

# Accountancy

## Financial Accounting

Part I

*Textbook for Class XI*



एन सी ई आर टी  
NCERT

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

ISBN 81-7450-507-5

**First Edition**

February 2006 Phalgun 1927

**Reprinted**

October 2006 Kartika 1928

October 2007 Kartika 1929

January 2009 Magha 1930

January 2010 Magha 1931

January 2011 Magha 1932

June 2012 Jyaishta 1934

April 2013 Chaitra 1935

December 2013 Agrahayana 1935

April 2015 Chaitra 1937

PD 75T MJ

© National Council of Educational  
Research and Training, 2006

₹ 125.00

Printed on 80 GSM paper with NCERT  
watermark

Published at the Publication Division by  
the Secretary, National Council of  
Educational Research and Training, Sri  
Aurobindo Marg, New Delhi 110 016 and  
printed at SPA Printers (P) Ltd., B 17/3,  
Okhla Industrial Area, Phase-II, New  
Delhi 110 020

**ALL RIGHTS RESERVED**

- ❑ No part of this publication may be reproduced, stored in a retrieval system or transmitted, in any form or by any means, electronic, mechanical, photocopying, recording or otherwise without the prior permission of the publisher.
- ❑ This book is sold subject to the condition that it shall not, by way of trade, be lent, re-sold, hired out or otherwise disposed of without the publisher's consent, in any form of binding or cover other than that in which it is published.
- ❑ The correct price of this publication is the price printed on this page. Any revised price indicated by a rubber stamp or by a sticker or by any other means is incorrect and should be unacceptable.

**OFFICES OF THE PUBLICATION  
DIVISION, NCERT**

NCERT Campus  
Sri Aurobindo Marg  
New Delhi 110 016 Phone : 011-26562708

108, 100 Feet Road  
Hosdakere Halli Extension  
Banashankari III Stage  
Bengaluru 560 085 Phone : 080-26725740

Navjivan Trust Building  
P.O. Navjivan  
Ahmedabad 380 014 Phone : 079-27541446

CWC Campus  
Opp. Dhankal Bus Stop  
Panihati  
Kolkata 700 114 Phone : 033-25530454

CWC Complex  
Maligaon  
Guwahati 781 021 Phone : 0361-2674869

**Publication Team**

Head, Publication Division : N. K. Gupta

Chief Editor : Shweta Uppal

Chief Business Manager : Gautam Ganguly

Chief Production Officer (Incharge) : Arun Chitkara

Production Assistant : Prakash Veer Singh

**Cover**  
Shweta Rao

## FOREWORD

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

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

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

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

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

New Delhi  
20 December 2005

*Director*  
National Council of Educational  
Research and Training

## TEXTBOOK DEVELOPMENT COMMITTEE

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

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

### CHIEF ADVISOR

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

### MEMBERS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**MEMBER-COORDINATOR**

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

© NCERT  
not to be republished

## ACKNOWLEDGEMENTS

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

Special thanks are due to Savita Sinha, *Professor and Head*, Department of Education in Social Sciences, NCERT for her support, during the development of this book.

The Council acknowledges the efforts of *Computer Incharge*, Dinesh Kumar; *DTP Operators*, Dev Prakash Sharma and Arvind Sharma; *Proof Readers*, Deepti Sharma and Rishi Mehra.

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

# **THE CONSTITUTION OF INDIA**

## **PREAMBLE**

**WE, THE PEOPLE OF INDIA**, having solemnly resolved to constitute India into a <sup>1</sup>**[SOVEREIGN SOCIALIST SECULAR DEMOCRATIC REPUBLIC]** and to secure to all its citizens :

**JUSTICE**, social, economic and political;

**LIBERTY** of thought, expression, belief, faith and worship;

**EQUALITY** of status and of opportunity and to promote among them all;

**FRATERNITY** assuring the dignity of the individual and the <sup>2</sup>[unity and integrity of the Nation];

**IN OUR CONSTITUENT ASSEMBLY** this twenty-sixth day of November, 1949 do **HEREBY ADOPT, ENACT AND GIVE TO OURSELVES THIS CONSTITUTION.**

1. Subs. by the Constitution (Forty-second Amendment) Act, 1976, Sec.2, for "Sovereign Democratic Republic" (w.e.f. 3.1.1977)
2. Subs. by the Constitution (Forty-second Amendment) Act, 1976, Sec.2, for "Unity of the Nation" (w.e.f. 3.1.1977)



## CONTENTS

	FOREWORD	<i>iii</i>
<b>Chapter 1</b>	<b>Introduction to Accounting</b>	<b>1</b>
1.1	Meaning of Accounting	2
1.2	Accounting as a Source of Information	6
1.3	Objectives of Accounting	10
1.4	Role of Accounting	13
1.5	Basic Terms in Accounting	14
<b>Chapter 2</b>	<b>Theory Base of Accounting</b>	<b>22</b>
2.1	Generally Accepted Accounting Principles (GAAP)	23
2.2	Basic Accounting Concepts	24
2.3	Systems of Accounting	33
2.4	Basis of Accounting	34
2.5	Accounting Standards	35
<b>Chapter 3</b>	<b>Recording of Transactions - I</b>	<b>41</b>
3.1	Business Transactions and Source Document	41
3.2	Accounting Equation	45
3.3	Using Debit and Credit	47
3.4	Books of Original Entry	56
3.5	The Ledger	64
3.6	Posting from Journal	67
<b>Chapter 4</b>	<b>Recording of Transactions - II</b>	<b>91</b>
4.1	Cash Book	92
4.2	Purchases (Journal) Book	117
4.3	Purchases Return (Journal) Book	119
4.4	Sales (Journal) Book	121
4.5	Sales Return (Journal) Book	123
4.6	Journal Proper	129
4.7	Balancing the Accounts	131
<b>Chapter 5</b>	<b>Bank Reconciliation Statement</b>	<b>150</b>
5.1	Need for Reconciliation	151
5.2	Preparation of Bank Reconciliation Statement	156

<b>Chapter 6</b>	<b>Trial Balance and Rectification of Errors</b>	<b>181</b>
6.1	Meaning of Trial Balance	181
6.2	Objectives of Preparing the Trial Balance	182
6.3	Preparation of Trial Balance	185
6.4	Significance of Agreement of Trial Balance	190
6.5	Searching of Errors	192
6.6	Rectification of Errors	193
<b>Chapter 7</b>	<b>Depreciation, Provisions and Reserves</b>	<b>227</b>
7.1	Depreciation	227
7.2	Depreciation and other Similar Terms	231
7.3	Causes of Depreciation	231
7.4	Need for Depreciation	232
7.5	Factors Affecting the Amount of Depreciation	234
7.6	Methods of calculating Depreciation Amount	235
7.7	Straight Line Method and Written Down Method <i>A Comparative Analysis</i>	240
7.8	Methods of Recording Depreciation	242
7.9	Disposal of Asset	251
7.10	Effect of any Addition or Extension to the Existing Asset	261
7.11	Provisions	264
7.12	Reserves	266
7.13	Secret Reserve	270
<b>Chapter 8</b>	<b>Bill of Exchange</b>	<b>279</b>
8.1	Meaning of Bill of Exchange	280
8.2	Promissory Note	282
8.3	Advantages of Bill of Exchange	284
8.4	Maturity of Bill	285
8.5	Discounting of Bill	285
8.6	Endorsement of Bill	286
8.7	Accounting Treatment	286
8.8	Dishonour of a Bill	293
8.9	Renewal of the Bill	298
8.10	Retiring of the Bill	301
8.11	Bills Receivable and Bills Payable Books	303
8.12	Accommodation of Bills	317