

CUET Accountancy: Basics of Accounting

Quick revision notes · Commerce stream · CUET UG · Accountancy

1. Accounting equation

★ Assets = Liabilities + Capital. Every transaction keeps this equation balanced (dual aspect concept).

2. Golden rules of debit and credit

Type of account	Debit	Credit
Personal	The receiver	The giver
Real	What comes in	What goes out
Nominal	All expenses and losses	All incomes and gains

Modern approach: increase in assets and expenses is debited; increase in liabilities, capital and revenue is credited.

3. Basic accounting concepts

- Business entity: the business is separate from its owner.
- Money measurement: only transactions measurable in money are recorded.
- Going concern: the business is assumed to continue for a long time.
- Accounting period: accounts are prepared for a fixed period (usually one year).
- Cost concept: assets are recorded at purchase cost.
- Dual aspect: every transaction has two sides (debit and credit).
- Revenue recognition: revenue is recorded when it is earned.
- Matching: expenses are matched with the revenue of the same period.
- Full disclosure, consistency, conservatism (prudence), materiality and objectivity.

4. The accounting process

Transactions → Journal (book of original entry) → Ledger (classified accounts) → Trial balance (arithmetical check) → Final accounts (Trading & Profit and Loss Account, Balance Sheet).

5. Capital vs revenue expenditure

- Capital expenditure: benefit lasts more than one year (e.g. buying machinery). Shown in the Balance Sheet.
- Revenue expenditure: benefit used within the year (e.g. wages, rent). Shown in the Trading / P&L Account.

6. Depreciation

- Straight Line Method (SLM): Depreciation = (Cost – Scrap value) / Useful life. Same amount every year.
- Written Down Value (WDV): a fixed rate on the reducing book value. Amount falls every year.

7. Errors

- Errors of omission, commission, principle and compensating errors.
- Errors that do not affect the trial balance: complete omission, error of principle, compensating errors, and posting to the wrong account on the correct side.

Quick check

Q1. Rent paid is which type of account and what is the rule?

Answer: Nominal account — debit all expenses.

Q2. Machinery purchased for cash: which accounts are debited and credited?

Answer: Machinery A/c Dr (real, comes in); Cash A/c Cr (real, goes out).

Q3. Which concept says the owner and business are separate?

Answer: Business entity concept.

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