

B.COM I SEMESTER
FINANCIAL ACCOUNTING I
THEORY NOTES

Meaning of Accounting

Accounting as an information system is the process of identifying ,measuring and communicating the economic information of an organisation to its users who need the information for decision making.

Accounting, by definition, is the process of identifying, recording, classifying and summarising financial transactions to produce the financial reports and communicate for their ultimate analysis.

Three basic components of an accounting information system are.,

1. **Input** - Economic events measured in financial terms.
2. **Process**- Recording ,classifying, summarizing, analyzing , interpreting.
3. **Output** - Communicating information to users for purpose of decision making.

Steps of the Accounting Process: Accounting process is the process of collecting, recording, classifying, summarising and communicating financial information to the users for judgement and decision-making. The following steps are involved in accounting process:

1. **Identification:** It is the process of identifying and analysing business transactions.
2. **Recording:** For recording, we use 'Journal' or Subsidiary Books.
3. **Classification of transactions:** Classification means segregation of transactions on the basis of nature and posting them in a format known as Ledger Account.
4. **Summarisation:** It includes preparation of Trial Balance and Financial Statements.
5. **Analysis & Interpretation:** It includes an assessment of the financial reports and making some meaningful conclusions.
6. **Communicating information to the users:** It includes sharing the financial reports and interprets results to the users of financial statements.

Important terminologies in Accounting

- ❖ **Business Transaction** – A business transaction is a financial event between two or more parties. It involves an exchange of goods, services or money and gets recorded in the books of accounts for the organisations involved.
- ❖ **Capital** – Capital is a critical component of any business to run its daily operations and help its future growth. The capital for a business comes either from its owners or from outsiders (shares, debentures or bonds).
- ❖ **Drawings** – Drawings refer to the withdrawals made by the owners of a business for personal use. It gets deducted from the Owner's Capital in the Liabilities side of a Balance Sheet.
- ❖ **Liabilities (Non-Current and Current)** – Current Liabilities are the amount due to the creditors of a business that has to be paid back within twelve months. Non-Current Liabilities are the long-term obligations of a company that are not due for payment before a year.

- ❖ **Assets (Non-Current and Current)** – Current Assets are the assets that a firm can liquidate within twelve months. Non-Current Assets are the long-term investments of a business that they cannot liquidate within a year.
- ❖ **Fixed assets (Tangible and Intangible)** – Tangible Fixed Assets are the long-term investments of a business that have a physical existence. Intangible Fixed Assets are the long-term investments made by a company that doesn't have a physical existence.
- ❖ **Expenditure (Capital and Revenue)** – A business incurs Capital Expenditure to acquire assets for long-term income generation. It also incurs Revenue Expenditure to run the day- to-day operations of a business.
- ❖ **Expense** – Expenses in accounting refer to the cost incurred or money the business owners spend to generate revenue. A business must keep its expenses under control to generate profits both in the short and long run.
- ❖ **Income** – Income is the revenue that a business earns from the sale of its goods or services. It is essential for the survival and growth of any enterprise, and the failure to generate revenue can lead to a shutdown of the business.
- ❖ **Profit** – Profit is the positive difference between the income generated from selling goods or services and the Expenses incurred to perform that business activity. Profit is the excess of revenues over the expenses.
- ❖ **Gain** – A Gain is an increase in the total value of an asset of a business. It takes place when the current price of the asset exceeds its original purchase price. It can occur at any time during the useful life of an asset.
- ❖ **Loss** – Loss is the excess of the Expenses incurred from selling goods or services over the income generated to perform that business activity. Sustained losses over time can lead to the shutdown of a business organisation.
- ❖ **Purchase** – Purchase is the activity of buying an item to either use it in the production of goods and services or resell it to another entity.
- ❖ **Sales** – Sales is an economic activity where a business exchanges goods or services with another entity for money. It is the primary source of revenue for any organisation.
- ❖ **Goods** – Goods are the items that a company manufactures to sell to another entity in exchange for money. When an organisation buys goods, it is known as purchases, and when it sells goods, it is known as sales.
- ❖ **Stock** – A stock is a financial instrument that represents the part ownership of a company. Organisations use this instrument to raise capital for their business.
- ❖ **Debtor** – A debtor is an individual or entity that owes money to a business. Companies treat it as an asset because they will get money from them in the near or distant future.
- ❖ **Creditor** – A creditor is an individual or entity to whom a business owes money. Companies treat it as a liability because they will have to pay them in the near or distant future.
- ❖ **Voucher** – A Voucher is an internal document that a company uses as supporting evidence for accounting entries. Businesses treat it as a redeemable transaction bond as it has a monetary value and is helpful in specific cases.
- ❖ **Discount (Trade Discount and Cash Discount)** – A Trade Discount is a discount that a seller can offer to the buyer by reducing the price of an item. It helps to increase sales of a product, and it doesn't get recorded in the accounting books. A Cash Discount is a discount

that a seller can offer to the buyer at the time of payment by reducing the invoice price of an item. It helps to ensure timely payment for a product, and it gets recorded in the accounting books.

Scope of Accounting :

1. **Financial accounting:** Financial accounting is a particular part of bookkeeping, including a course of recording, summing up, and revealing the horde of exchanges coming about because of business activities throughout some undefined time frame. Work openings for a financial bookkeeper can be found in both private sectors and in public sectors.
2. **Management accounting:** Management accounting is the method involved with planning reports about business activities that assist supervisors with settling on the present moment and long-haul choices and decisions. It helps a business seek after its objectives by recognising, estimating, examining, deciphering, and imparting data to directors.
3. **Cost accounting:** Cost accounting is the analysing and reporting of an organisation's expense or cost structure. Cost bookkeeping is a course of doling out expenses to cost protests that ordinarily incorporate an organisation's items, administrations, and whatever other exercises that include the organisation. Cost accounting is useful in light of the fact that it can distinguish where an organisation is going through its cash, the amount it acquires, and where cash is being lost. Cost accounting intends to report, examine, and lead to the improvement of internal expense controls and effectiveness. To put it plainly, cost accounting is an arrangement of functional examination for the board.

Q. Discuss the Features, Advantages and Limitations of Financial Accountyting

Ans :Objectives / Features of Accounting:

Following are the objectives of Accounting

1. **Recording business transactions systematically**– It is necessary to maintain systematic records of every business transaction, as it is beyond human capacities to remember such large number of transactions. Skipping the record of any one of the transactions may lead to erroneous and faulty results.
2. **Determining profit earned or loss incurred**– In order to determine the net result at the end of an accounting period, we need to calculate profit or loss. For this purpose trading and profit and loss account are prepared. It gives information regarding how much of goods have been purchased and sold, expenses incurred and amount earned during a year.
3. **Ascertaining financial position of the firm**– Ascertaining profit earned or loss incurred is not enough; proprietor also interested in knowing the financial position of his/her firm, i.e. the value of the assets, amount of liabilities owed, net increase or decrease in his/her capital. This purpose is served by preparing the balance sheet that facilitates in ascertaining the true financial position of the business.
4. **Assisting management**– Systematic accounting helps the management in effective decision making, efficient control on cash management policies, preparing budget and forecasting, etc.

5. **Assessing the progress of the business**– Accounting helps in assessing the progress of business from year to year, as accounting facilitates the comparison both inter-firm as well as intra-firm.
6. **Detecting and preventing frauds and errors**– It is necessary to detect and prevent fraud and errors, mismanagement and wastage of the finance. Systematic recording helps in the easy detection and rectification of frauds, errors and inefficiencies, if any.
7. **Communicating accounting information to various users**– The important step in the accounting process is to communicate financial and accounting information to various users including both internal and external users like owners, management, government, labour, tax authorities, etc. This assists the users to understand and interpret the accounting data in a meaningful and appropriate manner without any ambiguity.
8. **Helps in comparative studies** - As the accounting data for every year is maintained in orderly manner ,it helps in easy comparison of financial reports year to year

Importance /Advantages of Accounting :

The advantages of accounting are explained as follows:

1. **Replacement of Memory**: It is not possible for any human being to remember all the transactions of business. Accounting has replaced the need of such sharp memory. All financial transactions are recorded in a systematic manner in the books of accounts so that there is no need to rely only on memory.
2. **Planning**: Accounting information is helpful in preparing business plans. The basis of past records and comparative study of financial statements future events may be estimated.
3. **Decision Making**: The accountant helps the management in decision making by providing the relevant information. Determining selling price, allowing discount and credit facility to regular customers, etc. are few of the important decisions.
4. **Controlling**: To make effective controlling actual performance is compared with the desired or planned targets. The actual data is supplied by accounting books, without that the controlling may not be possible.
5. **Provides information to interested parties**: Accounting provides necessary information to various parties or groups like owners, creditors, management, employees, government, consumers, debtors.
6. **Evidence in courts**: When any matter relating to business is referred to the court of law, accounting records of business transactions are treated as satisfactory evidence. These are used in settling the disputes between parties.
7. **Assessment of tax-liability**: Business concerns have to pay sales tax, excise duty, income tax, etc. as per the government rules. Accounting books are the basis of conclusive proof of tax liability of the business.
8. **Assessing the performance and financial position of the business**: An statement of P & L discloses profit earned (or loss incurred) during a particular accounting period. Profit is a measurement of the performance of the business. A balance sheet states the financial position of the business on a particular date. Thus, accounting helps in assessing the performance and financial positions of the business.

Limitations of Accounting :

Following are the limitations of Accounting .,

1. **Measurability** It is among the biggest limitations of accounting. In accountancy, one cannot measure the value of non-monetary terms, things, or events. In other words, if certain factors cannot be expressed in terms of money then they cannot be included in accounting no matter how important it is for the company. Some important but non-monetary qualities are management, loyalty, reputation, hard work, employees' and customers' satisfaction, the firm's ability to develop new products, cordial management-labor relationship, etc. are not mentioned in the company's balance sheet or income statement. Hence, accounting focuses on the quantities only not on the qualities.
2. **No Future Assessment** Financial statements are the presentation of the company's financial position as of the date of preparation. The users of these statements are more interested in getting information about the company's future performance in the short and long run. However, it is not possible with accounting to make any such estimates.
3. **Historical Costs** The value in accounting is often measured by using the historical data or costs which ignores the current factors or market conditions such as inflation, price changes, demand and supply effect, etc. Because of this the accounting records and information get skew the relevance and reduce the originality and reliability of the accounting data.
4. **Accounting Policies** Accounting policies do not work on a global standard. For example, in India, accounting standards are used, in USA GAAP and some international standards named IFRS are used, and so in other countries. So if a company is operating its business in more than one country then it can be confusing to apply a particular standard and even if the company does not choose a single standard then the results can fluctuate. This is because all accounting policies do not follow the same line of thinking which may cause conflicts.
5. **Influenced by Personal Judgments** An accountant can't determine the exact amount of an asset. That's sometimes estimation is required in accounting also. But the problem is that these estimations are based on the personal judgment of the accountant and also these are very subjective. In short, these estimates are a person's guess for future events. Such estimates are made for the work related to the provision of doubtful debt, methods of depreciation, etc.
6. **Verifiability** There is no guarantee of the correctness of the financial statements even after having an audit of them. The auditor can only assure that the statements are free from error as per his knowledge and skills.
7. **Errors and Frauds** Accounting is completed by human beings so there is always a possibility of having errors in it. Sometimes, there is also a scope of manipulation of accounts to hide fraud. Since fraud is a deliberate activity, it is very difficult to spot it. It is one of the most dreaded limitations of the accounting system.
8. **Affected by Window Dressing** The practice of manipulating the accounts to disclose the company in a more favorable position than the actual position by the means of its financial statements is known as window dressing. For example, a company may not record the

purchases made at the end of the year or the closing stock may be overvalued. Hence, the true position of the company can't be concluded on the basis of such financial statements.

9. Incomplete Information Another limitation is that the accounting statements provide incomplete information regarding the profit and loss of a business because logically, the actual profit and loss of a business can only be calculated after the closed down of it.

10. Some other drawbacks or limitations of accounting are as under:

- Installation cost is very high.
- Based on financial and cost records.
- Preference for intuitive decision making.
- So much complex and difficult to apply. Hence, can be done by experts only.
- Highly time and resources consuming process.

Q. Difference between accounting and book keeping

Parameters	Bookkeeping	Accounting
Scope	Bookkeeping involves identifying, measuring, recording & classifying financial transactions in the ledger accounts.	In addition to bookkeeping, Accounting also includes summarizing, interpreting and communicating the financial data to the users of financial statements.
Objective	The main aim is to maintain systematic records of financial transactions.	The main aim is to ascertain the profitability and financial position of the business.
Stage	It is a primary stage of accounting	It is a second stage and begins where book-keeping ends.
Nature of job	This job is in routine and repetitive in nature.	This job is analytical in nature.
Level of skills	Bookkeeping does not require special skills. It is performed by Junior Staff.	It requires specialized skill to analyse, so it is performed by senior staff.

Q. Discuss the probable users of Accounting Information

1. **Management:** Accounting information is used by management for taking various decisions.
2. **Employees:** Employees are interested in the financial statements to assess the ability of the business to pay higher wages and bonuses.
3. **Banks and financial institutions:** Banks and Financial Institutions provide loans to business. So, they are interested in financial information to ensure the safety and recovery of the loan.
4. **Current Investors:** Investors are interested to know the earning capacity of business and safety of the investment.
5. **Prospective Investors:** Apart from current investors, even prospective investors will be interested in the accounting information of the organisation, in order to go for proper investment decision making.
6. **Creditors:** Creditors provide the goods on credit. So they need accounting information to ascertain the financial soundness of the firm.
7. **Government:** The government needs accounting information to assess the tax liability of the business entity.
8. **Research and Development:** Researchers use accounting information in their research work. Based on the accounting research made by them
9. **Consumers:** They require accounting information for establishing good accounting control, which will reduce the cost of production.
10. **Taxation Authorities :** Government activities are majorly financed with various taxes like income tax and GST. Tax authorities require accounting information to assess the tax liability.

Q. Describe Accounting Concepts and Conventions. (Or)

Discuss Accounting Principles.

Ans: Accounting Principles: Accounting Principles are the foundation of Financial Accounting. It can be said that Accounting principles are the highest level of guidance in accounting and provide the fundamental framework for recording and reporting financial transactions. They provide the theoretical base of Accounting.

Accounting Principles emanate out of .,

- Accounting Concepts and
- Accounting Conventions.

Let us understand these in detail.

- **Accounting Concepts :** Accounting concepts are the basic assumptions on which accounting operates. These are the following accounting concepts as discussed below:
1. **Business entity concept:** According to this, the business and owner are separate entities. Business transactions are recorded in the books of accounts from the company's point of view, and not the owner's. The owners are considered separate from their business's point of view and are regarded as creditors to the extent of their capital.
 2. **Money measurement concept:** According to this, transactions and events are measured in monetary terms in the books of accounts of the enterprise.
 3. **Going concern concept:** Under this concept, it is assumed that the business will continue for an indefinite period, and there is no intention to close the business or cut down its operations significantly.

4. **Accounting period concept**: According to the accounting period concept, the life of an enterprise can be broken into smaller periods, usually termed accounting periods, so that its performance is measured at regular intervals.
 5. **Cost concept**: According to this concept, an asset is recorded in the books of account at the price paid to acquire it, and the cost is the basis for all following accounting of the asset.
 6. **Dual Aspect concept**: According to the dual aspect concept, every business transaction entered into by the organisation has two aspects, a debit and an equal creditor amount. For every debit, there will be an equal amount of credit.
 7. **Matching concept**: Here, it is ascertained that every cost incurred to earn the revenue should be recognised as an expense in the accounting period when revenue is earned. In a given accounting period, expenses are matched with the revenue earned.
 8. **Accrual concept**: A transaction is said to be accrued if a transaction is recorded at the time when it takes place and not at the time when the settlement takes place.
 9. **The verifiable objective concept/ Concept of Objectivity**: The verifiable objective concept states that accounting should be free from personal bias.
- **Accounting conventions**: The guidelines that are followed to prepare financial statements are called accounting conventions. These are as follows:
1. **Disclosure**: Convention of full disclosure states that there should be complete reporting on the financial statements of all important information relating to affairs of the business. All the material facts are to be disclosed.
 2. **Consistency**: Convention of consistency states that accounting practices, once selected and adopted, should be followed consistently year after year for a better understanding and comparability of the accounting information.
 3. **Prudence concept or conservatism concept**: This convention states that we should not anticipate a profit before its realisable but provide for all possible losses which might occur in the course of business.
 4. **Materiality**: The materiality concept relates to the relative information of an item or an event. An item is considered material when such knowledge of that could influence the decision of an investor.

Conclusion : Financial accounting is related to the recording of financial transactions, summarising and interpreting them, and communicating the results to the interested parties. Accounting information is understandable in a better manner if prepared with the following set of accounting concepts and conventions uniformly. Accounting concepts are the basic assumptions on which accounting operates. Accounting conventions are guidelines that are followed for preparing financial statements. If the given accounting concepts and conventions are utilised, then firms can easily have control over costs, which will lead to better financial results.

Q. Discuss the Generally Accepted Accounting Principles (GAAP)

Ans : Generally Accepted Accounting Principles or GAAP is a defined set of rules and procedures that needs to be followed in order to create financial statements, which are consistent with the industry standards.

GAAP helps in ensuring that financial reporting is transparent and uniform across industries. As financial information is based on historical data, therefore in order to facilitate comparison between data from various sources, GAAP must be followed.

GAAP is developed by the Financial Accounting Standards Board (FASB) The

following GAAP principles can be discussed:

1. **Principle of Consistency:** This principle ensures that the organizations use consistent standards while recording the transactions.
2. **Principle of Regularity:** This principle states that all the accountants abide by the rules and regulations as per GAAP.
3. **Principle of Sincerity:** This principle states that an accountant should provide an accurate depiction of the financial situation of a business.
4. **Principle of Permanence of Method:** This principle states that consistent practices and procedures should be followed for financial reporting purposes.
5. **Principle of Prudence:** This principle states that financial data should be reasonable, factual and should not be based on any speculation.
6. **Principle of Continuity:** This principle states that the valuation of assets is based on the assumption that the business will be continuing its operations in the future.
7. **Principle of Materiality:** This principle lays emphasis on the full disclosure of the true financial position of the business.
8. **Principle of Periodicity:** This principle states that business entities should abide by the commonly accepted accounting periods for financial reporting such as yearly, half-yearly, etc.
9. **Principle of Non-compensation:** This principle states that no business entities should expect compensation in return for providing accurate information in financial reporting.
10. **Principle of Good Faith:** This principle states that all the parties involved in financial reporting should be honest in reporting the transactions

Q: What is meant by “Double Entry System” in accounting? What are the main features, advantages and limitations of the double entry system?

A: The double entry system is a method of recording transactions where each entry affects two accounts – one is debited and the other is credited.

Features of Double Entry System

1. Set Rules: Every transaction follows rules based on personal, real, and nominal accounts.
2. Entry in Two Accounts: Each transaction affects two accounts – one is debit, the other credit.
3. Scientific System: It is logical and based on a proper method.
4. Preparation of Trial Balance: Helps ensure accuracy by balancing total debits and credits.
5. Preparation of Final Accounts: Profit & Loss account and Balance Sheet can be prepared.

Advantages of Double Entry System

1. Scientific System: Entries are recorded scientifically.
2. Complete Record of Transactions: All transactions are properly recorded.
3. Knowledge about Different Accounts: Clear info about all accounts is available.
4. Knowledge about Financial Position: Helps know profit/loss and financial health.
5. Less Possibility of Fraud and Mistakes: Systematic checks reduce errors and fraud.
6. Accounting Errors: Easier to find and fix mistakes using trial balance.
7. Suitable for all Types of Businesses: Useful for sole proprietors, firms, and companies.
8. Comparative Study is Possible: Past and present accounts can be compared.
9. Proof of Transactions: Recorded transactions can be used as evidence.
10. Facilitates Adjustment Entries: Helps make year-end adjustments easily.

Limitations of Double Entry System

1. Costlier System: Requires more time, effort, and money.
2. Accounting Errors: Some mistakes may still go unnoticed.
3. Requires Practical Knowledge: Users must understand accounting principles.
4. Elasticity: It is rigid; rules must be strictly followed.
5. Unacceptable for Tax Purposes: In some cases, tax departments may not accept only book records.

Q: What is an accounting equation?

A: The accounting equation shows the relationship between a business's assets, liabilities, and capital.

It is:

$$\text{◆ Assets} = \text{Liabilities} + \text{Capital} \quad (\text{Or})$$

$$\text{◆ Capital} = \text{Assets} - \text{Liabilities}$$

It is the base of double entry bookkeeping. It helps ensure that every transaction keeps the accounts balanced and shows the financial position of a business clearly.

Here are the basic rules:

1. Assets:
 - ❖ If assets increase → record as a debit.
 - ❖ If assets decrease → record as a credit.
2. Liabilities:
 - ❖ If liabilities increase → credit.
 - ❖ If liabilities decrease → debit.
3. Capital:
 - ❖ If capital increases → credit.
 - ❖ If capital is withdrawn → debit.
4. Expenses:
 - ❖ Expenses reduce capital → debit.
5. Income/Profit:
 - ❖ Income increases capital → credit.

Example

Transaction	Capital	Liabilities	Assets
Started business with ₹1,00,000	1,00,000	0	1,00,000 (Cash)
Bought furniture ₹25,000	1,00,000	0	75,000 (Cash) + 25,000 (Furniture)
Bought goods for ₹20,000 in cash	1,00,000	0	55,000 (Cash) + 25,000 (Furniture) + 20,000 (Stock)
Bought goods on credit from Ram ₹5,000	1,00,000	5,000	55,000 (Cash) + 25,000 (Furniture) + 25,000 (Stock)
Sold goods for cash ₹15,000	1,15,000	5,000	70,000 (Cash) + 25,000 (Furniture) + 10,000 (Stock)
Sold goods to Shyam on credit ₹8,000	1,23,000	5,000	70,000 (Cash) + 25,000 (Furniture) + 2,000 (Stock) + 8,000 (Debtors)
Paid cash to Ram ₹4,000	1,23,000	1,000	66,000 (Cash) + other assets remain same
Received ₹5,000 from Shyam	1,23,000	1,000	71,000 (Cash) + 3,000 (Debtors)
Paid ₹25,000 into Bank	1,23,000	1,000	46,000 (Cash) + 25,000 (Bank)
Withdrawn ₹10,000 from Bank	1,13,000	1,000	56,000 (Cash) + 15,000 (Bank)

At every step, the equation $\text{Assets} = \text{Liabilities} + \text{Capital}$ is satisfied.

Q. Briefly describe the classification of accounts.

Ans: An account is a summary of relevant transactions and events at one place under a particular head. It records the amount of the transactions and also depicts their effect and direction.

Classification of Accounts according to Traditional approach

Personal Account	Real Account	Nominal Account
E.g. John A/c	E.g. Plant & Machinery	E.g. Salaries A/c

A) Personal Account : Accounts related to individuals, banks, firms, companies, etc. are known as personal accounts. The personal accounts are related to natural persons, artificial persons, and representative persons. It may be classified into three categories:

1. **Natural Personal Account :** Account of individuals (natural persons) such as Rakesh A/c is known as natural personal account.
2. **Artificial Personal Account :** Accounts of firms, companies, banks are artificial accounts. Examples: Tata Groups A/c, Coca-Cola Corporation Bank A/c
3. **Representative Account :** The account related to outstanding expenses, prepaid expenses, income received in advance, accrued income is a representative personal account. Examples: Rent Outstanding, Insurance Prepaid, Interest due but not paid, etc.

Rule:
Debit the Receiver Credit
the Giver

B) Real Account : Real Account is related to tangible or intangible assets. Tangible assets are one which can be touched and seen such as building, plant, cash, etc. Intangible assets are related to intangible objects which can neither be touched nor seen.

Examples: goodwill, trademarks, etc.

Rule:
Debit what comes in
Credit what goes out

C) Nominal Account : The account related to income, expense, losses, and gains are classified as nominal accounts.

Examples: wage accounts, salaries account, etc.

Rule:

Debit all expenses and losses

Credit all incomes and gains (or) profits

Q: What is a Journal? Explain its objectives, proforma, and procedure in detail.

Ans: A Journal is the book of original entry in accounting where all business transactions are recorded for the first time in a chronological (date-wise) order. It is also known as the daybook or book of prime entry. Each transaction is analyzed to identify the accounts that are to be debited and credited, and it is recorded using the double-entry system.

Objectives of Journal: The main objectives of maintaining a journal are:

1. **Chronological Record:** To maintain a systematic and date-wise record of all financial transactions.
2. **Permanent Record:** To serve as a permanent and legal record of all business activities.
3. **Basis for Posting:** To provide a basis for posting transactions to the ledger.
4. **Double Entry System:** To ensure that each transaction affects two accounts, maintaining the integrity of the double-entry system.
5. **Error Detection:** To help in identifying and correcting errors at the initial stage itself.
6. **Helpful in Audit:** Journal entries support transparency and make the audit process easier.

Proforma of Journal:

Journal Entry Format			
Date	Account Name	Debit	Credit
January 1	Debited Account	XXXX	
	-Credited Account		XXXX
Description of the Journal Entry			

Key Terms:

- **Date:** When the transaction occurred.
- **Particulars:** The names of accounts debited and credited.
- **L.F. (Ledger Folio):** Page number of the ledger where the transaction is posted.
- **Debit and Credit columns:** Amounts to be debited and credited.
- **Narration:** A short explanation of the transaction.

Procedure for Journalizing Transactions: Follow these steps to record transactions in the journal:

Step 1: Identify the Transaction: Understand the nature of the transaction and the accounts involved.

Step 2: Classify the Accounts: Decide which accounts are affected – Personal, Real, or Nominal.

Step 3: Apply the Golden Rules of Accounting

- Personal Account → Debit the Receiver, Credit the Giver
- Real Account → Debit what comes in, Credit what goes out
- Nominal Account → Debit all expenses/losses, Credit all incomes/gains

Step 4: Decide which Account to Debit and which to Credit: Based on the above rules, determine which account gets debited and which is credited.

Step 5: Write the Journal Entry

- First line: Write the name of the debit account with “Dr.” and the amount in the Debit column.
- Second line: Start with “To” followed by the credit account and amount in the Credit column.
- Third line: Write a short narration explaining the transaction.

Step 6: Leave a Line and Record the Next Transaction Example

of a Journal Entry:

Transaction: Bought furniture for ₹10,000 in cash on 1st April 2025.

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
01/04/2025	Furniture A/cDr.		10,000	
	To Cash A/c			10,000
	(Being furniture purchased for cash)			

Q: What is a Ledger ? Explain its objectives, proforma, and procedure in detail.

Ans: Definition: Ledger is the principal book of accounts where all the transactions related to a particular account are recorded in a classified form. It is a collection of all accounts, debited and credited in the journal or subsidiary books.

Objectives of Ledger:

1. To classify all transactions under proper heads.
2. To ascertain the financial position of each account.
3. To help in preparing the trial balance and final accounts.
4. To provide a permanent record of all transactions.

Proforma of Ledger:

Name of the Account							
Dr.				Cr.			
Date	Particulars	J.F.	Amount ₹	Date	Particulars	J.F.	Amount ₹

Procedure for Posting to Ledger:

1. Identify the accounts involved in the transaction.
2. Debit the account receiving the benefit and credit the account giving the benefit.

3. Post each transaction from the journal to respective accounts in the ledger.
4. Record the date, particulars, journal folio, and amount on the respective sides.
5. After all postings, balance each account (difference between debit and credit).

Q: What is a Trial Balance ? Explain its objectives, proforma, and procedure in detail.

Ans: Definition: A trial balance is a statement that shows the list of all ledger account balances on a particular date. It is prepared to check the arithmetical accuracy of the books of accounts.

Objectives of Trial Balance:

1. To check the mathematical accuracy of ledger accounts.
2. To provide a summary of all ledger balances.
3. To assist in the preparation of final accounts.
4. To detect errors in the recording and posting process.

Proforma of Trial Balance:

Name of Business
Trial Balance
as on date _____

Particulars	L.F.	Dr. Balance (₹)	Cr. Balance (₹)
Cash A/c		xxxx	
Capital A/c			xxxx
Drawings A/c		xxxx	
Purchases A/c		xxxx	
Sales A/c			xxxx
Machinery A/c		xxxx	
Rent A/c		xxxx	
Salaries A/c		xxxx	
Purchase Return and so on			xxxx
Total		xxxx	xxxx

Procedure to Prepare Trial Balance:

1. Prepare ledger accounts and find the balance of each account.
2. Classify the balances into debit and credit.
3. List all the accounts with their respective balances under debit or credit columns.
4. Total both columns; they must be equal if there are no errors.

Discuss the preparation and preparation of Trading, Profit and loss account.

Ans: These account is prepared to ascertain the **gross profit/loss** and **net profit/loss** of a business during a particular accounting period.

We divide it into two main sections:

- **Trading Account:** To find Gross Profit or Gross Loss

- **Profit and Loss Account** : To find Net profit or Net Loss

Dr.

Cr.

Expenses/Losses	Amt	Revenues/Gains	Amt
Opening Stock	xxx	Sales xxx	
Purchase xxx		Less Return <u>xxx</u>	xxx
Less Returns <u>xxx</u>	xxx	Closing Stock	xxx
Wages	xxx	Gross loss c/d	xxx
Carriage inward	xxx		
Freight inward/Cartage	xxx		
Fuel/water/power/gas	xxx		
Gross Profit c/d	xxx		
	xxx		xxx
Gross b/d	xxx	Gross Profit b/d	xxx
Salaries	xxx	Interest Received	xxx
Rent/Rate & Taxes	xxx	Commission received	xxx
Insurance	xxx	Bad debts recovered	xxx
Depreciation	xxx		
Interest on capital	xxx		
Bad debt xxx		Net loss (transferred	
Add. Further		to capital account	xxx
bad debt xxx			
Add New Provision <u>xx</u>	xxx		
Net Profit (tranferred			
to capital account)	xxx		
	xxxxx		xxxxx

Q, Discuss the preparation and preparation of Trading, Profit and loss account

Ans: A balance sheet is a financial statement that presents a snapshot of a company's financial position at a specific point in time. It shows what the company owns (assets), what it owes (liabilities), and the owner's equity (capital). It follows the basic accounting equation:

$$\text{Assets} = \text{Liabilities} + \text{Equity}$$

Characteristics of a Balance Sheet

- 1. Specific Date Statement:** A balance sheet reflects the financial position on a particular date, not over a period like the income statement.
- 2. Dual Aspect Concept:** It is based on the double-entry system of accounting, ensuring that every debit has a corresponding credit.
- 3. Summarized Form:** It presents a summary of assets, liabilities, and equity in a structured format.
- 4. Classification of Items:** Assets and liabilities are classified as current or non-current to show liquidity and financial health.
- 5. Basis for Financial Analysis:** Used to calculate important financial ratios such as current ratio, debt-to-equity ratio, etc.
- 6. Historical Cost Basis:** Most items are recorded at historical cost, not at their current market value (unless fair value is used under certain accounting standards).

Classification of Assets in the Balance Sheet

1. Current Assets : Assets that are expected to be converted into cash or used up within one year.

- Cash and Cash Equivalents: Bank balances, petty cash
- Accounts Receivable: Money owed by customers
- Inventory: Raw materials, work-in-progress, finished goods
- Prepaid Expenses: Insurance, rent paid in advance
- Short-term Investments

2. Non-Current Assets (Fixed Assets) : Assets that are held for long-term use and not easily converted to cash.

- Property, Plant, and Equipment (PPE): Land, buildings, machinery
- Intangible Assets: Patents, goodwill, trademarks
- Long-term Investments: Investments held for more than a year
- Deferred Tax Assets

Classification of Liabilities in the Balance Sheet

1. Current Liabilities : Obligations due within one year.

- Accounts Payable: Money owed to suppliers
- Short-term Loans: Bank overdrafts, lines of credit
- Accrued Expenses: Salaries, taxes payable
- Unearned Revenue: Money received in advance for services/products
- Current Portion of Long-term Debt

2. Non-Current Liabilities

Obligations that are due after one year.

- Long-term Loans: Bonds payable, mortgages
- Deferred Tax Liabilities
- Pension Obligations
- Lease Obligations

BALANCE SHEET

Liabilities	₹ (Amount)	Assets	₹ (Amount)
Capital Account	XXXXXX	Fixed Assets	
Add: Net Profit	XXXX	- Land and Building	XXXXXX
Less: Drawings	XXXX	- Plant and Machinery	XXXXXX
Net Capital	XXXXXX	- Furniture and Fixtures	XXXXXX
		- Vehicles	XXXXXX
Reserves and Surplus	XXXXXX	Investments	XXXXXX
Long-term Liabilities		Current Assets	
- Loans from Bank	XXXXXX	- Closing Stock	XXXXXX
- Debentures	XXXXXX	- Sundry Debtors	XXXXXX
		- Bills Receivable	XXXXXX
Current Liabilities		- Cash in Hand	XXXXXX
- Sundry Creditors	XXXXXX	- Cash at Bank	XXXXXX
- Bills Payable	XXXXXX	- Prepaid Expenses	XXXXXX
- Outstanding Expenses	XXXXXX	- Accrued Income	XXXXXX
- Bank Overdraft	XXXXXX		
Total	₹XXXXXX	Total	₹XXXXXX

Financial Accounting – I

Important Questions

Short Questions

1. Explain Branches of Accounting.
2. Explain Accounting equation
3. Explain stages of Accounting- Accounting cycle.
4. What is capital Expenditure & Give Example.
5. Book keeping v/s Accounting
6. Journal v/s Ledger.
7. cash discount v/s Trade discount
8. Debit note v/s credit Note.
9. Accounting concepts & conventions.
10. Explain the advantages of Subsidiary books
11. Write about Journal proper.
12. Advantages of BRS.
13. What do you mean by cash book & passbook.
14. List out any " four reasons for difference between cash book & pass book.
15. What do you mean by BRS? Why do we prepare.
16. Explain Errors not disclosed by Trial balance
17. What are The types of Errors.
18. What is account? Explain different types of accounts with debit and credit rule.

Long Questions

Unit I

1. Define accounting what are the advantages and limitations of accounting
2. What are accounting concepts and conventions?
3. Who are the parties interested in Accounting information (users of Accounting

information).

4. What is an account? Explain different types of accounts with debit and credit rules.

5. Problem on journal Entries and trial Balance

Unit II

1. What are subsidiary books? Briefly explain various subsidiary books that are maintained by an organization

2. Problem on subsidiary books (purchases book / purchase returns book / sales book / sales returns book)

3. Problem on three column cash book

Unit III

1. What is BRS? What are the reasons for the difference between the balances of cash book and pass book

2. Problem on BRS

Unit IV

1. What are the various types of errors

3. Problem on depreciation

Unit V

1. Problem on final accounts