THIRUTHANGAL NADAR COLLEGE

(Belongs to the Chennaivazh Thiruthangal Hindu Nadar Uravinmurai Dharma Fund)

Selavayal, Chennai-51.

A Self-Financing Co-educational College of Arts & Science

Affiliated to the University of Madras

Accredited with 'B' Grade by NAAC

An ISO 9001: 2015 Certified Institution

NAME OF THE DEPARMENT: B.COM (CA)

SUBJECT :FINANCIAL ACCOUNTING

TOPIC :INTRODUCTION OF FINANCIAL ACCOUNTING

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Meaning of Accounting

Accounting is the language of finance. It conveys the financial position of the firm or business to anyone who wants to know. It helps to translate the workings of a firm into tangible reports that can be compared. So it is essential that we know the meaning of accounting.

SCOPE OF ACCOUNTING

The activity of accounting starts where the work of book-keeping ends. From this point of view, the following are the scope of accounting…

1. To verify and test the entries in book-keeping.
2. To test the total and balances amount of ledger.
3. To prepare a trial balance from the ledger.
4. To prepare various final accounts like trading account, manufacturing account, profit and loss account, and balance sheet.
5. To disclose adjustments.
6. To rectify errors.

Accounting Concept

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.

Realisation concept:

According to this concept, profit is recognised 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.

Accounting Conventions

There are four main conventions in practice in accounting: conservatism; consistency; full disclosure; and materiality.

Conservatism is the convention by which, when two values of a transaction are available, the lower-value transaction is recorded. By this convention, profit should never be overestimated, and there should always be a provision for losses.

Consistency prescribes the use of the same accounting principles from one period of an accounting cycle to the next, so that the same standards are applied to calculate profit and loss.

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Materiality

Means that all material facts should be recorded in accounting. Accountants should record important data and leave out insignificant information.

Full disclosure

Entails the revelation of all information, both favourable and detrimental to a business enterprise, and which are of material value to creditors and debtors

Objectives of Accounting

1. Identification and recording of transactions
2. Ascertainment of results
3. Ascertainment of financial affairs
4. Keeping accounts of cash
5. Control over assets and liabilities
6. Controlling money defalcation and cost
7. Providing economic data
8. Helping tax fixation
9. Determination and evaluation of policy
10. Testing the arithmetical accuracy of accounts
11. Acceptability to others
12. Creation of values and accountability
13. Following legal bindings and prohibition

Accounting Transactions

- Accounting transactions refer to any business activity that results in a direct effect on the financial status and financial statements of the business. Such transactions come in many forms, including:
- Sales in cash and credit to customers
- Receipt of cash from a customer by sending an invoice
- Purchase of fixed assets and movable assets
- Borrowing funds from a creditor
- Paying off borrowed funds from a creditor
- Payment of cash to a supplier from a sent invoice

Double Entry Book Keeping

The definition of double-entry bookkeeping is an accounting method where a transaction is equally recorded in two or more accounts. A debit is made in at least one account and a credit is made in at least one other account.

THE ACCOUNTING EQUATION

This above becomes clearer when we look at the accounting equation, one of the fundamental principles of accounting. Both sides of this equation must be the same. If they're not, there's a mistake in the books.

Here's the equation:

Assets = Liabilities + Equity

So, if assets increase, liabilities must also increase so that both sides of the equation balance.

Journal

A journal is a detailed account that records all the financial transactions of a business, to be used for the future reconciling of accounts and the transfer of information to other official accounting records, such as the general ledger. A journal states the date of a transaction, which accounts were affected, and the amounts, usually in a double-entry bookkeeping method.

Rules of Journalizing

Assets	Increase in Assets	Debit (Dr.)
	Decrease in Assets	Credit (Cr.)
Capital	Increase in Capital	Credit (Cr.)
	Decrease in Capital	Debit (Dr.)
Liabilities	Increase in Liabilities	Credit (Cr.)
	Decrease in Liabilities	Debit (Dr.)
Revenue	Increase in Revenue	Credit (Cr.)
	Decrease in Revenue	Debit (Dr.)
Expenses	Increase in Expenses	Debit (Dr.)
	Decrease in Expenses	Credit (Cr.)

Let us consider the following transactions and prepare journal entries .

Purchased goods on credit from Mr. X for Rs.200,000 on 4 Jan 2009

Sold goods to Mr. Y for cash Rs.100,000 on 12 Jan 2009

Purchased furniture for office purpose Rs20,000 on 25 Jan 2009

Paid Rs.100,000 to Mr. X in full settlement of his dues on 30 Jan 2009

Journal

Date	Particulars	L.F	Debit amount	Credit amount
4 Jan 2009	Purchases Account To Mr. X Account (Being purchase of goods on credit from Mr. X)		Rs.200,000	Rs.200,000
12 Jan 2009	Cash Account To Sales Account (Being sale of goods to Mr. Y for cash)		Rs.100,000	Rs.100,000
25 Jan 2009	Furniture Account To Cash Account (Being furniture purchased for cash)		Rs.20,000	Rs.20,000
30 Jan 2009	Mr. X Account To Cash Account (Being paid Mr. X in full settlement of his dues)		Rs.100,000	Rs.100,000

Ledger

Mr John Wick wants to start a new clothing business. He has a total sum of Rs.100,000 in his savings that can be invested. He owns a small shop at a primary location that can be used to start a retail clothing outlet. For the store, he purchased furniture, including shelves, a counter desk, and other equipment for Rs.15,000. He also hires a staff of two for customer support and other office work for Rs.5,000 each.

Mr. Wick decided to start with men's clothing and purchased a complete range of men clothes from the wholesale market, which costs him around Rs.75,000. The initial purchase got sold in a period of not more than one month for a total of Rs.95000.

Mr. Wick wants to journalize these transactions and create ledger accounts for the month of April 2019.

General Ledger Example Account

General Ledger Sheet				Sheet No: 21	
Account: Electricity Expense				Account No: 640	
Date	Details	Ref.	Debit	Credit	Balance
2018					
Mar 15	To Accounts Payable	J1	4,000		4,000
June 17	To Accounts Payable	J3	3,640		7,640
Sept 14	By Accounts Payable	J5		430	7,210

Trail Balance

The following balances were extracted from the ledger account on 31st March 2019. You are required to prepare a trail balance as on that date

	Rs		Rs
Drawings	6,000	Salaries	9,500
Capital	24,000	Sales return	1,000
Sundry creditors	43,000	Purchase return	1,100
Bills payable	4,000	Travelling expenses	4,600
Sundry debtors	50,000	Commission paid	100
Bills receivable	5,200	Trading expenses	2,500
Loan from karthik	10,000	Discount earned	4,000
Furniture and fixtures	4,500	Rent	2,000
Opening stock	47,000	Bank overdraft	6,000
Cash in hand	12,500	Purchases	70,800
Tax	3,500	Sales	1,28,000

S.No	Name of account	L.F	Debit Balance Rs	Credit Balance Rs
1	Drawings A/c		6,000	-
2	Capital A/c		-	24,000
3	Sundry creditors A/c		-	43,000
4	Bills payable		-	4,000
5	Sundry debtors		50,000	-
6	Bills receivable A/c		5,200	-
7	Loan from Karthik		-	10,000
8	Furniture & Fittings		4,500	-
9	Opening stock		47,000	-
10	Cash in hand		900	-
11	Cash at bank		12,500	-
12	Tax		3,500	-

13	Sales		-	1,28,000
14	Salaries		9,500	-
15	Sales returns		1,000	-
16	Purchase returns			1,100
17	Travelling expenses		4,600	-
18	Commission paid		100	-
19	Trade expenses		2,500	
20	Discount earned		-	4,000
21	Rent		2,000	-
22	Bank over draft			6,000
23	Purchases		70,800	-
			2,20,100	2,20,100

Enter the following transactions in a Cash Book

2002			Rs.
March	1	Balance of cash in hand	15,000
	4	Received from Kanna	10,000
	7	Purchased goods for cash	17,000
	11	Cash Sales	18,000
	15	Deposited into Bank	3,000
	18	Bought furniture for cash	4,000
	22	Paid Salaries	1,500
	25	Withdrew from Bank	2,500
	27	Cash Sales	14,000
	30	Paid to Ram	8,000
	31	Rent paid	1,000

Cash Book

Date	Particulars	LF	Amount	Date	Particulars	LF	Amount
2002 March 1				2002 March 7			
	To balance b/d		15,000		By Purchase a/c		17,000
4	To kanna a/c		10,000	15	By Bank a/c		3,000
11	To Sales a/c		18,000	18	By Furniture a/c		4,000
25	To Bank a/c		2,500	22	By Salaries a/c		1,500
27	To Sales a/c		14,000	30	By Ram a/c		8,000
				31	By Rent a/c		1,000
				31	By balance c/d		25,000
			59,500				59,500
April 1	To balance b/d		25,000				