

Accountancy

Financial Accounting

Part II

Textbook for Class XI



11112



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

December 2015 Pausa 1937

October 2016 Kartika 1938

January 2018 Magha 1939

March 2019 Phalgun 1940

PD 300T BS

© 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 Amar Ujala Publications
Ltd., C-21-22, Sector-59, Noida - 201 301
(U.P.)

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
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 : M. Siraj Anwar

Chief Editor : Shveta Uppal

Chief Production Officer : Arun Chitkara

Chief Business Manager : Abinash Kullu

Assistant Editor : Gobind Ram

Production Assistant : Mukesh Gaur

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.

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. We also acknowledge the contribution of all teachers of Commerce who developed the extra learning material for QR codes in the textbook.

The Council acknowledges the contribution of Anil Deswal, *Post Graduate Teacher* of Commerce at Rajkiya Pratibha Vikas Vidyalaya, Rohini, New Delhi for the review and updation of this textbook. The efforts of DESS, Administration is acknowledged for the preparation of manuscript, and Publication Division of NCERT is acknowledged for printing this textbook.

CONTENTS OF ACCOUNTANCY – FINANCIAL ACCOUNTING PART I

CHAPTER 1	INTRODUCTION TO ACCOUNTING	1
CHAPTER 2	THEORY BASE OF ACCOUNTING	23
CHAPTER 3	RECORDING OF TRANSACTIONS - I	46
CHAPTER 4	RECORDING OF TRANSACTIONS - II	99
CHAPTER 5	BANK RECONCILIATION STATEMENT	160
CHAPTER 6	TRIAL BALANCE AND RECTIFICATION OF ERRORS	191
CHAPTER 7	DEPRECIATION, PROVISIONS AND RESERVES	237
CHAPTER 8	BILL OF EXCHANGE	289

CONTENTS

	FOREWORD	<i>iii</i>
Chapter 9	Financial Statements - I	319
9.1	Stakeholders and their Information Requirements	319
9.2	Distinction between Capital and Revenue	321
9.3	Financial Statements	323
9.4	Trading and Profit and Loss Account	325
9.5	Operating Profit (EBIT)	339
9.6	Balance Sheet	341
9.7	Opening Entry	350
Chapter 10	Financial Statements - II	360
10.1	Need for Adjustments	360
10.2	Closing Stock	362
10.3	Outstanding Expenses	364
10.4	Prepaid Expenses	365
10.5	Accrued Income	367
10.6	Income Received in Advance	369
10.7	Depreciation	370
10.8	Bad Debts	371
10.9	Provision for Bad and Doubtful Debts	372
10.10	Provision for Discount on Debtors	375
10.11	Manager's Commission	377
10.12	Interest on Capital	380
Chapter 11	Accounts from Incomplete Records	425
11.1	Meaning of Incomplete Records	425
11.2	Reasons of Incompleteness and Its Limitations	426
11.3	Ascertainment of Profit or Loss	427
11.4	Preparing Trading and Profit and Loss Account and the Balance Sheet	432

Chapter 12	Applications of Computers in Accounting	463
12.1	Meaning and Elements of Computer System	463
12.2	Capabilities of Computer System	465
12.3	Limitations of a Computer System	466
12.4	Components of Computer	467
12.5	Evolution of Computerised Accounting	468
12.6	Features of Computerised Accounting System	471
12.7	Management Information System and Accounting Information System	473
Chapter 13	Computerised Accounting System	480
13.1	Concept of Computerised Accounting System	480
13.2	Comparison between Manual and Computerised Accounting	482
13.3	Advantages of Computerised Accounting System	483
13.4	Limitations of Computerised Accounting System	485
13.5	Sourcing of Accounting Software	486
13.6	Generic Considerations before Sourcing an Accounting Software	488
Appendix		492