Journal Entries

- Purchases in cash

    Purchase Account Dr.

        To Cash Account

- Purchase on credit

    Purchases Account Dr.

        To Creditor Account/Accounts Payable

- Purchase Returns

    Creditor Account/Accounts Payable

        To Purchase Returns A/C

- Sales in cash

    Cash A/c Dr.

        To Sales A/C

- Sales on credit

    Debtor/ Accounts Receivable Account Dr.

        To Sales A/C

- Sales Return

    Sales Return Account Dr.

        To Debtor/Accounts Receivable Account

- Furniture purchased in cash

    Furniture Account Dr.

        To Cash A/C

- Depreciation on fixed asset like furniture, machinery etc

    Depreciation A/C Debit

        To Accumulated Depreciation/Fixed asset Account

- When you create a provision for bad debts

  Bad debts account Dr.

  To provision for bad debts

- When you write off bad debts

  Provision for bad debts account debit

  To Debtor / Accounts receivable account

- Take loan from a bank

  Bank account debit

  To Bank loan account

- Interest accrued on the above bank loan

  Interest expense account debit

  To Accrued Interest account

- When you paid prepaid rent for 3 months totalling 9000

  Prepaid Rent account Debit (asset account)

  To Bank account

- Accrued expenses (Salaries payable, rent payable – all outstanding expenses)

  Expenses Account Debit

  To Accrued expenses account

- Capital invested by proprieter

  Cash account or fixed asset account debit

  To Capital account

- Amount of 3000 withdrawn for personal use (drawings)

  Drawings accounts debit

  To Cash

Accounting terminology

Accounting concepts and principles

1. Separate Entity: A business is considered a separate entity from the owner(s) and should be treated separately. Any personal transactions of its owner should not be recorded in the business accounting books, vice versa. Unless the owner's personal transaction involves adding and/or withdrawing resources from the business.
2. Monetary Measurement: The business financial transactions recorded and reported should be in monetary unit, such as $ USD, INR, etc. Thus, any non-financial or non-monetary information that cannot be measured in a monetary unit are not recorded in the accounting books, but instead, a memorandum will be used.
3. Going concern: It assumes that an entity will continue to operate indefinitely. In this basis, assets are recorded based on their original cost and not on market value. Assets are assumed to be used for an indefinite period of time and not intended to be sold immediately.
4. Realization: With this convention, accounts recognise transactions (and any profits arising from them) at the point of sale or transfer of legal ownership - rather than just when cash actually changes hands. For example, a company that makes a sale to a customer can recognise that sale when the transaction is legal - at the point of contract. The actual payment due from the customer may not arise until several weeks (or months) later - if the customer has been granted some credit terms.
5. Matching principle: This principle requires that revenue recorded, in a given accounting period, should have an equivalent expense recorded, in order to show the true profit of the business.
6. Accrual: This principle requires that revenue should be recorded in the period it is earned, regardless of the time the cash is received. The same is true for expense. Expense should be recognized and recorded at the time it is incurred, regardless of the time that cash is paid.
7. Consistency: This principle ensures consistency in the accounting procedures used by the business entity from one accounting period to the next. It allows fair comparison of financial information between two accounting periods.

8. Materiality: Ideally, business transactions that may affect the decision of a user of financial information are considered important or material, thus, must be reported properly. This principle allows errors or violations of accounting valuation involving immaterial and small amount of recorded business transaction.

9. Objectivity: This principle requires recorded business transactions should have some form of impartial supporting evidence or documentation. Also, it entails that bookkeeping and financial recording should be performed with independence, that's free of bias and prejudice.

10. Conservatism: This principle states that given two options in the valuation of business transactions, the amount recorded should be the lower rather than the higher value.

11. What are golden rules of accounting

There are three types of accounts real, personal and nominal account. The golden rule for each is

For Real Account: Debit what comes in, credit what goes out

For Personal account: Debit the receiver, credit the giver

For Nominal account: Debit all expenses and losses, credit all incomes and gains

12. What is the accounting equation

The accounting equation is Asset = Liabilities + Owners Equity (or Capital)

13. What are fixed assets?

Fixed assets are those assets which are not bought or sold in normal course of business, they are not for resale. They are used in future production of goods and services over extended period of time, typically greater than one year. Examples are plant and machinery, furniture, fixture, land and building. Fixed assets are depreciated over its estimated useful life

14. What are intangible assets?

Intangible assets are those assets that cannot be touch or felt. Examples includes copyrights, patents, trademarks. Intangible assets are amortized over its estimated useful life. They are shown on assets side of the balance sheet.

15. What are current assets:

    Current assets are liquid assets that can be easily converted into cash typically less than one year. Examples are cash, bank, inventory, accounts receivable, prepaid expenses

16. What are current liabilities?

    Current liabilities are those obligations or liabilities that are due to be paid in short duration typically less than one year. Examples include accounts payable, bills payable, notes payable, bank overdraft, accrued expenses

17. What is contingent liability?

    Contingent liabilities are those liabilities which may or may not happen. They are contingent or dependant on a future event, which may or may not happen. Example is a lawsuit or a legal proceeding. They are not reported as a liability in the balance sheet. If it is significant it will be reported into the notes to account in the financial statements

18. What is prepaid expenses

    Prepaid expenses are those expenses for which cash has already been paid but for this benefits will be derived in future accounting period. Example is rent paid in advance, salary paid in advance, insurance premiums paid in advance.

19. What are accrued expenses?

    Accrued expenses are those expenses for which benefit has already been received but for which payment has not been made. Examples are salaries payable, rent payable, wages payable. Accrued expenses create a liability in the books of accounts

20. What is accrued revenue?

    Accrued revenues are those amounts that have been received in advance but for which goods or services have not yet been delivered. They cannot be booked as revenue and will be books as a liability in the balance sheet.

21. What is deferred revenue expenditure?

    Deferred revenue expenditure are those expenses which have been paid for in the current accounting period but for which benefit will be derived over an extended period of time, typically 2-3 years. Examples are advertisement costs, marketing expenses, product launch expenses. Deferred revenue expenditure creates a non current asset on the balance sheet.

22. What is bank reconciliation statement (BRS)?

Bank reconciliation statement reconciles the difference in the bank balance as per the cash book with the bank balance shown as per the pass book. They are many reasons for the differences such as

a. Check deposited in bank but not cleared
b. Checks issued but not presented for payment
c. Bank charges
d. Interest expenses
e. Interest credited by bank
f. Amounts deposited directly into bank
g. Expenses paid directly by bank
h. Check bounced or check dishonoured

23. What is accounts payable?

Accounts payable is the amount that is due to the vendors for the goods and services purchased on credit. It is part of the current liabilities in the balance sheet.

24. What is depreciation?

Depreciation is the reduction in the value of the fixed assets due to factors such as wear and tear, technological changes or passage of time. Fixed assets are depreciated over their estimated useful life. There are different methods of depreciation such as straight line method, written down value method.

25. What is amortization?

Amortization is the reduction in the value of intangible assets such as copyright, patents, trademarks.

26. What is double entry bookkeeping?

Double-entry bookkeeping, in accounting, is a system of bookkeeping so named because every entry to an account requires a corresponding and opposite entry to a different account. For instance, to record making $100 of cash sales would require making two entries: a debit entry of $100 to an account called "Cash" and a credit entry to an account called "sales." To decide which account should be debited and which should be credited the golden rules of accounting are used.

27. What is a trial balance?

Trial balance is a listing of all ledger accounts with their respective debit and credit balances. It also provides a initial check on arithmetical accuracy to ensure that the debit and credit balances are matching.

28. What is a Balance sheet?

Balance sheet shows the **financial position** of the company **as on a specific date**. It shows assets, liabilities and owners equity. Assets include current assets, fixed assets, intangible assets and investments. Liabilities include current liabilities and long term liabilities. Equity includes capital and drawings.

29. What is income statement or profit and loss statement?

Income statement or profit and loss statement shows the **financial performance** of the company for a **particular period of time.** It shows the net profit or net loss made by the business in the particular period. It includes all nominal accounts – expenses, losses, incomes and games.

30. What are financial statements?

Financial statements include Income statement, balance sheet, cash flow statement, statement of shareholder equity and notes to account.

31. What is working capital?

The capital of a business which is used in its day-to-day trading operations, calculated as the current assets minus the current liabilities. It shows the liquidity position of the company, the ability of the company to pay its short term liabilities from sources of short term assets.

32. Current ratio

Also known as 'working capital' ratio. It measures the difference between current assets and current liabilities. This ratio measures the ability of a company to pay its current obligations using current assets. Current assets/Current Liabilities.

33. What is error of omission and error of commission error of Principal

An error of commission occurs when you record an incorrect value in posting. Such errors include original entry errors, transposition errors (456 written as say 465) , calculation errors. They require an adjustment or rectification entry to correct the error.

An error of principle is one that is contrary to the fundamental principles, concepts and assumptions of accounting. For instance, if you record capital expenditure as revenue expenditure or treat withdrawals by the business owner as an expense, these go against the fundamental principles and held concepts in accounting. Such errors will skew the figures in the income statement and statement of financial position.

Errors of omission can be one of the more difficult errors to detect, since they involve failing to record a transaction partially or completely. An error of omission may be hard to detect because it could lead to a balanced accounting equation

34. What is compensating error

Error in computation or in recording of accounting data, that is neutralized (counter balanced) by an equal and opposite error. Since compensating errors do not show up in the total, they are difficult to locate through statistical methods. Sometimes they are deliberately introduced in a computation to cancel the effect of another (known) error.

Compensating Errors – This error means that the debit side of an account is compensated by another error of the same/equal amount on the credit side in another account.

35. Trade Discount and Cash Discount

-Trade Discounts: offered at the time of purchase for example when goods are purchased in bulk or to retain loyal customers.

Trade Discount Trade discounts are generally ignored for accounting purposes in that they are omitted from accounting records. Therefore, sales, along with any receivables in the case of a credit sale, are recorded net of any trade discounts offered.

-Cash Discount: offered to customers as an incentive for timely payment of their liabilities in respect of credit purchases.

Cash Discount Cash discounts result in the reduction of sales revenue earned during the period. However, not all customers may qualify for the cash discount. It is therefore necessary to record the initial sale and receivables at the gross amount (after deducting any trade discounts!) and subsequently decreasing the sale revenue and accounts receivable by the amount of discount that is actually allowed.

In Seller books

Cash Account Debit

Discount Account Debit

To Accounts Receivable

If in vendor books

Accounts Payable Account Debit

To Cash Account

To Discount Received account

36. Single Double and Triple column cash book

Single column cash book records only cash receipts and payments. It has only one money column on each of the debit and credit sides of the cash book.

A **double column cash book** or **two column cash** book is one which consists of two separatecolumns on the debit side as well as credit side for recording cash and discount.

A **three column cash book** or **treble column cash book** is one in which there are three columns on each side - debit and credit side. One is used to record cash transactions, thesecond is used to record bank transactions and third is used to record discount received and paid.

37. What is cash flow statement

In financial accounting, a **cash flow statement**, also known as ***statement of cash flows***,[1] is a financial statement that shows how changes inbalance sheet accounts and income affect cash and cash equivalents, and breaks the analysis down to operating, investing, and financing activities. Essentially, the cash flow statement is concerned with the flow of cash in and out of the business