



UNIT-1 BASICS OF ACCOUNTING [25%] [10 MARKS CHAPTER]

1. Going Concern Concept (Continuity Concept)

Meaning

This concept assumes that the business will continue to operate for a long period and is not going to close in the near future.

Because of this assumption:

- Assets are shown at cost less depreciation
- Expenses are spread over years

Illustration

A machine costing ₹1,00,000 is purchased.
It is not treated as an expense immediately.
Instead, depreciation is charged every year.

Exam Question

Fixed assets are always shown at cost less depreciation.

✓ Concept followed: **Going Concern Concept**

2. Consistency Concept

Meaning

The same accounting methods should be followed year after year.
This helps in comparison of financial results.

Illustration

If depreciation is charged by **Straight Line Method** this year, the same method should be followed next year also.

Exam Question

Accounts are written using the same method every year.

✓ Concept followed: **Consistency Concept**

3. Realisation Concept

Meaning

Revenue is recorded **only when it is realised**, not when order is received.

Illustration

Goods worth ₹50,000 sold on credit → Sales recorded
Advance received without sale → Not treated as sales

Exam Question

Advance received against sales order is not credited to Sales Account.

✓ Concept followed: **Realisation Concept**

4. Business Entity Concept (Separate Entity Concept)



Meaning

Business and owner are treated as **separate entities**.

Illustration

Rent paid for owner's house is **not business expense**.

Exam Question

Personal expenses of businessman are recorded in Drawings Account.

✓ Concept followed: **Business Entity Concept**

5. Money Measurement Concept

Meaning

Only those transactions which can be **measured in money** are recorded.

Illustration

Efficiency of manager → Not recorded

Salary paid ₹30,000 → Recorded

6. Accounting Period Concept (Periodicity Concept)

Meaning

Life of business is divided into **accounting periods** (usually one year) to find profit or loss.

Illustration

Profit for year 2023-24 is calculated separately.

7. Full Disclosure Concept

Meaning

All **material and important information** must be disclosed in financial statements.

Illustration

Method of depreciation, contingent liabilities etc. must be shown.

8. Materiality Concept

Meaning

Only **important (material)** items are disclosed separately.

Illustration

Pen costing ₹20 is treated as expense, not asset.

9. Prudence or Conservatism Concept

Meaning

- Anticipate losses
- Do not anticipate profits

Illustration



Closing stock is valued at **cost or market price whichever is less.**

Exam Question

Closing stock is valued at **cost or net realisable value whichever is less.**

✓ Concept followed: **Conservatism Concept**

10. Cost Concept

Meaning

Assets are recorded at **original cost**, not market value.

Illustration

Land purchased for ₹5,00,000 is recorded at same value even if market value increases.

11. Dual Aspect Concept

Meaning

Every transaction has **two effects**

Assets = Liabilities + Capital

Illustration

Capital introduced ₹20,000

Cash increases + Capital increases

Exam Question

Books of accounts are prepared on the basis of **Assets = Liabilities + Capital.**

✓ Concept followed: **Dual Aspect Concept**

12. Matching Cost with Revenue Concept

Meaning

Expenses should be matched with the **revenue of the same period.**

Illustration

Commission paid to earn sales is charged in same year.

Exam Question

Profit means **remaining revenue after deducting expenses.**

✓ Concept followed: **Matching Concept**

13. Objectivity Concept

Meaning

Accounting records must be based on **documentary evidence.**

Illustration

Bill, voucher, invoice etc. are required.

Exam Question



Supporting voucher of accounting transaction is required.

✓ Concept followed: **Objectivity Concept**

14. Accrual Concept

Meaning

Income and expenses are recorded **when they occur**, not when cash is received or paid.

Illustration

Outstanding salary is recorded as expense.

VOUCHERS

ILLUSTRATION – 1

(1) PAY-IN-SLIP

BANK OF INDIA	
Navrangpura Branch	
Date : 2-6-2023	
Paid into the credit of Current A/c	
M/S. JARIWALA STORES	
Rupees (in words): Nineteen thousand	
five hundred only	
Notes	Rs. 19,500
Cheques	Rs. NIL
Cashier	

Explanation

This voucher is a **Pay-in-slip** and shows that cash Rs. 19,500 is paid into Bank of India.



Mr. Jariwala has brought cash as capital.

☞ This transaction will be recorded on both sides of three column Cash Book.

(2) CREDIT MEMO (Purchase)

CREDIT MEMO				
Bill No. 615	Date : 4-6-2023			
M/S. AMRITLAL RANCHHODDAS GANDHI 1765, Nava Madhupura, Ahmedabad				
To : M/S. JARIWALA STORES				
Sr	Particulars	Qty	Rate Rs.	Amount Rs.
1	Daudkhani Wheat	1000	6	6,000
2	Dehradun Rice	300	30	9,000
TOTAL Rs. 15,000				
Terms : 5% cash discount within 15 days Interest @12% p.a. after one month				
E. & O. E.			Signature	

Explanation

This voucher is a Credit Memo for goods purchased on credit from M/s Amritlal Ranchhoddas Gandhi for Rs. 15,000.

☞ It will be recorded in the Purchase Book.

(3) CREDIT MEMO (Sale)

CREDIT MEMO				
Bill No. 1	Date : 6-6-2023			
JARIWALA STORES Opp. Municipal Market, Navrangpura				
To : SHRI RAMANLAL BANKER				
Sr	Particulars	Amount Rs.		
1	Wheat 20 kg @ Rs.10	200		



JAIN INSTITUTE OF COMMERCE

"Quality Without Compromise"



2	Basmati Rice 40 kg @ Rs.10	400
TOTAL Rs. 600		
Note : 10% cash discount within one month		
Signature		

Explanation

This voucher is a **Credit Memo for credit sale** made to **Shri Ramanlal Banker for Rs. 600.**

It will be recorded in the **Sales Book.**

(4) CREDIT NOTE

CREDIT NOTE	
No. 1	Date : 7-6-2023
JARIWALA STORES	
To : SHRI RAMANLAL BANKER	
Particulars	Amount Rs.
5 kg Basmati Rice returned	200
Signature	

Explanation

This voucher is a **Credit Note** issued for **goods returned by customer.**

It will be recorded in the **Sales Return Book.**

(5) DEBIT NOTE

DEBIT NOTE	
No. 1	Date : 11-6-2023
JARIWALA STORES	



JAIN INSTITUTE OF COMMERCE

"Quality Without Compromise"



To : M/S. AMRITLAL RANCHHODDAS GANDHI

Particulars

Amount Rs.

12 kg Basmati Rice returned

360

Signature

Explanation

This voucher is a **Debit Note** for goods returned to supplier.

It will be recorded in the **Purchase Return Book**.

(6) CASH MEMO (Purchase)

CASH MEMO

No. 330

Date : 15-6-2023

M/S. MANHAR KIRANA STORES
Nava Madhupura, Ahmedabad

Sr | Particulars

Rate Rs.

Amount Rs.

1 | Sugar 50 kg

85

4,250

TOTAL Rs. 4,250

Received by Cheque

Signature

Explanation

This voucher shows **cash purchase of goods Rs. 4,250**.

It will be recorded in the **Cash Book (Payment side)**.

(7) RECEIPT (Cheque)

RECEIPT No. 725

Date : 17-6-2023



JAIN INSTITUTE OF COMMERCE

"Quality Without Compromise"



AMRITLAL RANCHHODDAS GANDHI

Received with thanks from M/S. JARIWALA STORES

Cheque No. 401201

Drawn on Central Bank of India

Amount Rs. 13,908

Towards Bill No. 615

Signature

Explanation

This voucher shows **cash received from creditor after discount.**

☞ It will be recorded on **Receipt side of Cash Book.**

(8) RECEIPT (Cash)

RECEIPT No. 15

Date : 27-6-2023

JARIWALA STORES

Received from Shri Ramanlal Banker

Cash Rs. 360

After allowing discount Rs. 40

Signature

Explanation

This voucher shows **cash received from debtor after discount.**

☞ Recorded in **Cash Book (Receipt side).**

(9) RENT VOUCHER

Voucher No. 1

Date : 30-6-2023

Account : Rent Account

Paid to : Shri Champaklal Modi

Being rent of shop for the month of June



JAIN INSTITUTE OF COMMERCE
"Quality Without Compromise"



| Amount Rs. 5,000 |
| Receiver's Signature : _____ |
| Authorised by : Pravin Jariwala |

Explanation

This voucher shows **payment of rent in cash.**

☞ Recorded in **Cash Book (Payment side).**

(10) CASH MEMO (Sale)

CASH MEMO			
No. 456	Date : 30-6-2023		
JARIWALA STORES			
Sold to : Magnalal Chimanlal Shah			
Sr	Particulars	Rate Rs.	Amount Rs.
1	Sugar 10 kg	90	900
TOTAL Rs.		900	
E. & O. E.	Signature		

Explanation

This voucher shows **cash sale of goods Rs. 900.**

☞ Recorded on **Receipt side of Cash Book.**