

Farm Accountancy

Farmers can make use of the accountancy to keep a close watch on the farm business. It also helps in the management of any supplementary enterprises taken up by the farmers on business lines.

TERMS AND CONCEPTS

Account

A summary of business transactions is an account. It is vertically divided into two parts in 'T' shape. The benefits received by that account are recorded on the left hand side and the benefits given are recorded on the right hand side.

Accounting

Accounting is the art of recording, classifying and summarizing the business transactions. Recording refers to writing in journal. Classifying means, writing in ledger and summarizing relates to preparation of trading account, profit and loss account and balance sheet.

Accountancy

Accountancy means the art of keeping books of accounts in a regular and systematic manner.

Single Entry System

Under this system, the trader does not get all the information which he generally likes to have. At best he can get the information about debtors, creditors and cash but not about other matters. This system is incomplete and inaccurate.

Double Entry System

Recording a transaction from two different angles is known as double entry system. To understand the double entry system of book keeping all that we need to do is, to remember the fundamental rule;

Debit the account which receives the benefit, and credit the account, which gives the benefit.

Advantages of Double Entry System

1. Both personal and impersonal accounts are opened in order to keep a record of business transactions.
2. It provides a check on the arithmetical accuracy with the help of trial balance.
3. It reduces the chances of committing errors.
4. It helps the trader to know his debtors (customers) and creditors (suppliers) time to time.
5. Financial position of the business unit can be known through the preparation of balance sheet, and
6. This system is useful to the tax and legal authorities.

Rules Regarding Different Types of Accounts:

There are three types of accounts viz., (1) Personal account (2) Real account and (3) Nominal account.

1. Personal Account

It includes accounts of (a) Natural persons (b) Artificial persons; and (c) Representative persons.

- a) *Natural Persons*: The examples of natural persons are Ramesh A/C, Suresh A/C, etc.
- b) *Artificial Persons*: The examples are Andhra Bank A/C, Agricultural College A/C, University A/C, firm's name A/C, etc.
- c) *Representative Persons*: Outstanding salaries A/C, pre-paid rent A/C, pre-paid commission A/C, interest due but not received A/C, rent due but not received A/C, etc. are the examples.

Rule of Debit and Credit for Personal Accounts:

The rule here is "debit the receiver and credit the giver"

2. Real Account

Accounts relating to assets are known as real accounts. Examples: Machinery A/C, furniture A/C, purchases A/C, sales A/C, building A/C, goodwill A/C, etc.

Rule of Debit and Credit for Real Accounts:

The rule that should be followed here is "debit what comes in; and credit what goes out".

3. Nominal Account

Nominal accounts relate to such items which exist in name only. Examples: Expenses, losses, incomes, gains, etc.

Rule of Debit and Credit for Nominal Accounts:

The rule is "debit all expenses and losses and credit all incomes and gains".

Journal

All business transactions are first recorded in a book called journal. It means a daily record. The journal is also called as a "book of original entry".

Balance Sheet

It is a statement containing balance of fixed assets, current assets, liabilities and capital. It gives the financial position of the business. Fixed assets include land, machinery, furniture (tangible fixed assets) and goodwill, patents, trade marks, rights, etc., (intangible fixed assets).

JOURNAL

Here the format of the journal with an example and steps to make journal entries are furnished.

Journalize the following transactions

Dec 1,	1998	X started a business with a capital of Rs. 10,000
Dec 2,	1998	Purchased goods from Mahesh Rs. 4,000
Dec 3,	1998	Sold goods to Mahesh for cash Rs. 3,000
Dec 4,	1988	Purchased machinery from Gopal for cash Rs. 6,000
Dec 5,	1988	Sold electric motor to Ravi Rs. 4,000
Dec 6,	1998	Cash received from Naresh Rs. 2,000
Dec 7,	1998	Cash paid to 'Z' Rs. 4,000
Dec 8,	1998	Paid salary to Ravi Rs. 1,000
Dec 9,	1998	Rent received from 'Y' Rs. 3,000
Dec 10,	1998	Cash sales (sold goods for cash) Rs. 9,000
Dec 11,	1998	Cash purchases Rs. 3,000

Given the transactions of journal, the entries are made in the journal as given in Table 31.1.

TABLE 31.1 Journal.

Date	Particulars	LF	Debit (Rs.)	Credit (Rs.)
1998 Dec. 1	Cash A/C To X's capital Account (Being started a business)	Dr	10,000	10,000
Dec. 2	Purchases A/C To Mahesh A/C (Being goods purchased from Mahesh)	Dr	4,000	4,000
Dec. 3	Cash A/C To sales A/C (Being goods sold for cash)	Dr	3,000	3,000
Dec. 4	Machinery A/C To Cash A/C (Being machinery purchased for cash)	Dr	6,000	6,000
Dec. 5	Ravi A/C To electric motor A/C (Being sold electric motor)	Dr	4,000	4,000
Dec. 6	Cash A/C To Naresh A/C (Being cash received from Naresh)	Dr	2,000	2,000
Dec. 7	'Z' A/C	Dr		

Ledger
 The ledger is the chief book of accounts. A ledger is a book which contains various accounts to which the entries made in the journal are transferred (journal gives information in the form of entries, whereas ledger contains information in the form of accounts).

Cash Book
 Transactions relating to only cash are recorded in one book called cashbook. The principle here is, cash coming in is placed on debit side and cash going out is entered on credit side.

Subsidiary Books or Subsidiary Journals

The journal is subdivided into a number of special journals called subsidiary books. They are:

1. **Purchases Journal:** It is meant for recording goods purchased on credit.
2. **Purchases Returns Journal:** It is used for recording goods returned to suppliers.
3. **Sales Journal:** This is maintained for recording credit sales of goods only.
4. **Sales Returns Journal:** It serves the purpose of recording goods returned by the customers.
5. **Cash Book:** In this book all cash receipts and payments, including cash purchases and cash sales of goods are entered. Cash which comes in is debited and cash that goes out is credited.

Trial Balance

The accountant prepares a list of all the ledger accounts with their closing balances, indicating the details of debit or credit, such a list of balances is known as the trial balance.

Final Accounts

Final accounts are nothing but summaries of ledger accounts, organized in such a manner as to reveal (a) the profit made or the loss sustained during a period; and (b) the financial condition of the business concern at the end of the period. Final accounts are described as (i) Trading account (ii) Profits and loss account and (iii) Balance sheet.

Trading Account

Trading account gives the details of purchases, sales, purchases returns, sales returns, carriage (freight inwards), manufacturing expenses, etc. Trading account gives gross profit of the business.

Profit and Loss Account

Profit and Loss Account shows the particulars of salaries, rent, rates and taxes, advertisements, carriage (freight outwards), depreciation, commission received, interest received, etc. It gives net profit of the business.