JOURNAL ENTREIES

Journalize the following transactions in the books of ABC Ltd.

1) Ram started business with cash Rs. 100000.
2) Purchased goods of Rs. 20000 from Shyam for cash.
3) Sold goods of Rs. 30000 to Rakesh.
4) Purchased Building for Rs. 50000 for cash.
5) Loan repaid to bank of Rs. 65000.
6) Sold goods costing Rs. 10000 @5% trade discount.
7) Purchased goods costing Rs. 20000@5% cash discount.
8) Sold goods to Manish of Rs. 35000 on credit. After some time only 75% of the amount was received rest was **not receivable**.
9) Sold goods to a customer for Rs. 45000, 60% of the amount was received.
10) Furniture & Fixtures Rs. 50000, Plant & Machinery Rs. 60000 purchased for cash.
11) Bad Debts amount to Rs. 20000.
12) Cash deposited in bank Rs. 40000 **Contra**
13) Withdrew cash from bank for office use Rs. 15000 **Contra**
14) Withdrew cash from bank for **personal use** Rs. 12000

JOURNAL ENTREIES

Journal entries in the books of ABC Ltd.

S.NO.	DATE	TRANSACTIONS	L/F NO.	DR.	CR.
1.		Cash A/C Dr. To Capital A/C (being capital introduced in business)	001	100000	100000
2.		Purchases A/C Dr. To cash A/C (Being goods purchased for cash)	002	20000	20000
3.		Rakesh A/C Dr. To Sales A/C (Being goods sold to Rakesh on credit)	003	30000	30000
4.		Building A/C Dr. To Cash A/C (Being Building purchased for cash)	004	50000	50000
5.		Loan Repaid A/C Dr. To Cash A/C (Being loan repaid to bank by cas)	005	65000	65000

6.		Cash A/C Dr To Sales A/C (Being Goods Sold At 5% Trade Discount)	 006	9500	 9500
7.		Purchases A/C Dr. To Cash A/c **To Discount Received A/**c (Being goods purchased At 5% Cash Discount)	 007	20000	 19000 1000
8.		Cash A/C Dr. **Bad Debts. AC** Dr. To Sales A/C (Being goods sold and bad debts occurred)	 008	26250 8750	 35000
9.		Cash A/C Dr. To Sales A/C (**Being Goods Sold And 60% Amount Received Till Date**)	 009	27000	 27000

JOURNAL ENTREIES

10.		Furniture & Fixture A/C Dr. Plant & Machinary A/C Dr. To Cash A/C (Being Fixed Assets acquired for cash)	10	50000 60000	110000
11.		Bad Debts A/C Dr. To **Debtors** A/C (Being bad debts occurred)	11	20000	20000
12.		Bank A/C Dr. To Cash A/C (Being Cash Deposited Into Bank)	12	40000	40000
13.		Cash A/C Dr. To Bank A/C (Being Cash Withdrew For **Official Use**)	13	15000	15000
14.		**Drawings A/C** Dr. **To Bank A/C** (Being Cash Withdrew For **Personell Use**)	14	12000	12000

	Trade discount is given **on the catalogue price of the goods(different goods bundled in a single piece of packet/lot).** while the **cash discount is given on the invoice price**. Trade discount is granted with **the aim of increasing the sales in bulk quantity**, whereas Cash discount is **granted to facilitate a quick payment**. A trade discount is **shown as a deduction in the invoice**.

Introduction To Financial Accounting

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Nature Of Financial Accounting

- **Financial accounting** is a specialized branch of accounting that keeps track of a company's financial transactions. It is the **process of recording, classifying, summarizing, analyzing, and interpreting the financial transactions of the business** for the benefit of **management** and **those parties who are interested in business such as shareholders, creditors, bankers, customers, employees, and government.**
- Financial accounting **involves the preparation of various financial statements** like **income statement, cash flow statement, balance sheet etc. using accounting principles**.
- Financial accounting **aims at delivering the fair and accurate image of financial affairs of business to all its stakeholders**.
- **It is an important tool for management in their decision making as they depend on financial reports for decision making and forecasting purposes.**
- Financial statements prepared by financial accounting takes into account these aspects of business viz. **Expenses, Revenue, Asset, Equity and Liability.**

Scope Of Financial Accounting

- **Records Financial Transactions: Financial accounting record each and every financial transaction taking place in the business organization.** It maintains a clear and systematic record of all information in the form of journals and various subsidiary books. **It avoids any confusion or loss because if any problem arises these records can be easily checked**.
- **Classify And Summarize Information:** Information collected and recorded by financial accounting is properly categorized according to their nature. Financial accounting involves classifying and summarizing all financial information recorded of a particular period.
- **Prepares Financial Statements:** Financial accounting prepares financial statements like cash flow statement, income statement, balance sheet etc. These financial statements depict **the true financial position of business**. Financial statements are the result of various information collected and analysed in overall process of financial accounting.
- **Interprets Financial Information:** Financial accounting interprets information from several analysis conducted and financial statements prepared. It understands and explains the results of several relationships establishes by analysis to different users for easy understanding and decision making.
- **Determines And Maintains Financial Position:** Financial accounting determines fair and actual image of financial position of business. Finance is termed as **lifeline of business activities** and **its management is quite important for every organisation**.

Importance Of Financial Accounting

- **Communication of information externally:** The statements and reports generated by financial accounting are **used to communicate information about the overall health and well-being of the company to the external parties**.
- **Communicate information internally**. A company’s finance team or its employees who are interested in stock-based compensation etc. constitute the internal users of the information generated by financial accounting practices. The reports generated with the help of financial accounting skills are helpful for this purpose as well.
- **Comparison through analysis**. **Since financial accounting requires the use of standardized guidelines**, the financial statements generated by all companies are comparable, providing a standard method of analysis

Basic Accounting Concepts & Conventions (Assumptions)

- **Business entity concept: A business and its owner should be treated separately** as far as their financial transactions are concerned.
- **Money measurement concept: Only business transactions that can be expressed in terms of money** are recorded in accounting, though records of other types of transactions may be kept separately.
- **Dual aspect concept: For every credit, a corresponding debit is made**. The recording of a transaction is complete only with this dual aspect.
- **Going concern concept: In accounting, a business is expected to continue for a fairly long time** and carry out its commitments and obligations. This assumes that the business will not be forced to stop functioning and liquidate its assets at "fire-sale" prices.
- **Cost concept:** The fixed assets of a business are recorded on the basis of their original cost in the first year of accounting. Subsequently, these assets are recorded minus **depreciation**. No rise or fall in market price is taken into account. **The concept applies only to fixed assets**.
- **Accounting year concept:** Each business chooses a specific time period to complete a cycle of the accounting process—for example, monthly, quarterly, or annually—as per a fiscal or a calendar year.
- **Matching concept:** This principle dictates that for every entry of revenue recorded in a given accounting period, an equal expense entry has to be recorded for correctly calculating profit or loss in a given period.
- **Realization concept:** According to this concept, profit is recognized only when it is earned. An advance or fee paid is not considered a profit until the goods or services have been delivered to the buyer.

Limitations Of Accounting

- **Records Only Financial Aspects:** The foremost disadvantage of financial accounting is that it considers only monetary transactions of organizations. It does not take into account various non-financial aspects such as market competition, economic conditions, political situation, government rules, and regulations, etc.
- **Historic In Nature:** Financial accounting provides all historical data from past activities. It does not provide data on day-to-day activities rather than it accumulates all accounting information of a particular accounting period at the end of that period. All financial decisions of the future are taken on the basis of this past information whereas historic data may not be always appropriate for predicting future activities.
- **Provides Insufficient Information:** Financial accounting does not provide detailed information related to departments, products, processes, service or any other activity within the organization. It presents data as a whole in terms of assets, liabilities, profit, and loss of organization.
- **No Cost Control Method:** It does not have any role in controlling the cost or expenses of organization. Financial accounting provides cost data at end of accounting period means when they are already incurred.
- **Maybe Manipulated: I**nformation presented by financial accounting may be manipulated as per the desire of management. They may change the figures and present misappropriated data for their interest.

What are Accounting Principles?

- Accounting principles are the rules and guidelines that companies must follow when reporting financial data.
- **Accrual Principle:** Accrual accounting concept has required the revenues and expenses to be recorded and recognized in the entity's financial statements when they are incurred rather than when cash is paid or received.
- **Conservatism principle:** This accounting principle requires the entity to record and recognize the liabilities and expenses in the financial statements as soon as possible when there is uncertainty about the outcome. For example: the entity should recognize the expenses immediately in the financial statements if there is the probability that an entity might lose the lawsuit to its customers.
- **Consistency principle:** the accounting principle that requires the entity to apply the same accounting method, policies, and standard for reporting its financial statements.
- **Cost Principle or Historical Cost Principle:** The concept of historical cost principle is that the assets should be recorded base on the price at the time they are purchased. And the liabilities should be recorded based on the values that expected to pay at the original value rather than market value or inflation-adjusted value.
- **Economic Entity Principle: Business Entity Concept or Business Entity Principle considers the owner of an entity has different legal liabilities.** Under this concept, the entity must record all transactions separately from its owner or owners and other business.
- **Full Disclosure Principle:** requires the entity to disclose all necessary information in its financial statements. The main idea behind this principle is that the users of financial statements of entity might depend on the financial information disclosed in the financial statements to make their decision.
- **Going Concern Principle:** Going concern is the concept that assumes entity will remain the business in the foreseeable period which is normally twelve months from the operating date. If the financial statements are prepared based on the going concern basis.

System Of Double Entry System

- **Every business transaction affects two or more accounts.** There are two accounts involved in every business transaction. **One of them is debited and the other is credited. Certain transactions may involve more than two accounts but the amounts of the accounts to be debited and credited will always be equal**.
- **Every account is divided in two parts.** All the ledger accounts prepared on the basis of books of original record *i.e.,* journal and subsidiary books have two sides. Left hand side is 'Debit' and the right hand side is 'Credit'.
- **Division of amount column as debit and credit.** The amount column is also divided in two parts *i.e.,* **Debit and Credit**
- **Dual aspect of every transaction. The system is based upon this accounting truth that every debit has got its corresponding credit** That is why, all the business transactions are recorded simultaneously at the debit and credit side.
- **Based upon accounting concepts and conventions.**The double entry system is based upon universally accepted accounting concepts and conventions which we follow while maintaining our books of accounts.

Golden Rules Of Accounting (Journal Entries)

- **Real A/C** : Debit what comes in; Credit what goes out.
- **Personnel A/C**: Debit The receiver; Credit The giver.
- **Nominal A/C** : **Debit all expenses and losses**; Credit all income and gains.

Basic Meaning Of Ledger

- A general ledger represents the record-keeping system for a company's financial data with debit and credit account records
- The general ledger holds account information that is needed to prepare the **company's financial statements**, and transaction data is segregated by type into accounts for **assets, liabilities, owners' equity, revenues, and expenses.**

How A Ledger Account Works

- A general ledger is the foundation of a system used by accountants **to store and organize financial data** used to create the **firm's financial statements**. Transactions are posted to **individual sub-ledger accounts**, as defined by the **company's chart of accounts**.
- General ledger is used by businesses that employ **the double entry bookkeeping method**, which means that each financial transaction affects at least two sub-ledger accounts and each entry has **at least one debit and one credit transaction.**
- Double-entry transactions, called **journal entries**, are posted in two columns, with debit entries on the left and credit entries on the right, and the total of all debit and credit entries must balance

What Does A Ledger Actually Tells Us

- The **transaction details contained in the general ledger are compiled and summarized at various levels to produce a trial balance, income statement, balance sheet, statement of cash flows, and many other financial reports.**
- This helps accountants, company management, analysts, investors, and other stakeholders assess the company's performance on an ongoing basis.

Types Of Ledgers

- **Sales Ledger**: **Records accounts receivables**, This ledger consists of the financial transactions made by customers to the company.
- **Purchase Ledger**: **Records money spent** for purchasing by the company for smooth running of the business.
- **General Ledger:** representing the five main account: **assets**, **liabilities**, **income**, **expenses**, and **capital**.

On The Basis Of Format

- **Physical Ledger**: this type of ledger is made up of paper**. It can be physically touched**.
- **Digital Ledger**: This type of ledger is a digital file, or collection of files, or a database. It can be manipulated only by means of computer programs, since it does not have a physical form.

Dr. **Name of the ledger account** Cr.

Date	Particulars	J.F.	Amount ₹	Date	Particulars	J.F.	Amount ₹

Description Of Ledger Account Particulars

- ***Date :*** Date of the transaction is recorded in this column.
- ***Particulars :*** The account debited or credited is recorded in this column. On the debit side, the entries are made starting with '**To**' and on the credit side, entries are made starting with '**By**'.
- ***Journal Folio (J.F.):*** **In this column, the page number of the journal or subsidiary books** from which the entry **has been posted to the ledger is noted**.
- ***Amount :*** **The amount of the transaction is recorded in this column.**

Purchase Book

- Purchase book is a special purpose subsidiary books prepared by a business to record all credit purchases.
- It is also known as a Purchase journal, Invoice book or Purchase daybook.
- Purchases recorded are only for goods or items related to core business operations of a company i.e. goods procured for resale.
- **Example** – If a grocery business purchases office furniture it will not be posted in the purchases book as it is considered as "purchase of an asset" and not goods.
- Nowadays all these recordings occur in ERPs and only small firms resort solely to notebooks or MS-Excel.

Sales Book

- Sales book records all credit sales made by a business.
- Sales book is also called a **Sales Journal or Sales Day Book.**
- The amount entered in the sales book is on behalf of invoices supplied to purchasers.

Cash Book

- Cash book is a special type of book that is only concerned with the recording of cash transactions of an organization.
- Types Of Cash Books:
  - Single Column Cash Book: Only cash received and cash paid is shown.
  - Double Column Cash Book: Discount received and paid is also shown
  - Triple Column Cash Book: Bank related transactions are also shown

Petty Cash Book

- Petty cash book, as the name suggests, is for very small transactions that take place in an organization.
- Such transactions can occur in a day and are repetitive in nature, which can put undue load on the general cash book. For this reason, it is maintained separately.
- Examples of such transactions are: stationery, postage, food bills, etc.

Meaning Of Trial Balance

- A trial balance is a bookkeeping worksheet in which **the balance of all ledgers are compiled into debit and credit account c**olumn totals that are equal.
- A company prepares a trial balance **periodically**, usually at the end of every reporting period.
- The general purpose of producing a trial balance is to ensure the entries in a company's bookkeeping system are **mathematically correct**.

Characteristics Of Trial Balance

- It is a list of the various ledger account balances whether debit or credit.
- It is prepared in the form of a statement.
- A firm prepares a trial balance in order to check the arithmetical accuracy of the ledger accounts.
- **The arithmetical accuracy established by a trial balance is not proof that there are no mistakes in the books of accounts.**
- **A trial balance is usually prepared at the end of the accounting year. However, a firm may prepare it weekly, monthly, quarterly or half-yearly also**.
- It does not form a part of the final accounts.
- **It provides a summary of the ledger accounts**. Thus, it serves as a **link between** the books of accounts and Trading & Profit and Loss A/c and Balance Sheet.

Preparation Of Trial Balance

- A firm may prepare it on a sheet of loose paper also.
- We first need to balance the ledger accounts. **After balancing, an account may have a debit or credit or zero balance**.
- The debit balances are written on the debit side and the credit balances are written on the credit side of the trial balance.
- **The sum of both the columns of the trial balance shall be equal in order to tally the trial balance**. Thus, **a trial balance has to tally because of the rule that every debit has an equal and corresponding credit**.
- It may be prepared either in the Journal form or in the Ledger form.

Purpose Of Trial Balance Preparation

- To check the arithmetical accuracy of the transactions and the ledger accounts.
- To determine the ledger accounts balances.
  - **It serves as evidence that the double entry system has complied duly**.
- It facilitates the preparation of the financial statements.

Different Methods Of Preparing Trial Balance

- **The total method or Gross trial balance:** Under this method, we total both the sides of the ledger accounts. We enter the 'debit totals' on the debit side of the trial balance and the 'credit totals' on the credit side of the trial balance.
- **Balance method or Net trial balance:** Under this method, we first need to balance the individual ledger accounts. After this, we write the debit balances on the debit side and credit balances of accounts on the credit side of the trial balance.
- **Compound method:** Under this method, we write the totals as well as balances in the separate columns of the trial balance. Thus, this method is a combination of the Total method and Balance method both.

Performa Of A Trial Balance

Trial balance for Archie's Comic Book Megastore on the 30th of November 2012			
	FOLIO	DEBIT $	CREDIT $
Land and buildings		110,000	
Furniture and fittings		400	
Machinery and equipment		550	
Inventory		6,460	
Debtors control		0	
Bank		2,600	
Capital			48,150
Loan			70,000
Creditors control			5,670
Sales			48,030
Sales Returns		50	
Cost of goods sold		13,060	
Advertising		6,500	
Membership fees		330	
Water and electricity		1,900	
Telephone		800	
Salaries & wages		28,000	
Interest paid		1,200	
		171,850	171,850

Income And Expenditure Account

- The income and expenditure account is prepared by the non-trading entities to determine surplus or deficit of income over expenditures for a particular time frame.
- Features of Income and Expenditure Account
  - income and expenditure account presented by non-trading entities are much like the profit and loss a/c presented by trading entities.
  - It is prepared by stringently following the fundamentals of the double-entry system of bookkeeping or accounting.
  - The Income and expenditure account of only revenue nature are incorporated in this account. Any income and expenditure of capital nature are not comprehended
  - The accumulated or accrual concept of accounting is rigidly pursued when it is prepared.