

Accountancy

Financial Accounting

Part II

Textbook for Class XI



एन सी ई आर टी
NCERT

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

First Edition

February 2006 Phalgun 1927

Reprinted

October 2006 Kartika 1928

October 2007 Kartika 1929

March 2009 Phalgun 1930

January 2010 Magha 1931

January 2011 Magha 1932

January 2012 Magha 1933

March 2013 Phalgun 1934

December 2013 Agrahayana 1935

March 2015 Phalgun 1936

PD 75T MJ

© **National Council of Educational
Research and Training, 2006**

₹ 110.00

*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 Gopsons Papers Limited,
A-2 & 3, Sector-64, Noida - 201 301
(UP)

ISBN 81-7450-507-5 (Part I)

ISBN 81-7450-532-6 (Part II)

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
Bangaluru 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 : *Shveta Uppal*

Chief Business Manager : *Gautam Ganguly*

Chief Production Officer (Incharge) : *Arun Chitkara*

Assistant Production Officer : *Rajender Chauhan*

Cover
Shveta 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 of Commerce*, 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 Operator*, Dev Prakash Sharma; *Proof Readers*, Deepti Sharma and Rishi Mehra.

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

**CONTENTS OF
ACCOUNTANCY – FINANCIAL ACCOUNTING
PART I**

CHAPTER 1	INTRODUCTION TO ACCOUNTING	1
CHAPTER 2	THEORY BASE OF ACCOUNTING	22
CHAPTER 3	RECORDING OF TRANSACTIONS - I	41
CHAPTER 4	RECORDING OF TRANSACTIONS - II	91
CHAPTER 5	BANK RECONCILIATION STATEMENT	150
CHAPTER 6	TRIAL BALANCE AND RECTIFICATION OF ERRORS	181
CHAPTER 7	DEPRECIATION, PROVISIONS AND RESERVES	227
CHAPTER 8	BILL OF EXCHANGE	279

CONTENTS

	FOREWORD	iii
Chapter 9	Financial Statements - I	331
9.1	Stakeholders and Their Information Requirements	331
9.2	Distinction between Capital and Revenue	333
9.3	Financial Statements	335
9.4	Trading and Profit and Loss Account	337
9.5	Operating Profit (EBIT)	351
9.6	Balance Sheet	353
9.7	Opening Entry	362
Chapter 10	Financial Statements	372
10.1	Need for Adjustments	372
10.2	Closing Stock	374
10.3	Outstanding Expenses	376
10.4	Prepaid Expenses	377
10.5	Accrued Income	379
10.6	Income Received in Advance	381
10.7	Depreciation	382
10.8	Bad Debts	383
10.9	Provision for Bad and Doubtful Debts	384
10.10	Provision for Discount on Debtors	387
10.11	Manager's Commission	389
10.12	Interest on Capital	392
10.13	Methods of Presenting the Financial Statements	416
Chapter 11	Accounts from Incomplete Records	437
11.1	Meaning of Incomplete Records	437
11.2	Reasons of Incompleteness and its Limitations	438

11.3	Ascertainment of Profit and Loss	439
11.4	Preparing Trading and Profit and Loss Account and the Balance Sheet	444
Chapter 12	Applications of Computers in Accounting	475
12.1	Meaning and Elements of Computer System	475
12.2	Capabilities of Computer System	477
12.3	Limitations of a Computer System	478
12.4	Components of Computer	479
12.5	Evolution of Computerised Accounting	480
12.6	Features of Computerised Accounting System	483
12.7	Management Information System and Accounting Information System	485
Chapter 13	Computerised Accounting System	492
13.1	Concept of Computerised Accounting System	492
13.2	Comparison between Manual and Computerised Accounting	494
13.3	Advantages of Computerised Accounting System	495
13.4	Limitations of Computerised Accounting System	497
13.5	Sourcing of Accounting Software	498
13.6	Generic Considerations before Sourcing an Accounting Software	501
Chapter 14	Structuring Database for Accounting	504
14.1	Data Processing Cycle	506
14.2	Designing Database for Accounting	507
14.3	Entity Relationship (ER) Model	508
14.4	Database Technology	518
14.5	An Illustration of Accounting Database	520
14.6	Relational Data Model	523
14.7	Relational Databases and Schemas	524
14.8	Constraints and Database Schemas	525
14.9	Operations and Constraint Violations	527

14.10	Designing Relational Database Schema	528
14.11	Illustrating the Database Structure for Example Realities	531
14.12	Interacting with Databases	539
Chapter 15	Accounting System Using Database Management System	555
15.1	MS Access and its Components	555
15.2	Creating Tables and Relationships for Accounting Database	560
15.3	Vouchers Using Forms	566
15.4	Information Using Queries	588
15.5	Generating Accounting Reports	622

THE CONSTITUTION OF INDIA

PREAMBLE

WE, THE PEOPLE OF INDIA, having solemnly resolved to constitute India into a ¹**[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 ²[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)