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B.Com Honours | Semester II | Calicut University

Foundations of Accounting

Course Code: COM2FM106 • Module 3 Notes

1. Preparation of Ledgers, Cash Books, and Depreciation

Ledger posting groups individual transactions by account, summarizing financial activity. This module covers the preparation of ledgers, cash books (including bank and contra entries), and the concept, causes, and calculation methods of depreciation.

Ledger Posting & Cash Book Structure

- **Ledger:** The book of final entry containing all accounts. Posting transfers journal debits and credits to T-accounts, which are periodically balanced.
- **Cash Book:** A subsidiary book used to record all cash receipts and payments. A **Double Column Cash Book** includes a bank column to record banking transactions. **Contra Entries** occur when cash is deposited into or withdrawn from the bank, affecting both cash and bank columns simultaneously.

Depreciation Accounting: SLM vs. WDV

Depreciation is the gradual, systematic allocation of the cost of a tangible asset over its useful life due to wear and tear, passage of time, or obsolescence.

Straight Line Method (SLM)

- Depreciation is calculated as a constant percentage on the *original cost* of the asset.
- Annual charge remains uniform.
- Asset value can be reduced to zero. (ext{Depreciation} = 🡅rac{ ext{Cost} - ext{Scrap Value}}{ ext{Useful Life}})

Written Down Value Method (WDV)

- Depreciation is calculated on the *book value (written down value)* of the asset at the start of each year.
- Annual charge decreases over time.
- Asset value never reaches absolute zero. Widely accepted for tax purposes.