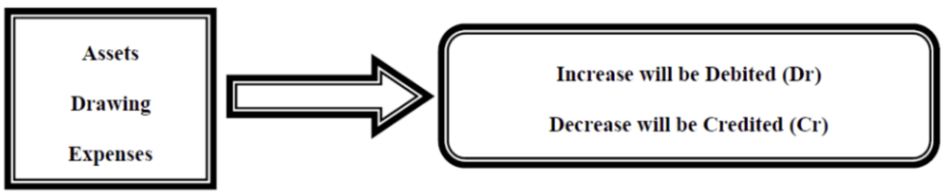
Financial Accounting

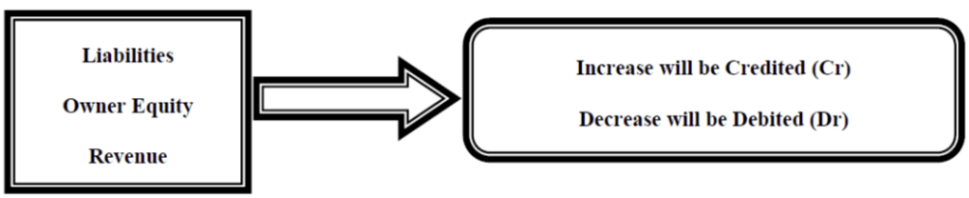
Debit (Dr)	Credit (Cr/-)
A ***debit entry*** **in** an account represents a **transfer of value to that account**, (paisa account me araha hai)	***credit entry*** represents a **transfer from the account.** (account se jaraha hai)

- Each transaction transfers value from credited accounts to debited accounts.

Accounting Definition

process of **identifying, measuring, and communicating financial information**





Assets

Machinery, Furniture, Leasehold Premises, Building, Equipment, Plant, A/R, Note Receivables, Land, Car, Marketable Securities, Cash, Goodwill, Leasehold building, Bank, Computer, Fixture and Fittings, Copy Rights, Leasehold land, Inventories, Loan to employees, Prepaid items.

Expense

Expenses are outflows, for instance, **Wages, Salaries, Rent, Freight, Carriage, Repairs, Maintenance, Discount, Rebate, Transportation, Commission, Miscellaneous Expense, and Entertainment expenses (which have debit balance or paid).**

Liability

Note Payable, Account Payable, Bank Loan, Debenture, Bonds, Mortgage Loan, and any outstanding or payables and unearned.

O.E or SHE

- Retained earnings
- Preferred stock
- Common sock

Revenue

The earnings of the company are listed in the **Revenue Accounts**. Revenue accounts include:

- Sales
- Income

CHART OF ACCOUNTS

Assets	Liabilities	Owner's and Stockholders' Equity	Revenues	Expenses
Cash	Notes Payable	Owner's Capital	Service Revenue	Advertising Expense
Accounts Receivable	Accounts Payable	Owner's Drawings	Sales Revenue	Amortization Expense
Allowance for Doubtful Accounts	Unearned Service Revenue	Common Stock	Sales Discounts	Bad Debt Expense
Interest Receivable	Salaries and Wages Payable	Paid-in Capital in Excess of Par—Common Stock	Sales Returns and Allowances	Cost of Goods Sold
Inventory	Unearned Rent Revenue	Preferred Stock	Interest Revenue	Depreciation Expense
Supplies	Interest Payable	Paid-in Capital in Excess of Par—Preferred Stock	Gain on Disposal of Plant Assets	Freight-Out
Prepaid Insurance	Dividends Payable	Treasury Stock		Income Tax Expense
Prepaid Rent	Income Taxes Payable	Retained Earnings		Insurance Expense
Land	Bonds Payable	Dividends		Interest Expense
Equipment	Discount on Bonds Payable	Income Summary		Loss on Disposal of Plant Assets
Accumulated Depreciation—Equipment	Premium on Bonds Payable			Maintenance and Repairs Expense
Buildings	Mortgage Payable			Rent Expense
Accumulated Depreciation—Buildings				Salaries and Wages Expense
Copyrights				Supplies Expense
Goodwill				Utilities Expense
Patents				

3 Golden Rules of Accounting

S.No	Name of Account	Debit	Credit
1	Personal Account	The Receiver	The Giver
2	Real Account	What Comes in	What Goes out
3	Nominal Account	All Expenses & Losses	All Income & Gains

https://www.accountancyknowledge.com/journal-entry-examples/

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https://www.accountancyknowledge.com/accounting-equation-problems-and-solutions/
http://www.accountancyknowledge.com/general-ledger-problems-and-solutions/

List of Normal Balances

SN	Accounts	Debit	Credit
1	Assets	Yes	
2	Liabilities		Yes
3	Expenses	Yes	
4	Revenue		Yes
5	Owner’s Equity		Yes
6	Drawing	Yes	
7	Purchase Return		Yes
8	Sales Return	Yes	
9	Accumulated Depreciation		Yes
10	Provision for Bad Debts		Yes

Example 1:

For each of the following items write Types of Accounts and Normal Balances:

SN	Accounts	Types of Accounts	Normal Balance

1	Cash at bank	Asset	Debit
2	Financial charges paid	Expense	Debit
3	Accumulated Depreciation	Contra Fixed Asset	Credit
4	Stock in trade	Asset	Debit
5	Return Inward	Contra Revenue	Debit
6	Advance deposit and prepayments	Asset	Debit
7	Carriage inward	Expense	Debit
8	Commission received	Revenue	Credit
9	Sundry debtors	Asset	Debit
10	Purchases Return	Contra Expense	Credit
11	Investment by Owner	Owner's Equity	Credit
12	Bank charges (Dr)	Expense	Debit
13	Profit	Owner's Equity	Credit
14	Provision for bad debts	Contra Account Receivable	Credit
15	Cash in hand	Asset	Debit
16	Mark up (Cr)	Revenue	Credit
17	Sundry creditors	Liability	Credit
18	Transportation outward	Expense	Debit
19	Return outward	Contra Expense	Credit
20	Due from customers	Asset	Debit
21	Capital gain	Owner's Equity	Credit
22	Loss	Owner's Equity	Credit
23	Unearned Revenue	Liability	Credit
24	Salaries payable	Liability	Credit

25	Deinvestment by owner	Drawing	Debit
26	Sales Return	Contra Revenue	Debit
27	Outstanding wages	Liability	Credit

MCQS https://www.accountancyknowledge.com/trial-balance-mcqs/

Adjusting Entries

MCQS: https://www.accountancyknowledge.com/adjusting-entries-mcqs-1/

Types of Adjusting Entries

- **Deferral Adjustment, (dollars, before action —> paisa pehle, kaam baad me)**
- **Accrual Adjustment, (Action, before dollar —> kaam pehle, paisa baad me)**
- **Depreciation Adjusting Entries,**
- **Bad Debts and others.**

1. Deferral Adjustment

➔ The two types of deferral are

- **Prepaid Expenses** (Assets → deferral expense)
- **and Unearned Revenues** (Liability → deferral revenue)

interest, rent, discount, etc.

2. Accrual Adjustment

➔ Prior to an accrual adjustment, the **Revenue Accounts** (and the related asset account) or the expense account (and the related liability account) are **understated**.

➔ Thus, the accrual adjustment will increase both a **Balance Sheet** and an **Income Statement** account. There are two types of accrual adjustment.

- **Accrued Revenues** (Assets → A/R)
- **Accrued Expenses** (liability → A/P)

Example # 1: **Rs. 100,000 fixed deposits amount in bank in July 01, 2015 and contract is to earn 10% per annum at the end of contract year?**

Solution: **So in this case we will receive Rs. 10,000 at June 2016, but we have earned interest of six months in this period 20015, so pass adjusted entry.**

Adjusting Entry

Account Title and Explanations	Ref	Amount (Rs)	
		Debit	Credit
Interest Receivable		5,000	
Interest			5,000
(Accrued interest for six months)			

3. Depreciation Adjustment

Depreciation is the process of allocating the cost of tangible fixed **Assets** over its estimated life. Depreciation adjusting entry maybe passed by two methods of recording:

- **Cost Method**
- **Written Down Method (WDM)**

Example # 1: **On January 1, 2015, the Company acquired machinery (a depreciable asset) at a total cost of Rs. 152,000. The estimated salvage value of the asset is Rs. 2,000 and its estimated useful life is five years. Record yearly depreciation?**

Solution:

Cost Method

Adjusting Entry

Date		Account Title and Explanations	Ref	Amount (Rs)	
				Debit	Credit
Dec	31			30,000	
		Depreciation_ Machinery			
		Accumulated Depreciation_ Machinery			30,000
		(Conversion of asset's cost in to expense)			

152,000-2000 = 150,000

150,000/5 years = 30,000

Written Down Method

Adjusting Entry

Date		Account Title and Explanations	Ref	Amount (Rs)	
				Debit	Credit
Dec	31	Depreciation_ Machinery		30,000	
		Machinery			30,000
		(Conversion of asset's cost in to expense)			

Closing Entries

- **Revenue** increase **OE** ↑
- and **expenses** and **OW** by owner decrease **OE** ↓,
- a**ll accounts relating to expenses, revenues, and drawing** are called **temporary accounts**.
- Assets (real accounts) and Liabilities and OE (personal accounts) are **permanent accounts** At the end of financial period, **temporary accounts (revenue and expenses)** are closing by opening a new temporary account called Income summary account.
- The balances of permanent accounts continue to exist beyond the current accounting period.
- The process of **transferring** the balances of the t**emporary accounts into owner's equity permanent account** is called **closing the accounts.**

- Close the various **Revenue+Expanse** accounts by transferring their balances into the **Income Summary account.**
- Close the **Income Summary account** by transferring its balance into the **O.E accoun**t.
- Close the **O.W** into the **O.E account**. (The balance of the Owner equity account in the ledger will now be the same as the amount of owner's equity appearing in the Balance Sheet).
