BACHELOR OF BUSINESS ADMINISTRATION (BBA)

Fundamental of Accounting

Sub code-CP-102

Unit- I

What is Accounting?

It is just the process that helps in recording, summarizing, analysing and reporting the data related to the different financial transactions that happen in a company on a daily or monthly basis.

Accounting is the language of finance, and it conveys the financial position of any particular company or business.

Objectives of Financial Accounting

Financial accounting needs to fulfil the following objectives:

1. Providing accounting-related information to all the concerned parties: When we talk about a large business or organisation, it is not just the owner who is concerned with the financial position of their entity. There are several other concerned parties like shareholders, investors, managers, tax officers, auditors, etc., who are concerned with the company's finances.
2. To ascertain profitability: A business can either make a profit or a loss in its operations. To measure which way the company is going, we need financial accounting.
3. Keeping systematic records: For the smooth running of any company, it is essential to maintain a systematic financial record and keep stakeholders abreast of the financial situation all the time.
4. Ascertaining the financial position: To know how much the business owes to other parties or how much is owed to it, proper financial records need to be maintained.

Nature of Accounting

Accounting can be defined as the act of classifying and summarising money-related matters in a detailed manner that can be easily interpreted. This definition highlights both the nature and scope of financial accounting.

To start a business, the initial investment is made by the proprietor, which is referred to as the capital. The additional funds can be raised through loans, investments, etc. Now using this money, assets are bought and additional expenditures are made. All this is done with the target to generate profit for the organisation. The fund transfers between different parties and money infusion in the business need to be recorded formally so that all the concerned stakeholders are well informed about the financial health of the company.

The nature of financial accounting is outlined as follows:

- Identifying monetary transactions – First, the transaction has to take place and be identified so that it can be accounted for. To identify financial transactions, store and check the receipts and bills of every transaction is a must. Sometimes, the exchange of money is not directly involved, but it still needs to be identified. This involves depreciation in the value of goods over time, which forms an important aspect of financial accounting.
- Measuring and recording transactions – The value of transactions has to be measured in terms of money and those concerned with revenues and expenditures need to be recorded. The recording is done in journals.
- Classifying payments – The huge data needs to be classified in a record known as a ledger. For example, all salary-related expenses can be classified under one column. Leasing related data can be classified in another column and so on.
- Summarisation – The larger the corporation, the more complicated the record. Hence, the record needs to be summarised in a form where it can be easily comprehended.
- Analysing, interpretation, and communication: The summarised data needs to be analysed well and interpreted so that it can be communicated to the concerned stakeholders so that they have the full knowledge of the company's financial position.

Scope of Accounting

Reporting the account statement to various stakeholders highlights the scope of accounting. Various parties in various forms use this information for their benefit and the benefit of the company.

Financial accounting keeps the company's various stakeholders updated about its financial health. It should help each stakeholder make decisions regarding the company's business. For example, it allows shareholders to understand the profit-making subsidiaries of the business. To indirect and direct investors, it gives them an idea of whether the company is worth investing in or not. Employees need to stay updated about it too, so they know whether the company they are working in is in good financial health or not.

- Reporting to shareholders: Shareholders are entities who invest their money in the business seeking profit from their investment. Since they have invested their own money in the business, they need to be reported on the overall financial position of the company involving the number of outstanding loans, assets, expenses, revenue streams, and so on.

- Reporting to the Public: The companies listed on the stock exchange are the ones in which the general public can also invest. Since the public also becomes an investor, account statements have to be made public so that they are fully aware of their investment choices.
- Reporting to Government: It is necessary for tax purposes. Governments need to be aware of the financial position of the businesses which come under their jurisdiction.
- Reporting to employees: Employees are indirect stakeholders and they must know about the company's financials which helps them stay informed regarding their job security.

Bookkeeping advantage and disadvantage

Advantages of Bookkeeping:

1. **Accurate Record-keeping:** Bookkeeping provides an accurate record of all financial transactions which can be used for tax purposes, decision-making, and to track the financial performance of a business.

2. **SBS_Consulting** provides incorporation services to Singapore-based companies. Additionally, we also offer secretarial, bookkeeping, accounting, taxation, GST, XBRL, and payroll services.

3. **Better financial control:** Bookkeeping helps to monitor the inflow and outflow of funds and ensures that the business stays within its budget. This leads to better financial control and helps in making informed decisions.

4. **Easy Tax Filing:** Bookkeeping makes tax filing easier by providing all the necessary information in an organized manner. This reduces the risk of errors and saves time during the tax filing process.

5. **Improved cash flow:** Bookkeeping helps to track outstanding debts and ensure prompt payment of bills, which helps to maintain a positive cash flow.

6. **Facilitates Auditing:** Bookkeeping helps in auditing as it provides a clear record of all financial transactions, making it easier for auditors to review the financial statements.

7. **Supports Business Growth:** Bookkeeping provides insights into the financial performance of a business and helps to identify areas for improvement. This supports the growth of the business and helps to make informed decisions.

8. **Compliance with Legal Requirements:** Bookkeeping helps to ensure compliance with various legal requirements and reduces the risk of legal penalties and fines.

Disadvantages of Bookkeeping:

1. **Time-Consuming:** Bookkeeping is a time-consuming task and can be a burden for small business owners who have limited time and resources.

2. **Costly:** Bookkeeping can be expensive as it requires specialized software and equipment, and in some cases, the services of a professional bookkeeper or accountant.

3. **Requires Attention to Detail:** Bookkeeping requires attention to detail and a good understanding of financial concepts, which can be challenging for some individuals.

4. **Risk of Error:** Bookkeeping involves manual entry of data, and there is a risk of human error. This can result in incorrect financial statements and create difficulties during tax filing.

5. **Data Security Concerns:** Bookkeeping involves storing sensitive financial information, and there is a risk of data theft and fraud. Businesses need to take adequate measures to secure their data to reduce this risk.

6. **Limited Flexibility:** Bookkeeping can be rigid and does not allow for much flexibility in terms of changing the accounting method or structure.

7. **Inadequate for Large Businesses:** Bookkeeping may not be sufficient for large businesses that require more comprehensive financial reporting and analysis.

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Unit- II

Introduction to Accounting Framework and Role of Accountant

The theoretical framework of accounting means the set of frameworks, methods, and assumptions that are used to study and apply accounts in financial situations. This also refers to the study of the official changes that affect financial framework and financial reporting by authorities.

An accounting framework is a set of norms that are used to measure, recognize, and present the information that appears in an entity's financial statements. A conceptual framework is defined as a set of ideas and objectives that leads to the creation of a persistent set of rules and standards.

The theory of accounts comprises both the study of historical accounting methods and also the accounting practices that are used in the current financial applications. It also examines the official changes that are made to the financial framework and financial reporting by authorities.

What is the Role of an Accountant?

An accountant carries out all financial activities that are related to the accuracy, collection, analysis, recording, and presentation of financial operations. Generally, the accountant also handles all the third parties, like vendors, customers, and financial institutions. He/she should also be responsible for holding other administrative functions in an organization.

Roles and Responsibilities Accountant

Now, if we talk about the major role of an accountant in an organization, he plays a significant part in its growth and long-term profitability just like other key stakeholders.

The main responsibility of an accountant is preparing asset, liability, and capital account entries by collecting and analysing account information.

The basic role of an accountant includes establishing accountability of all the assets under an individual’s control. The image below gives an idea about the role of an accountant.

Accountant Roles and Responsibilities

- To prepare accounts and tax returns
- To maintain payrolls and control the income and expenditure

- To auditing financial information
- To collect and present reports, budgets, business plans, and financial statements
- To analyze accounts and business plans
- To provide tax planning services about current legislation
- To finance forecasting and risk analysis
- To deal with insolvency cases

Principles of Accounting

1. Accrual Principle

It is one of the important accounting concepts and principles that mandate the recording of transactions in the time period in which they occur. It is regardless of the time when actual cash flows for the transactions are received. Through accrual principle, one can gain an accurate insight into the financial status of a business. Most large-scale businesses adopt an accrual system to determine the cash flow of the business operations. Along with this, revenues and related expenses are recorded in the same time period of reporting. Both IFRS and GAAP support this concept. In case, a business has more than $5 million in revenue, then such businesses must adopt this system for the purpose of taxation.

2. Consistency principle

According to this principle, when an organisation adopts a specific accounting method of reporting or documentation, then it should stay consistent with the method. The aim of this basic accounting principle is to make financial statements comparable across industries and companies. This principle has two issues associated with it. First, the principle is not properly followed when many people are recording data and compiling reports. To combat this issue, organizations need to have a set method internally. The second issue is related to switching between the financial reporting methods. Some organizations do this in order to manipulate the data to their advantage.

3. Conservatism Principle

The Conservatism principle gives you a realistic perspective of unexpected situations. According to this principle, one should recognize expenses and liabilities at the early stages even if there is uncertainty about the outcome. However, the principle recognizes revenues and assets when there is an assurance of its receival. This principle can be applied to recognizing the estimates. The conservatism principle is the foundation of lower cost or market rule. As per this rule, one should record inventory at a lower end of its current market value or at its acquisition cost.

4. Cost Principle (historical Cost)

The Historical Cost principle is another name for the cost principle. Whenever a business acquires an asset, its initial value is recorded in its financial reports of the business. This value might not be improved in the market value of inflation. It is also not updated to reflect any depreciation or even appreciation. This value is known as the cost principle. As per the principle, companies keep a record of their tangible assets without reflecting the market value. Through this principle, companies can assess the actual cost of using financial services for calculating the historical cost principles of the assets of the company.

5. Economic Entity Principle

This principle is a basic of accounting that requires businesses to be treated as a separate financial and legal entity. This means that the recorded activities of the business entity must be kept separate from the recorded activities of the owner and other entities. These may include either a sole trader, limited liability partnership, or general partnership.

6. Matching Principle

The matching principle is a concept in accounting that states that companies must report their expenses and revenues simultaneously. The revenues and expenses are matched on income statement for a specific time period. It is a part of the accrual accounting method that provides an accurate representation of operations on the income statement. This principle is quite useful for investors as investors can match revenue and expenses to get a better sense of the finances of a business. Along with the income statement, there is a need to assess the cash flow statement as well.

7. Materiality Principle

As per the materiality principle, any item that may impact the decision-making process of an investor must be recorded. These details must be recorded in length in the financial statements using Generally Accepted Accounting Principles (GAAP). The material principle states that the accounting standard can be ignored if the end result is small. It is an important principle for deciding if a transaction should be recorded as a part of closing process.

8. Full Disclosure Principle

In the Full Disclosure principle, each piece of information should be included in the financial statement of an entity. This is necessary since it might affect the reader’s perspective of understanding the statement. It is important to only disclose information about events that have a material impact on the financial position of an entity. As per the full disclosure principle, it may also include those items that cannot be quantified. Businesses are also liable to report existing accounting policies and any changes in them as well.

9. Going Concern Principle

According to this accounting principle, a company will complete its recent plans, meet its financial obligations and use its existing assets. This process of continuing operations indefinitely must go on until the company has any evidence on the contrary. Through this principle, the company continues to make money to avoid going bankrupt. In case, the company is unable to adopt this principle properly, the chance of liquidation and bankruptcy increases.

10. Monetary Unit Principle

According to this principle, business transactions should be recorded only when they can be expressed as currency. Accountants should avoid recording non-quantifiable entities in the financial accounts. Whenever a transaction or an event occurs, it is first converted into money. After that, it is recorded into financial accounts of a business. It ensures that every accounting record is measurable in monetary terms by currencies.

11. Reliability Principle

This principle ensures that every transaction, business activity, event, etc is reliable when presented in the financial statement. Information should be associated with objective evidence and it can be checked, reviewed, and verified. This makes the information more reliable. Along with this, the information should be accurate and have a transparent representation. This makes the information reliable for its users. This principle ensures every financial statement and business accounting records are accurate.

12. Time Period Principle

There are two main regulatory bodies that develop the principles based on accounting concepts. GAAP and IFRS develop these principles. US-based companies follow GAAP principles whereas, outside the US, most countries follow IFRS guidelines. GAAP is static in comparison with the IFRS. IFRS builds principles to address the evolving financial condition in the world.

13. Revenue Recognition Principle

Revenue recognition is a part of GAAP that identifies certain conditions in which the revenue is recognized. The revenue is recognized when a critical event has occurred. This principle uses the accrual method of accounting. According to this, revenues are recognized when realised and earned. It is a straightforward principle when revenue is recognized when customers make payments. Whenever the production takes longer, the accounting for revenue becomes more complicated. This is one of the standard accounting principles in the industry.

14. Objectivity Principle

It refers to the concept of considering financial statements as solid evidence. These statements should not be biased or opinionated. While constructing financial statements, these statements should be helpful in evaluating the financial results, financial position and cash flow of an entity. This principle of accounting must be from the viewpoint of an auditor as well. In case an auditor is auditing a business that he has worked with, then the audit report might not be free from bias as per the relationship with the business owner.

Limitations of Principle of Accounting

Accounting principles has certain limitations including the following:

- These financial recordings are measured in monetary value due to which the significant events that are not monetary in nature, are not accounted for.

- Accounting principles are maintained as per the historical cost and are treated as per 'time value of money'
- Only past records are accounted for leaving no scope for recording any future events that might affect business finance.
- In case of accounting principles, form is given importance over substance. Explanations of substantial information is not given any importance.

What are Accounting Concepts?

Accounting concepts are the fundamental ideas, assumptions and statements of accounting theory that provide a framework for financial accounting. These principles are designed to ensure that financial statements will be prepared in a consistent manner. When this happens it will be easier to compare different businesses' performance as well as their position over time. This could help a lot when it comes to making important business decisions.

How many Accounting Concepts are there?

There are ten main accounting concepts, or principles of accounting that we will discuss in this article: the going concern concept, accrual basis of accounting, revenue recognition principle, matching principle, full disclosure principle, conservatism principle, materiality principle, income measurement objective and cost-benefit analysis.

The Going Concern Concept

The going concern concept assumes that the business will continue to operate for the foreseeable future and is not about to be shut down. This means that in preparing financial statements of an organization, accountants assume that all assets are long-term in nature, which can be used by the company over a period of time, and as such should not be valued at their liquidation value.

Accrual Basis of Accounting

The accrual basis of accounting is the recognition of revenue and expenses when it is earned and incurred, respectively, regardless of when the actual cash transactions take place. For example, if a company has provided services but has not yet received payment from the customer, the company would still recognize the revenue on its books. This is done because it better reflects the financial performance of the company.

Revenue Recognition Principle

This is one of the principles of accounting that requires that revenue be recognized when it is realized or realizable based on its certainty. In other words, revenue should be recognized when the sale has been made and delivered to the customer and payment from such customer is certain that it shall not be a bad debt, regardless of whether payment is received at that time or not.

Matching Principle

The matching principle requires that all expenses related to the acquisition of revenue in a given period of time be recorded in the same accounting period as that revenue. For example, if a company pays for advertising in March, but sees its sales increase in April, the advertising expense would be included in the April financial statements.

Full Disclosure Principle

The full disclosure principle requires that all material information is disclosed in the financial statements. Material information includes all that could potentially impact the decision of a reader of those statements, such as investors, lenders, creditors and other stakeholders.

Conservatism Principle

The conservatism principle requires that accountants record expenses as soon as possible in the accounting period, but record revenues only when they are realized. As a result of this principle, accountants tend to be more conservative in their reporting, preferring to err on the side of caution.

Materiality Principle

The materiality principle states that only information that is material to the decision of a stakeholder should be disclosed in an organization’s financial statements. This is subjective and depends on the situation, but generally speaking, information that is not material can be left out of the financial statements.

Income Measurement Objective

The income measurement objective requires that the income of an entity be measured in a manner that is accurate and consistent over time. This is done by using accounting standards such as GAAP and IFRS.

Cost-Benefit Analysis

The cost-benefit analysis is a concept whereby the costs of implementing a particular accounting standard or procedure are weighed against the benefits. If the benefits outweigh the costs, then it may be more beneficial for an organization to implement that standard or procedure.

What Is an Accounting Convention?

Accounting conventions are guidelines used to help companies determine how to record certain business transactions that have not yet been fully addressed by accounting standards. These procedures and principles are not legally binding but are generally accepted by accounting bodies. Basically, they are designed to promote consistency and help accountants overcome practical problems that can arise when preparing financial statements.

Sometimes, there is not a definitive guideline in the accounting standards that govern a specific situation. In such cases, accounting conventions can be referred to.

Accounting is full of assumptions, concepts, standards, and conventions. Concepts such as relevance, reliability, materiality, and comparability are often supported by accounting conventions that help to standardize the financial reporting process.

Accounting Convention Methods

There are four main accounting conventions designed to assist accountants:

- Conservatism: Playing it safe is both an accounting principle and convention. It tells accountants to err on the side of caution when providing estimates for assets and liabilities. That means that when two values of a transaction are available, the lower one should be favored. The general concept is to factor in the worst-case scenario of a firm's financial future.

- Consistency: A company should apply the same accounting principles across different accounting cycles. Once it chooses a method it is urged to stick with it in the future, unless it has a good reason to do otherwise. Without this convention, investors' ability to compare and assess how the company performs from one period to the next is made much more challenging.

- Full disclosure: Information considered potentially important and relevant must be revealed, regardless of whether it is detrimental to the company.

- Materiality: Like full disclosure, this convention urges companies to lay all their cards on the table. If an item or event is material, in other words important, it should be disclosed. The idea here is that any information that could influence the decision of a person looking at the financial statement must be included.

What is double-entry bookkeeping?

Double-entry bookkeeping is a method of recording transactions where for every business transaction, an entry is recorded in at least two accounts as a debit or credit. In a double-entry system, the amounts recorded as debits must be equal to the amounts recorded as credits.

How does the double-entry system work?

The key feature of this system is that the debits and credits should always match for error-free transactions.

The double-entry bookkeeping system works on the basic accounting equation, which is as follows:

Assets = Liabilities + Owner's equity

Assets: The money that the company owns

Liabilities: Anything that the business owes

Owner’s equity: Owner’s investment in the company

Income: Money the business earns by selling its products

Expense: Money the company spends to run the business

You should always remember that each side of the equation must balance out. This is how we arrive at the term “balancing the books.” A small example will help you understand this equation.

Let us take the same example that we used above, but this time use double-entry bookkeeping. Assume you are recording debit and credit entries for the transactions that take place in a week, using double-entry bookkeeping.

The starting balance for the week is $5000. In one week, you pay your rent ($1000).

ACCOUNT	DEBIT	CREDIT
Rent	$1000	
Cash		$1000

You purchase some office furniture ($1500).

ACCOUNT	DEBIT	CREDIT
Furniture	$1500	
Cash		$1500

Meanwhile, Excel Technologies pays an invoice with a value of $500.

ACCOUNT	DEBIT	CREDIT
Cash	$500	
Excel Tech. (Invoice)		$500

If you look at all three transactions, you can observe that total credit and total debit are the same: they both add up to $3000.

What documents are used to record entries?

In single-entry bookkeeping, the income and expenses for the transactions are recorded in a cash register, whereas the double-entry system starts with a journal, followed by a ledger, a trial balance, and finally financial statements.

1. **Journal:** This is an accounting book where the transactions are recorded sequentially, in chronological order. It need not be balanced.
2. **Ledger:** This is a book of final entries where the transactions are divided and recorded in separate accounts. It must be balanced.
3. **Trial balance**: This is a bookkeeping worksheet that reflects the credit and debit balance of all ledger accounts. One of the important features of the trial balance is that it maintains the arithmetic accuracy of transactions.
4. **Financial statements:** These are a collection of summary-level reports that reflect the organization's financial results, position, and cash flow.

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Unit- III

Understanding Final Accounts:

Final accounts are like a detailed report card for a company, showing everyone interested how much money the company made, what it owns, and how it manages its cash. These accounts include three main parts: an income statement, a balance sheet, and a cash flow statement. Together, they paint a full picture of the company's money situation, helping people like investors and managers make smart choices.

Financial statement preparation:

To create a complete financial picture, you need to carefully put together income, balance sheet, and cash flow details. It's like solving a puzzle where every piece matters. This method ensures that everyone can see clearly and accurately how the company is doing financially. It helps build trust with everyone involved and makes it easier to plan for the future.

Closing Entries in Accounting:

1. Strategies and Approaches:
Closing entries play an invaluable role as post-party cleanup, resetting temporary accounts like revenue and expenses to zero for tracking financial transactions in the upcoming accounting period as well as safeguarding integrity of financial records.

2. Closing Stock Valuation:
Closing stock valuation, also referred to as inventory evaluation, is an integral component of physical goods businesses that deal in physical products and is an indispensable step. This procedure involves conducting an in-depth evaluation of those yet-unsold goods which could significantly change reported financial figures in an adverse way.

3. Trial Balance Adjustments:
Adjustments complete a company's intricate financial puzzle by correcting discrepancies and errors to guarantee maximum accuracy when creating financial statements. Common forms of adjustments include accruals, prepayments and provisions; each playing a significant part in providing a more honest picture of its financial performance.

4. Closing Checklist of Financial Operations:
Financial closing checklists serve as a standardized to-do list that guides accountants through final accounts preparation with meticulous care and accuracy. Tasks included reconciling accounts, reviewing financial statements and assuring strict adherence with accounting standards are included on these comprehensive lists.

5. Selecting Vertical and Horizontal Final Accounts Format:

Deciding between vertical and horizontal formats when writing financial reports can be like choosing between different approaches for presentation: the vertical format lists items according to specific categories while providing more of an in-depth breakdown, while in contrast horizontal layout lays them all out side-by-side giving an overarching picture of financial activity.

Objectives of Preparing Final Accounts

The objectives of preparing final accounts, also known as financial statements, are multifaceted and crucial for businesses and stakeholders alike. Here are some key objectives:

1. **Performance Evaluation**: Final accounts provide a summary of a company's financial performance over a specific period. They help stakeholders, including investors, creditors, and management, assess how well the company has performed in terms of profitability and efficiency.
2. **Decision Making**: Final accounts aid in decision-making processes by providing valuable financial information. Investors use financial statements to decide whether to buy, hold, or sell shares of a company. Creditors use them to evaluate creditworthiness and determine lending terms. Management relies on financial statements to make strategic decisions about resource allocation, expansion, or cost-cutting measures.
3. **Accountability and Transparency**: Final accounts enhance accountability and transparency within an organization. By disclosing financial information, companies demonstrate their commitment to openness and honesty with stakeholders. This transparency fosters trust and confidence among investors, creditors, and the public.
4. **Compliance with Regulatory Requirements**: Companies are required by law to prepare and present financial statements in accordance with applicable accounting standards and regulatory guidelines. Final accounts ensure compliance with legal and regulatory requirements, preventing potential legal issues and penalties.
5. **Assessment of Financial Health**: Final accounts provide insights into the financial health and stability of a company. Key financial ratios derived from financial statements, such as liquidity ratios, profitability ratios, and solvency ratios, help stakeholders evaluate the company's financial position and performance relative to industry benchmarks.
6. **Facilitation of External Reporting**: Final accounts serve as the basis for external reporting to regulatory authorities, such as tax authorities and securities commissions. Accurate and reliable financial statements facilitate compliance with reporting requirements and regulatory filings.
7. **Historical Record**: Final accounts serve as a historical record of a company's financial activities and transactions. They provide a comprehensive overview of past performance, serving as a reference point for future analysis and planning.
8. **Communication Tool**: Final accounts serve as a communication tool between the company and its stakeholders. They convey important financial information in a standardized format, enabling effective communication and understanding among various parties involved.

What is Manufacturing Account?

The manufacturing account gives information on all the expenses and costs incurred in the preparation of the goods to be sold. This includes the expenses that are met in the path of preparing the goods but not the finished goods. Any type of expenses including the cost of raw materials, the cost of machines and their maintenance, the salaries and wages of both skilled and unskilled workers which are considered as the direct expenses of the manufacturing. Even the depreciation of the assets like costly machines and plants are also included under this account. This statement of account is very important for a manufacturing firm or plant to get an idea of the total profit or loss incurred throughout the year in the total process. The effectiveness and fixing of the cost price of the finished goods are based upon the statement of the manufacturing account. The statement of the manufacturing account does not have a prescribed format. It is only important to show the quantities and values clearly.

Manufacturing Account Format

Dr. (For the period ended . . . .) Cr.

Particulars	Amount	Particulars	Amount
To Work-in-progress (Opening)		To Work-in-progress (Closing)	
To Raw materials consumed:		By Sale of scrap	
Opening stock		By Cost of production of finished goods	
Add: Purchase of raw materials			
Less: Closing stock of raw materials			
To direct wages			
To factory overhead			

Production Accounts

Production accounts are accounts of cost or cost-sheet in a ledger account format, showing only the output during a given period, which is the total cost and per-unit cost incurred during the period and also the profit or loss for that particular period. Production accounts are nothing but the calculation of all costs involved during the conversion of raw materials to finished goods.

Under applied Overhead

The actual factory overhead cost amounts that are not allocated to the production units are known as under applied overhead. This kind of situation ascends when the accurate standard division amount of per unit of production does not equate to the actual overhead cost amounts incurred in a financial period, resulting in under applied overhead.

Absorption Costing Unit Product Cost

Under the absorption costing unit product cost method or the managerial accounting method, all costs which are associated with the particular product are captured. Examples of entries that are accounted in this method are direct materials, direct labor, insurance, and rent. For external reporting, absorption costing unit product cost uses GAAP or Generally Accepted Accounting Principles.

Preparation of Manufacturing Account

The cost of goods sold is found out by the preparation of the manufacturing account. Manufacturing trading profit and loss accounts is maintained by all manufacturing organizations to help in the formation of final accounts of a manufacturing concern. The manufacturing overhead account is calculated by the addition of indirect factory expenses like machine repairs, depreciation, insurance, factory supply, electricity, etc. Generally manufacturing overhead t account is prepared to have a standardized form of account. Non-manufacturing entities or what is called trading entities are generally involved in the purchase and also sales of goods at a profit. Usually, it is the manufacturing entities that prepare a manufacturing account and trading account, profit and loss account, and balance sheet in addition. The cost of goods manufactured format includes the cost of raw materials and all the direct expenses.

Manufacturing Account in Tally

The preparation of manufacturing account in tally can be done in the following process:

- Select Gateway of Tally followed by Inventory Vouchers and then click on F7.
- Select the manufacturing journal.
- Selection of the product to be manufactured should follow.
- The selection of the bill material is next.
- Selection of the godown where the storage of finished goods will be done will then be done.
- Entering the production quantity will come next.
- Entering the batch date, manufacturing date, and expiry date is to follow.
- Selection of the components like the name of the item, godown components, the number of raw materials, and the rate of raw materials will take place next and likewise, the amount will be displayed after the calculation.

What Is a Trading Account?

A trading account can be any investment account containing securities, cash or other holdings. Most commonly, trading account refers to a day trader's primary account. These investors tend to buy and sell assets frequently, often within the same trading session, and their accounts are subject to special regulation as a result. The assets held in a trading account are separated from others that may be part of a long-term buy and hold strategy.

How a Trading Account Works

A trading account can hold securities, cash, and other investment vehicles just like any other brokerage account. The term can describe a wide range of accounts, including tax-deferred retirement accounts. In general, however, a trading account is distinguished from other investment accounts by the level of activity, purpose of that activity and the risk it involves. The activity in a trading account typically constitutes day trading.

The Financial Industry Regulatory Authority (FINRA) defines a day trade as the purchase and sale of a security within the same day in a margin account. FINRA defines pattern day traders as investors who satisfy the following two criteria:

- Traders who make at least four day trades (either buying and selling a stock or selling a stock short and closing that short position within the same day) over a five-day week.
- Traders whose day-trading activity constitutes more than 6% of their total activity during that same week
- Brokerage firms can also identify clients as pattern day traders based on previous business or another reasonable conclusion. These firms will allow clients to open cash or margin accounts, but day traders typically choose margin for the trading accounts. FINRA enforces special margin requirements for investors it considers to be pattern-day traders.
- Opening a trading account requires certain minimum personal information, including your Social Security number and contact details

How Do I Open a Trading Account?

You can open a trading account with your brokerage or investment firm of choice by filling out an application with your personal information and funding the account. If you want margin capabilities for trading, you'll need to complete the margin agreement and submit to initial margin requirements, house margin requirements, and all applicable regulatory policies.3

What Are the Disadvantages of a Trading Account?

With a trading account, you run some risks you wouldn't encounter with regular brokerage cash accounts. For instance, trading on margin increases your risk of loss because of the leverage used, and you may encounter interest charges on your margin funds as well. Plus, you risk margin calls and securities liquidation as a day trader with a margin account.

What Is a Profit and Loss (P&L) Statement?

A profit and loss (P&L) statement, also known as an income statement, is a financial statement that summarizes the revenues, costs, expenses, and profits/losses of a company during a specified period. These records provide information about a company’s ability to generate revenues, manage costs, and make profits.

- The profit and loss (P&L) statement is a financial statement that summarizes the revenues, costs, and expenses incurred during a specified period.
- The P&L statement is one of three financial statements that every public company issues quarterly and annually, along with the balance sheet and the cash flow statement.
- When used together, the P&L statement, balance sheet, and cash flow statement provide an in-depth look at a company’s overall financial performance.
- Statements are prepared using the cash method or accrual method of accounting.
- It is important to compare P&L statements from different accounting periods, as any changes over time become more meaningful than the numbers themselves.

How Profit and Loss (P&L) Statements Work

The P&L statement is one of three financial statements that every public company issues on a quarterly and annual basis, along with the balance sheet and the cash flow statement. It is often the most popular and common financial statement in a business plan, as it shows how much profit or loss was generated by a business.

P&L statements are also referred to as a(n):

- Statement of profit and loss
- Statement of operations
- Statement of financial results or income
- Earnings statement
- Expense statement
- Income statement

The P&L or income statement, like the cash flow statement, shows changes in accounts over a set period of time. The balance sheet, on the other hand, is a snapshot, showing what the company owns and owes at a single moment. It is important to compare the income statement with the cash flow statement since, under the accrual method of accounting, a company can log revenues and expenses before cash changes hands.

Types of P&L Statements

As noted above, a P&L statement may be prepared in one of two ways. These are the cash method and the accrual method.

Cash Method

The cash method, which is also called the cash accounting method, is only used when cash goes in and out of the business. This is a very simple method that only accounts for cash received or paid. A business records transactions as revenue whenever cash is received and as liabilities whenever cash is used to pay any bills or liabilities. This method is commonly used by smaller companies as well as people who want to manage their personal finances.

Accrual Method

The accrual accounting method records revenue as it is earned. This means that a company using the accrual method accounts for money that it expects to receive in the future. For instance, a company that delivers a product or service to its customer records the revenue on its P&L statement, even though it hasn’t yet received payment. Similarly, liabilities are accounted for even when the company hasn’t yet paid for any expenses.

What Is a Balance Sheet?

The term balance sheet refers to a financial statement that reports a company's assets, liabilities, and shareholder equity at a specific point in time. Balance sheets provide the basis for computing rates of return for investors and evaluating a company's capital structure.

In short, the balance sheet is a financial statement that provides a snapshot of what a company owns and owes, as well as the amount invested by shareholders. Balance sheets can be used with other important financial

- A balance sheet is a financial statement that reports a company's assets, liabilities, and shareholder equity.
- The balance sheet is one of the three core financial statements that are used to evaluate a business.
- It provides a snapshot of a company's finances (what it owns and owes) as of the date of publication.
- The balance sheet adheres to an equation that equates assets with the sum of liabilities and shareholder equity.
- Fundamental analysts use balance sheets to calculate financial ratios.

How Balance Sheets Work

The balance sheet provides an overview of the state of a company's finances at a moment in time. It cannot give a sense of the trends playing out over a longer period on its own. For this reason, the balance sheet should be compared with those of previous periods

The balance sheet adheres to the following accounting equation, with assets on one side, and liabilities plus shareholder equity on the other, balance out:

Assets=Liabilities+Shareholders' EquityAssets=Liabilities+Shareholders' Equity

This formula is intuitive. That's because a company has to pay for all the things it owns (assets) by either borrowing money (taking on liabilities) or taking it from investors (issuing shareholder equity).

Importance of a Balance Sheet

Regardless of the size of a company or industry in which it operates, there are many benefits of reading, analysing, and understanding its balance sheet.

First, balance sheets help to determine risk. This financial statement lists everything a company owns and all of its debt. A company will be able to quickly assess whether it has borrowed too much money, whether the assets it owns are not liquid enough, or whether it has enough cash on hand to meet current demands.

Balance sheets are also used to secure capital. A company usually must provide a balance sheet to a lender in order to secure a business loan. A company must also usually provide a balance sheet to private investors when attempting to secure private equity funding. In both cases, the external party wants to assess the financial health of a company, the creditworthiness of the business, and whether the company will be able to repay its short-term debts.

Managers can opt to use financial ratios to measure the liquidity, profitability, solvency, and cadence (turnover) of a company using financial ratios, and some financial ratios need numbers taken from the balance sheet. When analysed over time or comparatively against competing companies, managers can better understand ways to improve the financial health of a company.

Limitations of a Balance Sheet

Although the balance sheet is an invaluable piece of information for investors and analysts, there are some drawbacks. Because it is static, many financial ratios draw on data included in both the balance sheet and the more dynamic income statement and statement of cash flows to paint a fuller picture of what's going on with a company's business. For this reason, a balance alone may not paint the full picture of a company's financial health.

A balance sheet is limited due its narrow scope of timing. The financial statement only captures the financial position of a company on a specific day. Looking at a single balance sheet by itself may make it difficult to extract whether a company is performing well. For example, imagine a company reports $1,000,000 of cash on hand at the end of the month. Without context, a comparative point, knowledge of its previous cash balance, and an understanding of industry operating demands, knowing how much cash on hand a company has yields limited value.

Different accounting systems and ways of dealing with depreciation and inventories will also change the figures posted to a balance sheet. Because of this, managers have some ability to game the numbers to look more favorable. Pay attention to the balance sheet's footnotes in order to determine which systems are being used in their accounting and to look out for red flags.

What is an adjustment in accounting?

An adjustment in accounting is a journal entry that impacts the income statement. An adjusting entry can also specifically mean an entry made at the end of the period to correct a previous error or to record unrecognized income or expenses.

Why make an accounting adjustment?

There are various reasons why adjusting entries may need to be made in accounting. One common reason is the accrual basis of accounting, which requires companies to record revenues and expenses when they are earned or incurred, rather than when cash is received or paid. This means some transactions may not have been recorded during the accounting period and adjustments need to be made to accurately present an organization's financial position.

Adjustments can also arise due to errors, such as mathematical mistakes or incorrect classification of items in the financial statements. Errors, from forgotten entries to resource misallocations, require accounting adjustments to maintain the income statement's accuracy. **For example,** if a purchase were mistakenly classified as an expense instead of an asset, an adjusting entry would need to be made to correct this error.

Types of accounting adjustments

Types of adjustments in accounting include accruals, deferrals, estimates, and depreciation/amortization. Two of the most commonly made adjustments in accounting are accruals and deferrals, employed to maintain accrual basis financial statements.

Accruals

Accruals occur when revenues or expenses have been earned or incurred but not recorded in the books. One common example of an accrual adjustment is accrued expenses, such as accrued rent. With accrued expenses, costs have been incurred but the invoice has not been received, or it's been received by not recorded. If a company has work performed during the period, but an invoice has not been received by the end of the period, the company would accrue the expense to record the amount owed. These adjustments help ensure all expenses are properly matched with their corresponding period.

Deferrals

On the other hand, deferrals are recorded items that need to be adjusted because they do not represent actual revenues or expenses for the period. Deferral adjustments often involve prepaid expenses and unearned revenues.

Prepaid expenses are payments made in advance for goods or services that will be used up over time, such as insurance premiums or rent payments. Adjustments for prepaid expenses recognize the used portion of the good or service as an expense in the current period, while the portion of the payment representing the unused goods or services can remain on the balance sheet as an asset until it is used.

Unearned revenue occurs when a company receives payment from customers for goods or services it has not yet provided, or earned. This is commonly seen for software licenses or subscriptions where customers pay upfront for the use of the product over a period of time. The unearned revenue must be adjusted over time as revenue is recognized based on how much of the product or service has been delivered. For example, a company may require full payment at the beginning of a three-year software subscription. The company would record the receipt of the cash payment but the revenue would be deferred and adjusting entries would be made to recognize the revenue evenly over the term of the contract.

Estimates

Assets such as accounts receivable and inventory frequently use estimates to accurately reflect their value. As actual transactions occur or additional information is known, a company will adjust its financial position. For example, a company may record a bad debt provision for accounts or invoices they deem to be uncollectible. If they learn of a customer filing bankruptcy or receive payment for an invoice they previously determined to be uncollectible, they would need to adjust their estimate.

Depreciation and amortization

Depreciation is a process by which organizations account for the deterioration of a fixed asset's value over time. Amortization refers to the spreading of the costs of long-term intangible assets over their useful lives. Both of these methods are used to match the expense with the revenue generated from using the asset. For example, a company that purchases a delivery truck with a useful life of five years for $50,000 would make an annual depreciation adjustment of $10,000 to evenly spread the cost of the truck over the period it will be contributing to the operations of the company.

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Depreciation

Depreciation refers to the decrease in the value of assets of the company over a time period due to use, wear and tear, and obsolescence. In others words, it is the method to allocate the cost of an asset over its useful life. Depreciation is always charged on the cost price of the asset and not on its market price. It is charged every year to the extent of the depreciable amount. Examples of assets that can be depreciated are Machines, Computers, Furniture, Vehicles, etc.

According to R.N. Carter, "Depreciation is the gradual and permanent decrease in the value of an asset from any cause."

According to William Pickles, "Depreciation may be defined as the permanent and continuing diminution in the quality, quantity or the value of an asset."

Features of Depreciation:

1. Decrease in the Book Value of Fixed Assets: Depreciation is a decline in the book value of a fixed asset and not the market value of the fixed asset, as depreciation is always calculated as a fixed percentage of cost price.

2. Non-Cash Expenses: Depreciation is a non-cash expense because it does not involve any outflow of cash. It is simply a charge to reduce the recorded cost of an asset over its useful life. In the cash flow statement, depreciation is added back to the profit in the operating activities section.

3. Continuous Process: Depreciation is a continuous process of reduction in the value of the fixed assets, as every year depreciation is charged on the fixed assets, and the depreciable amount is deducted from the book value of the asset.

4. Charge Against Profit: Depreciation is a charge against profit, i.e., depreciation is charged even if the firm is at loss. It is done because the asset has to be replaced at the end of its useful life, and actual profit can only be ascertained when depreciation is deducted from operational profit in the income statement.

5. Tax Benefit: It provides a tax benefit to the company, as the depreciation is adjusted to the profit before the payment of taxes. By this, the taxable income is reduced and the firm has to pay less tax on a decreased profit.

Causes of Depreciation:

1. By Constant Use: The constant use of any asset by a business causes wear and tear, which causes a decrease in the value of those assets. As a result, the capacity of the asset to serve in the business is reduced.

2. By Passing of Time: The value of assets also decreases when an asset is exposed to forces of nature like wind, rain, etc., even if it is not put to any use.

3. By Obsolescence: Obsolescence is also one main reason for depreciation. An existing asset can become outdated in some time due to technological changes, improvements in production methods, changes in market demand, etc., as a result, the demand for the asset decreases, as the old asset is not able to fulfill the requirements of the business.

4. By Expiration of Legal Rights: There are some assets that are used in the business for a certain time period. The time period is determined by an agreement in which the tenure to use that particular asset is mentioned. Example: Patents, Copyrights, Lease, etc.

5. By Accident: Assets can be destroyed due to some abnormal factors, such as earthquakes, floods, etc. This leads to a decrease in the value of the asset. Thus, it needs to be taken into account.

Factors Affecting Depreciation:

1. Cost of the Asset: The cost of a fixed asset is determined by adding all the expenses incurred on bringing the asset to usable condition with the purchasing price of that asset. If the cost of the asset is more, the depreciation charged on that asset will also be higher. For example, the company purchased an asset for ₹50,000 and also spend ₹10,000 on its installation. In this case, the cost price to be shown in the books will be 50,000 +10,000 = ₹60,000, and depreciation will be calculated at ₹60,000.

2. Estimated Useful Life: The number of years for which an asset can be effectively used in the business is called its estimated useful life. A machine having more number of useful years will have less yearly depreciation as compared to a machine that has a lesser number of useful years.

3. Estimated Scrap Value: Scrap value is the net realisable value of an asset at the end of its effective life. It is also known as residual value or break-up value. It is deducted from the total cost of the asset at the time of calculating depreciation.

For example, in 2020, a company purchased a machine for ₹1,00,000. At the time of purchase, the scrap value of the machine was estimated at ₹10,000 at the end of 3 years of use. So depreciation is calculated as:

1,00,000- 10,000 = 90,000

90,000/3= 30,000

Therefore the annual depreciation on that machinery will be ₹30,000.

Need for Depreciation:

1. For Ascertaining the True Profit or Loss: The actual profit of any business can only be determined when all the expenses and losses of the business for the particular year are deducted from the total revenue earned by the business. If the company does not provide depreciation on assets, then it will not be adjusted in the revenue of the firm, and also the assets will be recorded as over-valued. Because of this, the true financial position of the company is not ascertained

2. For Tax Benefit: Depreciation provides tax benefits to the company as the depreciation is adjusted to the profit before the payment of taxes. By this, the taxable income is reduced, and the firm has to pay less tax on a decreased profit.

3. To Ascertain the Accurate Cost of Production: Depreciation is similar to any other expenses that are incurred in the normal course of business. The accurate cost of production can only be determined after taking depreciation into account.

4. To Provide Fund for Replacement of an Asset: Depreciation is debited to Profit and Loss A/c, but it is a non-cash expense, i.e., no actual cash is paid in charging depreciation. Hence, the amount of the depreciation is retained in the business and used for providing funds in purchasing a new asset.

5. To Prevent the Distribution of Profits out of Capital: If the depreciation is not charged by any company, the Profit and Loss A/c will show excess profit instead of actual profit. This excess profit can be withdrawn by the owner or the shareholders of the company. Hence, the amount distributed as profit includes some amount of depreciation which should not happen.

Advantages and Disadvantages of Straight Line Method:

Advantages	Disadvantages
1. It is a very simple method of calculating depreciation. 2. Under this method, Asset can be depreciated up to the net scrap value or zero value. 3. Under this method, the same amount is charged as depreciation in Profit & Loss Account.	1. Under this method book value of the asset will be charged more for maintenance and repair in the final years as compared to initial years. 2. It is difficult to ascertain a suitable rate of depreciation. 3. It is not suitable for assets having long life and high value.

Methods of Calculating Depreciation

Straight Line Method (SLM)

Under the depreciation Straight Line Method, a fixed depreciation amount is charged annually, during the lifetime of an asset. The amount of annual depreciation is computed on Original Cost and it remains fixed from year to year. This method is also known as the 'Original Cost method' or 'Fixed Instalment method'.

Written Down Value Method (WDV)

Under the Written Down Value method, depreciation is charged on the book value (cost – depreciation) of the asset every year. Under the WDV method, book value keeps on reducing so, annual depreciation also keeps on decreasing. This method is also known as 'Diminishing Balance Method' or 'Reducing Instalment Method'.

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Meaning of Subsidiary Books

Subsidiary Books are books that maintain track of all transactions that are similar in nature in such an orderly way. They're also referred to as special journals or daybooks. It is complicated in large business institutions to record all transactions in one journal and post them to various accounts. As a result, the journal is divided into several subsidiary books to facilitate the quick and efficient recording of all transactions. There is a separate book for each type of transaction.

Types of Subsidiary Books

There are various types of subsidiary books in accounting which are given below:

Cash Book: It is strongly suggested that cash transactions be recorded as quickly as possible in order to prevent errors, inactions, or forgery. This may also assist the trader in evaluating the cash position in real-time. As a result, the cash book is both a book of the original post and a ledger account where all-cash data is recorded as they occur.

Purchases Book: The purchases book is being used to record credit-only purchases of goods. If any estate other than goods is acquired on credit, it should not be documented in this book. Thus, before a business transaction is entered into the purchases book, it must satisfy the following pair of conditions:

- Credit purchases that do not require immediate cash payment.
- The articles, goods, or merchandise purchased are those that are intended for sale rather than as a commercial building or asset.

Sales Book: The sales book, also recognised as the sales day book, is written in the same manner as the purchases book. It can only be used to record the sale of goods on credit. As a result, before a sale is recorded in this book, the two following factors must be considered:

- The transaction is a credit-only sale with no immediate cash payment.
- The sale is of the commodities with which the business enterprise is involved.

Purchases Return Book: The purchases returns book (also defined as the Bought Returns Book or Returns Outwards Book) takes account of the goods returned to suppliers by the business.

Debit note: This is a declaration that is sent to the person who receives the returned products. This feedback helps him that his account has been debited in the amount of the returned items.

Credit note: When customers return products along with the debit note, the seller acknowledges the transaction with a document known as the credit note.

Sales Return Book: As the goods are returned to the business, the sales returns book (or Returns Inward Book) can be used to record them to the business by customers because the goods were not as ordered, or because they were faulty, damaged, or otherwise unacceptable. The sections in this book are similar to those in the Sales Day Book, except that the Credit Note Number is recorded instead of the Invoice No. The trader issues a credit note in photocopy to demonstrate that the amounts noted therein have been credited to the customer's account.

Bills Receivable Book: This book is being used to record the details of reimbursing on which the business will receive payments in the future from third parties. The acceptor's (debtor's) identity, terms, due date, amount, and some other details must all be recorded in this book.

Bills Payable Book: It is also an original entry book that is used to record the particulars of all the 'bills payment' accepted by the business with the intention of paying the due amount by it (the organisation or the trader) to its creditors at a later date. The entries to be made in this book concern the drawer's name, the payee's name, the timeframe, and the amount.

What is a Cashbook?

A Cashbook is a consolidated statement of a company's cash and bank transactions within a financial year. It records cash receipts on the debit side and cash payments on the credit side. The advantage of a cashbook is that it performs the role of a journal as well as a ledger for all cash transactions.

What is a Bank book?

A bank book, also known as a passbook or bank reconciliation statement, is a record of an account holder's bank transactions. It records the total amounts deposited within and withdrawn from an account during a particular period. A bank book summarises all the transactions within a customer's account and helps account holders keep track of their funds. Banks provide information to a customer regarding the status of their account from the bank book.

What are the features of a bank book?

The main features of a bank book are as follows:

- **Similarities with a Ledger:** A bank book, like a ledger, has a debit column (that records the withdrawals) and a credit column (that records the deposits) from an account within a particular period. It also has a narration of every transaction in the descriptive column, enabling the account holder to understand his transactions clearly.
- **Overdraft:** If the deposits are lower than withdrawals in a bank book, it will show a debit balance or overdraft.
- **Recording all transactions:** The primary purpose of a bank book is to have a detailed view of all the transactions that have taken place in the customer's account. It can help the account holder thoroughly scrutinise all entries in the bank book and inform the bank in case of any errors.
- **Reconcile balance with the cashbook:** The balance of a company's cashbook and bank book may not tally for several reasons. They include Cheque issued by the bank but not deposited for payment, Cheque paid in the bank but not yet cleared, Dishonour of Cheques deposited in the bank or Direct debit/payments made by the bank. In these

instances, the bank book can help reconcile transactions with the cashbook of a company and ascertain the reason for the difference in the final balance.

What are the differences between a Cashbook and a Bank book?

The main differences between a cashbook and a bank book are as given below:

Cashbook	Bank book
Definition	
A cashbook records the cash and bank transactions of an organisation that takes place within a financial year.	A bank book is issued to the account holder by their bank and it keeps a record of deposits and withdrawals.
Who prepares it?	
The organisation prepares the cashbook.	The bank prepares the bank book.
Recording in the book	
The cashbook records receipts on the debit side and withdrawals on the credit side.	The bank book records receipts on the credit side and withdrawals on the debit side.
Recording cheques deposited for purpose of collection	
The cashbook records cheques deposited for collection on the date of deposit.	The bank book records cheques deposited for collection when the amount gets collected from the debtor’s bank.
Recording cheques that are issued to a creditor	
The cashbook records cheques given for paying the creditor on the date of issuing it.	The bank book records cheques given for paying the creditor the day it makes the payment.
Balance	
The debit balance in a cash book reflects cash in hand or cash at the bank.	The credit side in a bank book shows cash at the bank, while the debit side shows bank overdraft.

What are the features of a cashbook?

The main features of a Cashbook are as follows:

- **Cash and Bank Transactions:** A cashbook records the transactions related to cash/bank receipts and payments in the organisation. Non-cash transactions are not a part of the cash book.
- **Chronological Order:** All transactions in the cashbook get recorded in chronological order. It helps the company maintain a day-to-day record of the cash/bank receipts and payments that have taken place within a financial year.
- **No Credit Balance:** The cash column of a cashbook cannot show a credit balance. It means that the credit side of a cash column is not supposed to exceed the debit side. This rule is that an organisation cannot pay more than what it already has in terms of cash/bank balance.
- **Similarities with Journal and Ledger:** A cashbook is similar to a journal. It is because the cash/bank transactions get recorded chronologically and in the order of their occurrence. It also contains a column for the ledger folio. A cashbook records transactions along with a brief narration describing its nature and purpose.

Advantages of using a cash book:

1. **Simplicity**: A cash book is a simple and straightforward method of recording cash transactions, making it easy for even those with limited accounting knowledge to use.
2. **Efficient record keeping:** A cash book allows for efficient record keeping of all cash transactions, making it easy to track cash flow and identify any discrepancies.
3. **Real-time information:** A cash book provides real-time information on cash transactions, allowing for quick decision making and accurate financial forecasting.
4. **Cost-effective:** A cash book is a cost-effective method of record keeping, as it does not require any specialized software or equipment.
5. **Easy to audit:** A cash book is easy to audit, as all transactions are recorded in chronological order and can be easily traced.
6. **Saves time:** A cash book saves time by eliminating the need to manually record transactions in a ledger.
7. **Portable:** A cash book is portable, so it can be used to record transactions even when the user is on the go.
8. **Versatile:** A cash book can be used for a variety of purposes, including recording transactions for small businesses, non-profits, and personal finances.

Disadvantages of using a cash book:

1. **Limited functionality:** A cash book has limited functionality and is not suitable for more complex accounting needs.
2. **Prone to errors:** A cash book is prone to errors as it relies on manual recording and calculations.
3. **Limited security:** A cash book has limited security measures, making it vulnerable to fraud and errors.
4. **No automatic backup:** A cash book does not have an automatic backup system, making it vulnerable to data loss.
5. **No integration with other systems:** A cash book cannot be integrated with other systems, such as payroll or inventory management.
6. **Not suitable for large businesses:** A cash book is not suitable for large businesses with multiple locations or departments, as it does not provide the level of detail and reporting required.
7. **No transaction history:** A cash book does not maintain a transaction history, which can be a problem for businesses that need to access historical data.
8. **Limited reporting options:** A cash book has limited reporting options, making it difficult to generate detailed financial statements and reports.

Advantages and Disadvantages of Passbook

Advantages of Passbook:

1. **Convenience:** Passbook allows users to store all of their loyalty cards, coupons, and tickets in one place, making it easy to access and use them.
2. **Digital Wallet:** Passbook can act as a digital wallet, allowing users to make payments through their phone and eliminating the need for cash or physical cards.
3. **Security:** Passbook uses the security features of the user's device, such as Touch ID or Face ID, to protect the information stored in it.
4. **Customizable:** Users can customize the layout and design of their passes, making them more visually appealing and easy to identify.
5. **Location-based notifications:** Passbook can send notifications to the user when they are in a location where a pass can be used, such as a store or event venue.

6. **Real-time updates:** Passbook allows businesses to update the information on a pass in real-time, such as the balance on a gift card or the number of rewards points earned.
7. **Easy to share:** Passbook allows users to share passes with others, such as a movie ticket or a coupon, making it easy to split the cost or use with friends and family.
8. **Works offline:** Passes stored in Passbook can be accessed and used even if the device is not connected to the internet.

Disadvantages of Passbook:

1. **Limited availability:** Passbook is only available on Apple devices and therefore not accessible to everyone.
2. **Limited integration:** Passbook is not integrated with all point of sale systems, so it may not be accepted at all locations.
3. **Limited information storage:** Passbook can only store a limited amount of information on each pass, which can make it difficult to include all the necessary details.
4. **Limited interactivity:** Passes in Passbook are static and do not offer interactive features such as videos or links to additional information.
5. **Limited personalization:** Passbook does not offer many options for personalizing the look and feel of the passes, which can make them less engaging for users.
6. **Limited tracking:** Passbook does not have the ability to track the usage of passes, which can make it difficult for businesses to measure the success of a campaign.
7. **Limited analytics:** Passbook does not provide analytics to track the effectiveness of the passes, making it difficult to optimize future campaigns.
8. **Limited scalability:** Passbook does not have the capability to support large scale deployment and usage across multiple businesses and industries.