

## Chapter-19

# Book Keeping

As we know commerce, business and trade are found from ancient times. Gradually with the development of human civilization people started keeping records of their business transaction but along with the development of human civilization, business- commercial activities started increasing, therefore to keep the accounts in more arranged form entries were done in books and gradually it is called Book keeping and Accounting.

In India Accountancy is as old as money. It has been shown in our history also. In vedic period (5000 -1000 B.C.) tradition of statement of accounts has been seen. Concept of profit and accounting historians from vedas. Ramayana and Mahabharata also described in 'Manu Sahita' (200 B.C. to 200 A.D.) Economics of science and diplomacy are also described in the account method of that time, but in the present's scenario, Accounting is limited to the recording only because of shortage of time. Today the same Accounting has become the distinct branch of knowledge. In ancient times accounting that only Accountable to his master but it is considered important for the entire society in the present age.

Development of the ancient from Accounting, mainly keeping the relationship with important parties of the business units, keeping in mind their needs also correct determination of arrear of various taxes related to the operation of the business. Over the last few years expansions and technical changes in the production competitive market, have made remarkable changes in the field of Accounting.

Accounting is both Science and Arts. Just like science it is a systematic, well organised study.

Accounting is also based on certain rules, principles and art of doing any work in high quality. And this is what we also do in both Accounting and science. Principles of Accounting are used in the accountability of competent skill so that the purpose of Accounting can be achieved. In the end it is said that Accounting is both science and Art.

### Meaning and definition of Accounting.

As per R.N. Anthony every business enterprise has Accounting system. It is the means of collecting, summarizing, analyzing and reporting in monetary term, information about business.

The American institute of certified public Accountants (AICPA) defines accounting as: the art of recording, classifying and summarizing in a significant manner and in terms of money, transaction and events which all in part at least of financial character and interpreting the results thereof.

### Characteristics of Accounting

1. It is a continuous activity.
2. It is Art and science of classifying and writing business events.
3. Only those events are recorded in the Accounting which are expressed in money.
4. It helps in promotion, analysing and summarization of transaction.
5. Related parties received quantitative financial information through Accounting.
6. With the help of Accounting, it is possible for people and institution to choose the best option and give the best opinion.
7. Summary of the measurement, classification and summary of all the informations of the writing should

be given to the respective parties.

8. As an Accounting information system it now provides a significant exchange of decision making process.

9. Accounting is a specific education of knowledge of transplantation of economic activities.

### **Book-keeping and Accounting**

Book keeping is the word formed with two words Book + keeping. It means systematically recording of the events in the books. keeping the books of Accounts means the books are written according to the rules of books. Following are the definitions of Book keeping-

As per Battiboy “Book Keeping is the art of recording transaction in a systematic manner.”

According to Proff. Kotler “Pre-conceptual

planning, analysis of behaviour, classification and Accounting process is called book keeping.

Now we can say that Book keeping is prepared by individual or any business unit as per principles and rules and regulation in order to calculate profit or loss and also to know the financial position of company.

In this way we can say that Book keeping is the first step of Accounting and we can differentiate it in following manner.

### **Object of Accounting :**

1. Account of all economic practices.
2. Determination of profit & loss.
3. Financial positioning.
4. Effective control on business.
5. To provide the informations of the parties in the

### **Difference between Book-Keeping and Accounting**

S. N.	Areas	Book-Keeping	Accounting
1.	Area	It has narrow area. It is first step of Accounting.	Its area is broad and includes book-keeping.
2.	Objective	Its main objective is to prepare books like ledger book, journal book etc. only.	The objective of Accounting is to classify, analyse and summarize the business activities.
3.	Work level	It is primary level and done by the Accounting clerk.	It is related to lower, middle and upper level. At lower level books are Prepared by Accounting clerk, in middle level Accountants Prepare report and at upper level analysis and Summarization is done.
4.	Interdependence	Book keeping is the art of writing at the primary level.	Accounting makes it meaningful and objective hence these is highly interdependence between Accounting and Book- Keeping.
5.	Financial statement Result	Not possible to calculate result of financial statement	Financial statement results can be calculated also the profit and loss with the help of Accounting.
6.	Accounting Principles	It is adopted by Book-Keeping	The method of analysis and accounting facts vary from time to time in different occupation.

welfare of business.

6. To prepare the various tax information.

7. To provide necessary information to financial institutions.

## Methods of Accounting

Various activities related to business have been developed by considering the value of business, size of cost, cost benefits, legal requirements, need of information etc. Following three methods are adopted in India for Accounting.

### (1) Single entry Accounting

In single entry Accounting, the gilalral theory of accounting is not kept in mind. It is prepared as per need and requirement of any institution. Some parties focus only on transaction and ignore other transaction but some parties equally give importance to other transaction. Resulting some transaction recorded or double entry system and some are recorded single entry system. So it has been seen that single entry system will not have any systematic rules, principles. so it won't have static rule.

Normally the system is used by small business units. Books (Bahi) are kept in which businessmen maintain accounts of income and expenditure. Normally, sale is done on cash basis. For credit sale memory book or raw book is maintained. Thus it is incomplete & non-practical method of book keeping and not used by business firms.

### (2) Double entry system

Double entry book keeping in accounting is system of book keeping so named because every entry to an account requires a corresponding and opposite entry to a different Account. The double entry has two equal and corresponding sides known as debit and credit. It is a complete and qualified method. It has its own principles & rules. According to this only two transactions are recorded which has dual aspect. It is used the entric world. By this method, we can prepare indual, real and unreal accounts and know the financial position and financial results of the business. In the whole universe this system is followed and final accounts are prepared and financial position are ascertain at the end of the financial year.

Leadger of .....

..... account

Credit

Debit

Date	Particulars	Jf	Rs.	Date	Particulars	Jf	Rs.

## The Origin and Development of double entry system

This method was developed 500 yrs BC in Italy. So it is also called Italian Method of Accountancy. In 1494 Lucas Pacioli described the principle of this method in the book "De Composet Scriptures" and it was translated English Loss Old Cancel in London in 1543. In 1795 Adward Johns wrote a book "The English System of Book Keeping" on this method. Gradually this method was improved. Now it is perfect and scientific method. It was used during British period in India.

### Meaning of double entry system :

Every business activity has two parts. If one is receiver then second is giver. If one is seller then other is buyer. If an object or property is received by one then it comes from second. In this way profit is called for one business man then it is expenditure for another business. To write these business activities following the principle of accountancy in a book is called double entry system.

### Charactastics of double entry system :

1. Every transaction has dual aspect. One transaction has debit entry and other has credit.
2. Similarly every Account has two aspects which are called debit and credit. Transactions are recorded according on debit side or either credit side.
3. The entry which is recorded on debit side in one Account is recorded on credit side in other Account.
4. Ledger is important book which has all ledger related to the business.
5. After All ledger are prepared, trial balance all prepared through which truthfulness of transactions is ascertained.

### Principle of double entry system :

1. Every entry has dual aspect : It means one

transaction is recorded in debit side and in other Account is recorded as credit side .

**2. It has effect on both parties :** It effects on both the parties.

**3. Giver and receiver :** Every transaction must have one giver and one receiver and it has effect on both the parties.

**4. Exchange of equal Amount :** The Amount of money of a transaction the parts gives is equal to the Amount the parts received.

### **Stages of double entry system :**

It is divided in to three categories, all are those three stages. It works in systematic manner. The stage follows the next one. They are following :

#### **(i) Primary books :**

In the primary books, transaction are recorded as they happen. Transactions are recorded in Journal books. A small business man records all transaction in books which are called Journal. But big Business with keep differeant which all called Journal big Business units keep differant Journal books for differnat events or transaction and these all books are the part of journal.

#### **(2) Classification and Khatoni :**

Recording of transaction in primary books does not fulfil our objectives. Primary books is the only mean to remember all the commercial transactions in writing form. It does not tell how much money is to be recovered from which merchant. How much is to be paid and to whom? How much has been purchased or sold during specific time period? How much was expended and how much earned? It is because that expense made on items are not entered at one place but they are scattered datewise. The above information can not be traced until all the entries made at one place.

The second stage of accounting is the main book keeping in double entry system. Each party opens an account regarding income and expenditure. In this, first entries are selected and then written in their related accounts. The work of selecting entries is called as classification and the work of writting these entries in accounts is called 'Khatoni'. In business, book keeping is the main book through which various information can be easily available.

### **(3) Summary & formation of final Account :**

Final Accounts have many Accounts through which profit & loss and financial position of any company can be easily calculated. Where all ledgers are prepared. Their Trial balances are prepared through which final Account is fomulated. These financial Accounts help the company to calculate profit and loss, to make comparision and also calculation of financial position is done. This is the third stage of Book keeping and Accountancy.

### **Benefits of double entry system :**

Double entry system is a logical and systemetic and scientific method. It is used in the entire world. It has following benefits :

#### **1. Complete and scientifically based Account:**

Double entry system is a complete method of accountancy in which various individual transactions and accounts related to expenditure are kept. The rules and principles on which it is based are purely scientific. Due to dual aspect choices of errors are low and even some errors occurred are easily detected.

#### **2. Account based on Reliability :**

It is highly reliable method as entries are recorded on both debit side and credit side. The amount which is written one side the same. Entry is written on the other side. If any error is accured at any side it can be easily detected at the time of preparing trial balance. Thus truthfulness and correctness are easily measurable.

#### **3. Profit & Loss information :**

By this method profit & loss of any business unit can be easily measured. A bussiness man can know about the profit or loss of his business preparing income and expenditure statements

#### **4. Knowledge of financial position :**

In this method all types of properties (Loss and profit) and responsibilities are kept and business behaviour are also mentioned. Thus by using it we can know the economic position of any business on a perticular date.

#### **5. To help in business information :**

By using this method information about income and expenditure, sell and buy , money (Profit and loss in the business) various properties and



responsibilities in business can get easily. The amount which will be paid or received by the party can be easily calculated.

#### **6. Less chances of cheating and dishonesty :**

Using this system each entry is written both the sides. So it is less chance of cheating and manipulation. If any employee does so he can be caught easily.

#### **7. Comparitive study :**

It is a complete system. At the end of financial year, ledger, profit-loss and final Accounts are prepared. We are able to know the profit or loss of current year by comparing the current year account with the last year account.

These profit & loss of current year are compared with the profit and loss last year. Through which company comes to know how much profit or loss has been changed. Hence it is used for comparitive study. If there is loss in business, it can be controlled easily.

#### **8. Recognized legally :**

As this method is scientifically based, it is legally recognised by the companies act and various other Acts. It is mandatory for banking, insurance and big companies to keep as per double entry system.

#### **Limitation and demerits in dual entry system :**

Although double entry system is totally scientific yet it has some limitation and demerits.

##### **1. Error of omission doesn't affect Accounts :**

If any transaction is omitted then it doesn't affect the books. If goods are sold on credit to Sunil for Rs.1000 and it is not recorded by the clerk. The entry is not seen both the credit and the debit side. Hence it doesn't show any effect in trial balance.

##### **2. Wrong entry also does not effect books :**

If there is a wrong entry at the initial level. Then the wrong amount is written in the books and it has no effect on trial balance. For example if goods were sold for Rs. 5000 to Sohan but it was written for Rs. 500 then it would be written the same amount Rs. 500 in the buyer's book and it has no effect on trial balance.

##### **3. Difficult to find errors :**

Sometimes difference of the certain amount from the debit account is written then the same

amount is occurred in the another credit account and it has no effect on trial balance. It is very difficult to find out.

#### **4. No effect of wrong entry in favour of right account :**

Sometimes it so happens that wrong entry is made in favour of right account holder and nobody is able to find this error. For example amount of Rs. 5000 is debited from Mohan's account instead of Sohan's account.

#### **5. Costly method :**

The double entry system is highly costly than other methods because it has more expenditure to maintain huge registers and records. But big firms don't find it costly as it provides huge benefit and more utility in the business than others.

This system requires highly qualified and skilled persons. Less qualified people are inefficient to do this work. If books are kept in English, special trained persons are needed.

#### **Mahajani Book keeping system :**

Mahajani book keeping system is also complete and scientific in itself but it could not develop much due to lack of literature and discovery. Then it was not encouraged during British rule because they preferred English book keeping system. So it could not get that equal status to that of English book keeping system. There is also no excellent book written having detailed information in this system. So that traders may get an opportunity to read it. But, then to it is much prevalent in India. So Indian student must have good knowledge of keeping accounts of this system.

#### **Characteristics of Mahajani Book Keeping system :**

1. It is purely complete and scientific method.
2. It observes the principles of double accounting.
3. Accounts books are used in this system to keep accounts. The paper of which is thick and smooth. It is long in size. It is covered with thin rough paper and red cloth. It is sewed with durable thread from one side. Due to its long sides it is easy to fold in the

middle.

4. No lines are drawn in these account books like registers instead of pages are folded in lines.

5. Entries in those account books are made in black ink instead of blue and red.

6. Accounting in this system can be made in Hindi, Gujrati, Marathi, Gurumukhi, Sindhi, urdu and in any languages whichever is convenient. To keep the account confidential many traders use “sarafa and Mundiya” script.

7. The amount in rupees and paisa is written in separate columns. In this system for example after writing rupee, half bracket is made. If paises are mentioned; rupees are written in half bracket and paises are written outside bracket. For example 25 Rs. 50 paisa will be written like 25 ) 50. In this system English date and ‘Hindi Tithi’ are mentioned.

8. In this system, both hindi and english dates are written.

### **Method of keeping Account According to Mahajani Book Keeping :**

Double account of transaction is kept in this method like that of English book keeping method. Business transactions are kept in three stages :

#### **1. Elementary Entries :**

Every entry of transaction is made date wise in detail in account book at first stage for the sake of memory. The entry of such details in account books is called debit and credit.

In books, each activity is entered with date in detail accordingly serial wise. Making entries in books of elementary accounts is known as deposit-expenditure.

#### **2. Classification and Collection :**

At second stage such initial entries are classified according to their nature and entered in concerned accounts serial wise. The collection of this procedure is known as ‘Khatoni’ (entry). The book in which all the entries are made is called ‘Book Keeping’.

Three types of accounts are kept in mahajani book keeping like that of english ‘double entry system’.

- (a) Personal or Dhanivar Account
- (b) Material Accounting
- (c) Loss and Profit Account

There is only one ‘Goods Account’ like english method ‘sale purchase and ‘Sale-purchase’ cannot be divided in accounts. There are no separate accounts for custom and freight. They are included in goods account.

#### **3. Summary or Preparation of last Accounts :**

The result of all these things in a certain period in lost and third stage can be known in two views- :

(a) Preparation of loss - profit Account keeping in view of is prepared ‘Loss - Profit Account’

(b) Preparation of data to know economic condition.

**Rules of entries in Account Books :** There are same rules of entries in mahajani account books as in double account system.

### **Comparison of Mahajani Book Keeping and English Method :**

It has already been described that Mahajani book keeping is same as english book keeping. Because the base of entries in both the methods is double entry system. Account is kept in three stages in both the methods (Initial entry classification and collection and summary writing). Both the methods are equal in principle but different in practical use. So it would be better for students know the similarities and dissimilarities of both main systems.

### **Similarities of Mahajani book keeping and English account method :**

- 1. Both the methods are based on double account system.
- 2. Account in both systems is kept in three stages (i) Initial entry (ii) Classification and collection (iii) Summary
- 3. Correction of calculation can be tested in account books by preparing tables in both the tables.
- 4. Status of profit and loss in business can be found out by preparing data of profit and loss after a certain period in both methods.
- 5. The rules of credit and debit in both accounts are same.
- 6. Both methods are totally scientific.

## Qualities of Mahajani Book Keeping -

1. The account books used in this method are cheap, solid and durable. There is no problem of drawing line in it because folds are made before sewing the papers.
2. The method of entry in this method is easy because initial entries in account books are made in favour not against it.
3. While making entries only page number of account book and Miti is mentioned. There is no mention of other account. So the entry is much easier.
4. There are no need of book keeping more account books for initial entries because a small trader keeps record of cash and credit in the same account book.
5. The amount of transaction is written once at the top and again at the bottom in this method. So there is no change of mistake.
6. This method is favourable to Indian circumstances. It can be written in any regional language convenient to him. There can be more or less of account books according to need. It is different in different parts of the country but proved to be more useful.
7. According to this method, there is no special qualification or training required to maintain accountability any one can easily learn from a person.
8. The accountants of this methods are easily available at small salary because they need no expense on training.
9. Black ink is used in this method.

## Glossary used in this Mahajani Book Keeping System

### 1. Books (Bahiyani):

The books which are written in the Indian Book keeping system are called Bahiyani. These bahiyani (books) is different from the register kept in the English system.

### 2. Credit and debit :

In the Indian Book keeping system cash book and Account book are divided into two equal parts. On the left side four columns are prepared for recording deposits and on right side and it is also divided into four columns which is called Name column. It is totally different from English book keeping system.

**3. Sira and peta :** Each book (Bahi) has credit and debit. First column called sira and remaining three column called peta. In the column of Sira write amount and remaining in column Peta write particular. Peta's first column in side we write.

## Format of Mahajani Book Keeping System

1	2	3	4	1	2	3	4
Sira	Peta	Peta	Peta	Sira	Peta	Peta	Peta

**4. Sal (fold) :** In Indian Book keeping system , pages are smooth, white or yellow in column. The pages are folded as their requirement as 6, 8, 12 or 16 folds are found on one page. These folds are used to write amounts in detailed. These are called sal also.

**5. Sire Chadana :** Amounts of all deals are written in column of Sire. Therefore, the method of writing amount in column of Sire is called " Sire Chadana".

**6. Accumulation of deposits :** In the business transactions are recorded in column section. It is called Accumulation of deposits.

**7. Steedi :** It is a sign to write amount in Rupees and Paisa as 158 Rs. 80 Paisa can be written as 158)80 Steedi and if only Rs. 185 is to be written then 185) will be written in this manner. After putting the symbol of Steedi, there is no need of writing Rupees.

**8. Widh Millana :** Business man writes all the transaction in the cash book and in the evening tally credit and debit accounts with the money from 'Galla'. This method is called 'Widh Milana'.

**9. Dodhya karna :** The Accounts are closed by placing the sum of the two sides and it is given the place in the final account. This process is called Dodhya karna.

**10. Cash Balance :** Every day when business man close shop. Write Rs in business called 'Rokar Pote Bahi' or cash in hand.

**11. Valta :** In the cash book two side transaction are written and called Valta. In english system it is called entry.

**12. Padat :** Padat means rate of goods or goods rate. as rice rate is Rs. 20 per kg. So Indian book keeping system write padat Rs. 20 per kg called.

**13. Capacity (Bharat) :** The weight of goods filled

in container is called capacity. Businessman uses goods in sacks; tins etc. The capacity of one sack of wheat is one quintle. Then 35 bags of wheat weight is 35 quintle. Similarly capacity of one tin is 15 litres oil then 10 tins litres weight is 150 litres.

**14. Band Bahi :** This Bahi is also called memorization Bahi, or it is also called 'Daily Bahi'. Due to the mobilization of business customers, the connection to each transaction can not be written immediately. According to his spare time, he completed it.

**15. 'Krishna Paksh' and 'Shukla Paksh' :** In India each month is divided into two parts one is Krishna Paksh (Which is known as Vadi) and other is Shukla Paksh (It is called Sudhi). Each Paksh has fifteen days.

**16. Miti :** Indian way the dates are called 'Miti'. This word is used before the name of the month as Miti Kartik Vadi Samvat 2058. Here Samvat shows the number of years. Numbers are also written in Hindi instead of English.

**17. Mel :** In Indian book keeping system the traders write the date, the month and Samvat of the day before writing the deal. And also write the name of the favourite God and the name of Bahi for example- If trader writes Chatra Shukla Samvat 2058 date 5 April 2001 but in Indian Bahi trader writes. Shri Ganeshay Namoh, Subh Miti Chatra Shukla 1 Samvat 2015 date (Miti) 5 April 2001. In This way Miti and date is called Mel.

### Objective type Questions :

- Which is highly scientific method in book keeping and Accounting-
  - Single entry system
  - Cash method
  - Mahajani system
  - Double entry system
- Double entry system means any transactions -
  - One account and two side posting
  - Two accounts and Dr. side posting
  - Two accounts and Cr. side posting
  - One account Dr. side and second account Cr. side posting.
- In which stage we can set the financial position of the business.

- classification
  - Summary
  - Opening account
  - Posting
- When Businessmen initially invested money in business is called-
    - Asset
    - Capital
    - Liabilities
    - Drawing
  - Mahajani account method on basis :-
    - Single account system
    - Cash method
    - Double entry system
    - None of above

### Very Short Type Questions :

- How many folds are there in Mahajani Bahi?
- By which 'Pacca Cash Book' is made.
- What is the meaning of Account in a Account book?

### Short Type Questions :

- Explain the three advantages & two disadvantages of book keeping.
- Give the name of the first stage of book keeping double entry system books (Bahis).
- Explain definition of Accounting.
- Explain any three objectives of Accounting.
- Give definition of Accounting principle .

### Essay Type Question :

- What is Accounting ? Explain its main objectives?
- According to the principle of double accounting system the suitability for each name is below.
- Explain the merits and demerits of double entry system.
- What do you mean by book keeping and accountancy? Explain the difference between them.
- Explain the role of accounting in detail.
- What is the Mahajani Book keeping system. What are its characteristics?
- Mahajani Book keeping system is complete and scientific method. Explain your views on it?

### Answer of Objective Type Questions :

- (d)
- (d)
- (b)
- (c)
- (c)