). A budget is basically a yardstick against which actual performance is measured and assessed. Control is provided by comparisons of actual results against budget plan.

Departures from budget can then be investigated and the reasons for the differences can be divided into controllable and non-controllable factors.

• Enables remedial action to be taken as variances emerge.

• Motivates employees by participating in the setting of budgets.

• Improves the allocation of scarce resources.

• Economizes management time by using the management by exception principle.

Problems in budgeting

Whilst budgets may be an essential part of any marketing activity they do have a number of disadvantages, particularly in perception terms.

• Budgets can be seen as pressure devices imposed by management, thus resulting in:
a) bad labour relations
b) inaccurate record-keeping.

• Departmental conflict arises due to:

a) disputes over resource allocation
b) departments blaming each other if targets are not attained.

• It is difficult to reconcile personal/individual and corporate goals.

• Waste may arise as managers adopt the view, "we had better spend it or we will lose it". This is often coupled with "empire building" in order to enhance the prestige of a department.

Responsibility versus controlling, i.e. some costs are under the influence of more than one person, e.g. power costs.

• Managers may overestimate costs so that they will not be blamed in the future should they overspend.

Characteristics of a budget

A good budget is characterized by the following:

• Participation: involve as many people as possible in drawing up a budget.
• Comprehensiveness: embrace the whole organization.
• Standards: base it on established standards of performance.
• Flexibility: allow for changing circumstances.
• Feedback: constantly monitor performance.

• Analysis of costs and revenues: this can be done on the basis of product lines, departments or cost centres.

Budget organization and administration:

In organizing and administering a budget system the following characteristics may apply:

a) *Budget centres:* Units responsible for the preparation of budgets. A budget centre may encompass several cost centres.

b) *Budget committee:* This may consist of senior members of the organization, e.g. departmental heads and executives (with the managing director as chairman). Every part of the organization should be represented on the committee, so there should be a representative from sales, production, marketing and so on. Functions of the budget committee include:

• Coordination of the preparation of budgets, including the issue of a manual
• Issuing of timetables for preparation of budgets
• Provision of information to assist budget preparations
• Comparison of actual results with budget and investigation of variances.

c) *Budget Officer:* Controls the budget administration The job involves:

• liaising between the budget committee and managers responsible for budget preparation
• dealing with budgetary control problems
• ensuring that deadlines are met
• educating people about budgetary control.

d) *Budget manual:*

This document:

• charts the organization
• details the budget procedures
• contains account codes for items of expenditure and revenue
• timetables the process
• clearly defines the responsibility of persons involved in the budgeting system.

Steps in preparing a cash budget

i) Step 1: set out a pro forma cash budget month by month. Below is a suggested layout.

Month 1 Month 2 Month 3

	$	$	$
Cash receipts			
Receipts from debtors			
Sales of capital items			
Loans received			
Proceeds from share issues			
Any other cash receipts			
Cash payments			
Payments to creditors			
Wages and salaries			
Loan repayments			
Capital expenditure			
Taxation			
Dividends			
Any other cash expenditure			
Receipts less payments			
Opening cash balance b/f	W	X	Y
Closing cash balance c/f	X	Y	Z

ii) Step 2: sort out cash receipts from debtors

iii) Step 3: other income

iv) Step 4: sort out cash payments to suppliers

v) Step 5: establish other cash payments in the month

f) Other budgets:

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