FINANCIAL ACCOUNTING - I

JOURNAL

The word journal has been derived from the French word 'Jour' which means a day. So, journal means daily. Journal is the book of original entry in which business transactions are recorded in chronological order. i.e., transactions are recorded daily in the journal as and when the transactions take place. journal, is a book of original entry or prime entry or primary entry or preliminary entry, or first entry.

Record of business transactions in the journal is known as Journal entry. The process of recording the transactions in journal is called as journalising. The transfer of journal entry to a ledger account is known as 'posting'.

In the books of……….

Journal

Date	Particulars	L.F	Debit (Rs.)	Credit (Rs.)
Year Month Date	Name of Account to be debited To, Name of Account to be credited (Narration)		xxxx	 xxxx

Date Column : In this column the date of the transaction is recorded. While entering the date, the year may be written at the top, then the month and then the particular date.

Particular Column : Under this column, first the names of the accounts to be debited with the word 'Dr.', then the names of the accounts to be credited
after leaving a little space on the left and preceded by the word 'To'. and lastly, the narration (i.e. a brief explanation of the transaction) are entered.

L.F(Ledger Folio) Column : Under this column, the ledger page number containing the relevant account is entered at the time of posting.

Debit amount Column : Under this column, the amount to be debited is entered.

Credit amount Column : Under this column, the amount to be credited is entered.

DIFFERENT TYPES OF JOURNAL ENTRIES

The journal entries may be of the following types:

(i) Single entry (ii) Compound entry

(iii) Opening entry

Single entry: Single entry is an entry in which only two accounts are involved, one account is debited and another is credited.

Compound entry: Compound entry is an entry in which more than two accounts are involved. Either more than one account is debited or more than one account is credited or both.

Opening entry: Through opening entry the balances of assets and liabilities at the end of the previous accounting year are brought forward to the current accounting year.

BILLS RECEIVABLE AND BILLS PAYABLE BOOK

Bills receivable refers to bills drawn, the payment for which has to be received. Bills receivable book is also called ***'Bills Receivable Journal'***. It is used to record the full details of bills received from customers and others.

- Bills receivable book records the bills drawn by the firm on customers who accept them.
- Bills receivable book contains the details relating to bills received by the firm like date of receipt,the person from whom received,acceptor,bill date ,amount,term,due date etc.,
- Entries are made in the book whenever bills are received. Immediately personal account in the ledger is credited.

Bills Receivable Book

Date of receipt	From whom received	Name of Acceptor	Where payable	Date of Bill	Term	Due date of the bill	L.F.	Amount `	Remarks

Due date and days of grace

When a bill is drawn payable after a specified period, the date on which the payment should be made is called '**Due date**'. In the calculation of the due date, three extra days are added to the specified period of the bills called '**Days of grace**'. If the date of maturity falls on a holiday, the bill will be due for payment on the preceding day.

Bills payable book

This book is also called ***'Bills Payable Journal'***. It is used to record all the details of bills payable accepted by the firm.

- Bills payable book records all the bills accepted by the firm in favour of suppliers.
- Details recorded in the bills payable book are the names of the parties whose bills are accepted, date of the bills payable, term and due date, amount, etc.
- Entries are made in the book whenever bills payable are accepted. Immediately personal account in the ledger is debited.

Bills Payable Book

Date of Bill	Name of Drawers	Name of Payee	Term	Due date of the bill	L.F.	Amount of the bill `	Remark

Petty cash book

'Petty' is a derivation of the French word 'PETIT' which means small. Business entities have to pay various small expenses like taxi fare, bus fare, postage, carriage, stationery, refreshment and other sundry items. These are small payments and repetitive in nature. All petty payments of the business may be recorded in a separate book, which is called as '**petty cash book'** and the person who maintains the petty cash book is called the '**petty cashier'**. Thus business concerns may maintain main cash book and petty cash book separately.

Imprest system

The amount which may be needed during a specific period for small payments is estimated and fixed as **' imprest amount'**. Under this system, a fixed amount necessary or sufficient to meet petty payments determined on the basis of past experience is paid to the

petty cashier on the first day of the period. The amount given to the petty cashier in advance is known as “Imprest Money”. The word imprest means payment in advance. The petty cashier makes payments from this amount and records them in petty cash book. At the end of a particular period, the petty cashier submits the petty cash book to the head cashier. The petty cashier starts the next period with the ‘pre determined imprest amount’ a fresh.

Advantages of maintaining petty cash book

- There can be better control over petty payments.
- There is saving of time of the main cashier.
- Cash book is not loaded with many petty payments.
- Posting of entries from main cash book and petty cash book is comparatively easy.

Analytical petty cash book

In analytical petty cash book, all the petty cash payments are classified into a limited number of homogenous group. A separate column is provided for different heads of payments and one column for total payments. When the petty expenses are recorded in the total payment column, same amount is also recorded in the appropriate expense column. The left hand side of this book shows opening balance for the period and amount received from the main cashier. The right hand side shows total payments and analytical columns for different groups of expenses.

At the end of the period, all the columns are individually totalled. Total of all these columns should tally with the total payments column. Receipts and total payments columns are balanced and the balance is carried forward to the next period.

Petty Cash Book

Analytical Columns

Amount received	C.B F.N	Date	Particulars	V.N.	Total payments	Postage & stamps	Stationery	Carriage	Travelling expenses	Telephone & telegram	Sundries

C.B.F.N: Cash Book Folio Number

TRIAL BALANCE

INTRODUCTION

All business transactions are initially recorded in Journal or Subsidiary books The transactions are transferred to ledger by posting to relevant accounts. After balancing the ledger accounts of a business enterprise, a statement is prepared to show separately the debit and credit balances. Such a statement is known as Trial balance. It is not an account. It is a statement in which debit and credit balances of all the accounts in the ledger are shown to test the arithmetical accuracy of the books of accounts.

MEANING

A trail balance is the list of balances extracted from the ledger account prepared to check the arithmetic accuracy of accounts.

DEFINITION

According to **M.S. Gosav** " Trial balance is a statement containing the balances of all ledger accounts, as at any given date, arranged in the form of debit and credit columns placed side by side and prepared with the object of checking the arithmetical accuracy of ledger postings”.

OBJECTIVES

- The trial balance helps to establish the arithmatical accuracy of the books.
- Errors in the accounts are disclosed. But there are some errors that are not disclosed by trial balance.
- It is useful in the preparation of the final account.
- It helps to prepare the trading, profit and loss account.
- It also helps to prepare the Balance Sheet.
- Important conclusions can be derived by comparing the balances of two or more years with the help of trail balances of those years.

METHODS OF PREPARATION OF TRIAL BALANCE

A trial balance can be prepared by the following two methods :

1. Total Method.

In this method, the debit and credit totals of each account are shown in the two amount columns (one for the debit total and the other for the credit total) against it.

2. Balance Method.

In this method, the difference of each account is extracted. If debit side of an account is bigger in amount than the credit side, the difference is put in the debit column of the Trial Balance and if the credit side is bigger, the difference is written in the credit column of the Trial Balance.

Trail balance of _________ as on ___________

S.No	Name of Account	L.F	Debit Balance (Rs.)	Credit Balance (Rs.)

RULES OF PREPARING TRAIL BALANCE

Debit balances	Credit balances
Assets	Liabilities
Expenses	Incomes
Losses	Gains
Drawings	Capital
Carriage Inwards & outwards	Bank Overdraft & Loan
Sundry Debtors	Sundry Creditors
Purchases & Sales Return	Sales & Purchases Return
Bills Receivable	Bills Payable
Opening stock	Reserves & Provisions

SUSPENSE ACCOUNT

When the trail balance does not agree with each side , the difference is placed to a temporary account called suspense account. This suspense account will be closed after locating the errors and the same have been rectified.

DEPRECIATION

Meaning and definition

The process of allocation of the relevant cost of a fixed asset over its useful life is known as depreciation. It is an allocation of cost against the benefit derived from a fixed asset during an accounting period.

According to **Spicer and Pegler**, "Depreciation is the measure of exhaustion of the effective life of an asset from any cause during a given period".

According to **R.N. Carter**, "Depreciation is the gradual and permanent decrease in the value of an asset from any cause".

Characteristics of Depreciation

- Depreciation is the process of allocation of cost of depreciable asset (capital expenditure) to revenue expenditure or to profit and loss account over the useful life of the asset.
- It is the process of allocation of cost and not the process of valuation.
- It is a decrease in the book value of the asset and not the market value of the asset.
- It is a gradual and continuous decrease in the book value of asset over its useful life.
- It is calculated only for tangible depreciable fixed assets. Depreciation is not provided on intangible and wasting assets.

Causes of Depreciation

There are different reasons causing the reduction in the book value of the fixed assets. Such causes are as follows:

(i) Wear and tear

The normal use of a tangible asset results in physical deterioration which is called wear and tear. When there is wear and tear, the value of the asset decreases proportionately.

(ii) Efflux of time

Certain assets whether used or not become potentially less useful with the passage of time.

(iii) Obsolescence

It is a reduction in the value of assets as a result of the availability of updated alternative assets. This happens due to new inventions and innovations. Though the original asset is in a usable condition, it is not preferred by the users and it loses its value. For example, preference of latest computers by the users.

(iv) Inadequacy for the purpose

Sometimes, the use of assets may be stopped due to their inadequacy for the purpose. These may become inadequate due to expansion in the capacity of a firm.

(v) Lack of maintenance

A good maintenance will naturally increase the life of the asset. When there is no proper maintenance, there is a possibility of more depreciation.

(vi) Abnormal factors

Decline in the usefulness of fixed asset may be caused by abnormal factors like damage due to fire accidents, natural calamities, etc. These may even lead to the state of an asset being discarded.

Factors determining the amount of depreciation

There are different factors that determine the amount of depreciation to be provided on a fixed asset. They are as follows:

(i) Actual cost of the asset

Actual cost means the amount incurred in acquiring or constructing the asset. It is the acquisition or construction cost or historical cost. It includes all the expenses incurred on the asset to bring the asset to present condition and location, that is, all incidental expenses incurred till it is put into use. Purchase price of the asset, freight, loading charges, unloading charges, erection cost, setting up cost and expenses of trial run are included in the cost of the asset. If the asset is a second-hand one, the initial repair to make the asset useable is also to be taken as part of actual cost of the asset.

(ii) Estimated useful life of the asset

The period for which an asset can be used in the enterprise is known as estimated useful life of an asset. It can be calculated in terms of period for which the asset is expected to be used by the entity or units of output to be obtained by the use of the asset, etc,. In the case of intellectual properties like patents and copyrights, their legal life is taken as their estimated useful life.

(iii) Scrap value of an asset

The amount which is expected to be realised at the end of the estimated useful life of an asset is known as scrap value of the asset. It is also known as residual value. In determining the scrap value, costs to be incurred for removal and sale of the asset should be deducted from the estimated gross realisable value.

(iv) Other factors

Besides the above mentioned factors, legal provisions, technological factors, etc., also determine the amount of depreciation.

Methods of providing Depreciation

There are various methods used for providing depreciation on fixed assets. The following are the different methods of providing depreciation:

1. Straight line method or Fixed instalment method or Original cost method
2. Written down value method or Diminishing balance method
3. Annuity method
4. Revaluation method
5. Sinking fund method
6. Insurance policy method

Straight line method/ Fixed instalment method / Original cost method

Under this method, a fixed percentage on the original cost of the asset is charged every year by way of depreciation. Hence, it is called original cost method. As the amount of depreciation remains equal in all years over the useful life of an asset it is also called as fixed instalment method. When the amount of depreciation charged over its life is plotted on a graph and the points are joined together, the graph will show a horizontal straight line. Hence, it is called straight line method. This method is suitable for those assets the useful life of which can be estimated accurately and which do not require much expense on repairs and renewals.

Written down value / Diminishing balance method

Under this method, depreciation is charged at a fixed percentage on the written down value of the asset every year. Hence, it is called written down value method. Written down value is the book value of the asset, i.e., original cost of the asset minus depreciation upto the previous accounting period. As the amount of depreciation goes on decreasing year after year, it is called diminishing balance method or reducing installment method.

Annuity method

Under this method, not only the original cost of the asset but also the amount of interest on the investment is taken into account while computing depreciation. The idea of considering interest is that if the investment is made in any other asset instead of the relevant

fixed asset, it would have earned a certain rate of interest. To calculate the amount of depreciation, annuity factor is used. Annuity factor can be found out from the annuity table or by using formula.

Amount of depreciation is computed as follows:
Amount of depreciation = Annuity factor × Original cost of the asset

Revaluation method

Under this method, the amount of annual depreciation is calculated by comparing the value of the assets at the end of the year and their value at the beginning of the year. The value of the asset at the end of the year is determined with the consultation of relevant experts. The excess of opening value over the closing value of the asset is the amount of depreciation for that year. This method is used for live stock, loose tools, etc.

Sinking Fund Method

Under this method, the amount charged as depreciation is transferred to depreciation fund and invested outside the business. The investment is made in safe securities which offer a certain rate of interest. Interest is received annually and reinvested every year along with the amount of annual depreciation. On the expiry of the life of the asset, the investments are sold and the sale proceeds are used for replacement of the asset. This method of depreciation is suitable for assets of higher value. This method is also known as depreciation fund method. Thus, this method not only takes into account depreciation but also makes provision for the replacement of the asset.

Insurance Policy Method

Under this method, an insurance policy is taken for an amount equal to the cost of replacement of the asset. The amount of depreciation is paid by way of insurance premium every year to the insurance company. On maturity of the policy, the policy amount is received from the insurance company and it is used for the purchase of new asset.

INTRODUCTION TO ACCOUNTING

Accounting is the process of identifying, measuring and communicating economic information to permit informed judgment and decisions by the users of the information.

Accounting began because people needed to:

* record business transactions,
* know if they were being financially successful, and
* know how much they owned and how much they owed.

It is known to have existed in one form or another since at least 3,500 BC (records exist which indicate its use at that time in Mesopotamia). There is also considerable evidence of accounting being practiced in ancient times in Egypt, China, Greece, and Rome.

However, it was only when Paciloi wrote about it in 1494 or, to be more precise, wrote about a branch of accounting called, 'bookkeeping' that accounting began to be standardised and recognised as a process or procedure.

ACCOUNTING

- It is a technique of financial reporting of the economic activities.
- It is a language of the business
- To **communicate** the matters relating to business operations
- Communicate to whom?
- To various individuals and institutions who are directly or indirectly interested in the activities of business

FINANCIAL ACCOUNTING

MEANING

Accounting is the systematic process of identifying, measuring, recording, classifying, summarising, interpreting and communicating financial information.

DEFINITION

According to the American Institute of Certified Public Accountants "Accounting is the art of recording, classifying and summarising in a significant manner and in terms of money,transactions and events which are in part, atleast of a financial character and interpreting the results there of ".

OBJECTIVES OF ACCOUNTING

- To keep a systematic record of financial transactions and events.
- To ascertain the profit or loss of the business enterprise.
- To ascertain the financial position or status of the enterprise.
- To provide information to various stakeholders for their requirements.
- To effectively direct and control the organisations human and material resources.
- To facilitate social functions and control.
- To provide information regarding accounting policies.
- To ascertain the solvency and liquidity position of an enterprise.

Features of Accounting

1. ***Recording*** : of all cash and credit transaction
   Done in **journal** and other subsidiary books
2. ***Classifying***: grouping of entries of like nature.
   All transaction under individual account head is posted
   All transactions from journal and subsidiary books are **posted** into a book of final entry called **Ledger**
3. ***Summarizing*:** the balances or totals of all accounts are shown in a statement **called Trial Balance** used to prepare profit and loss a/c and Balance sheet
4. ***Interpreting***: used to make judgment of the profitability , liquidity and solvency of the business

BOOK KEEPING AND ACCOUNTING

- Book keeping is the science and art of correctly recording in books of accounts all those business transactions that result in the transfer of money or money's worth.
- Summarization analysis and interpretation is called as accounting

SYSTEMS OF BOOK KEEPING

- 1. Single entry system
- 2. Double entry system
- **Single entry system**:
- Complete record of both aspects is not recorded but only one aspect is recorded.
- **Double entry system:**
- It records both the aspects of a transaction

FEATURES

- Maintained by small business organisations
- Maintenance of cash book
- Only personal accounts are kept
- Collection of information from original documents
- Lack of uniformity
- Difficulty in preparation of final accounts

ADVANTAGES

- Quick and easy to maintain
- Does not require employing a qualified accountant
- Extremely useful for small business organisations
- Economical

DISADVANTAGES

- Trial balance cannot be prepared
- Arithmetical accuracy cannot be guaranteed
- Incomplete and unrealistic result of trading
- Not possible to prepare balance sheet
- Difficult to detect errors and fraud
- Improper valuation of assets and liabilities
- Chance for mixing business and personal transactions of owners
- External agencies cannot use financial information

Double Entry System

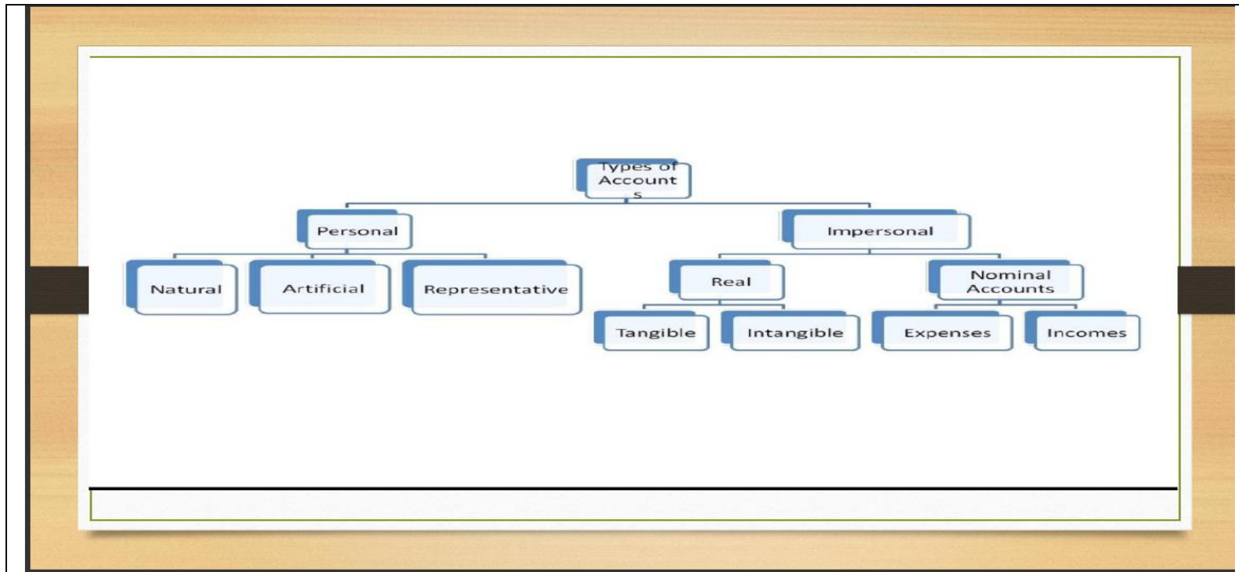
- Modern Accounting System is based on double entry system which is based on the fundamental accounting equation
- Assets=Liabilities + Equity
- The double-entry accounting system ensures that the accounting equation always remains in balance.
- Debits must be equal Credits.

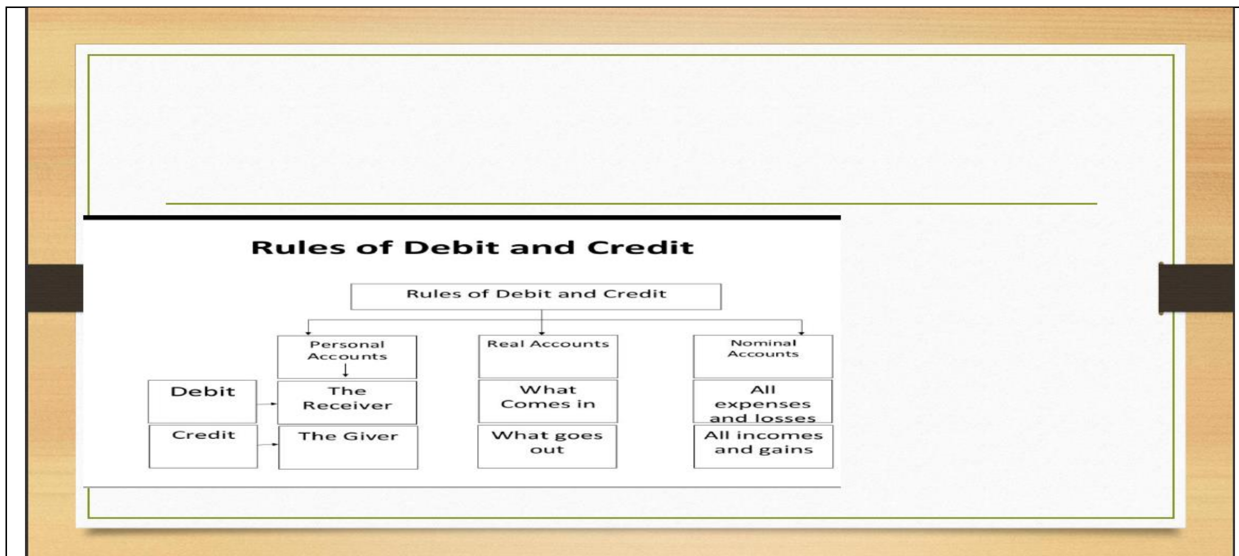
- The system is called Double Entry because every business transaction has dual aspect and affects at least two accounts. Every transaction must contain at least one account debited and at least one account credited thus posted in at least two different ledger accounts.
- For every financial transaction recorded in the accounts of a business, there is a debit entry and a credit entry. Furthermore, the total of the entries on the debit side must always equal the total of the entries on the credit side
- All business transactions consist of an exchange of one thing for another, double entry accounting system uses debits and credits, to show this two-fold effect.

Advantages

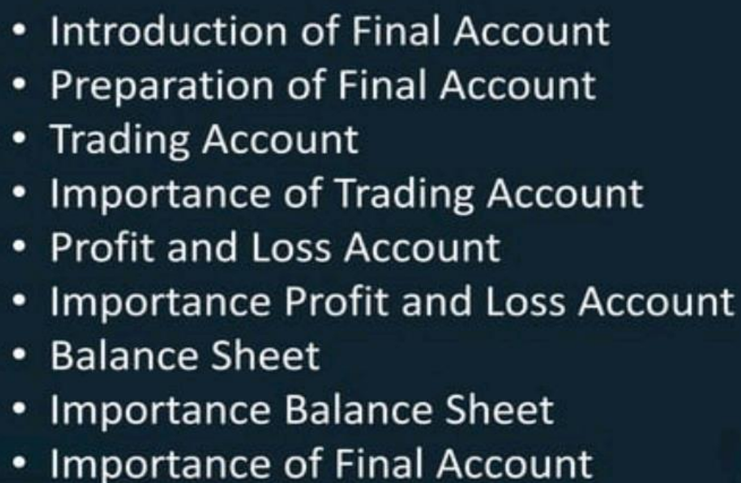
- Complete record of Transactions.
- Check on Accuracy
- Determination of Financial position
- Scientific System
- Ascertainment of Profit & loss
- Ascertainment of cash Balance
- Prevention of Fraud
- Better control & decision making
- Comparison of results

Disadvantages


Types of Accounts
Personal
Impersonal
Natural
Artificial
Representative
Real
Nominal Accounts
Tangible
Intangible
Expenses
Incomes


Rules of Debit and Credit
Rules of Debit and Credit
Personal Accounts
Real Accounts
Nominal Accounts
Debit
The Receiver
What Comes in
All expenses and losses
Credit
The Giver
What goes out
All incomes and gains

Final Account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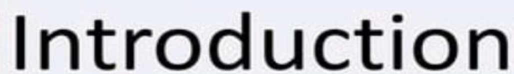
• Importance of Final Account



The term 'Final Accounts' is a broader term. The three following financial statements are prepared for the preparation of final accounts:

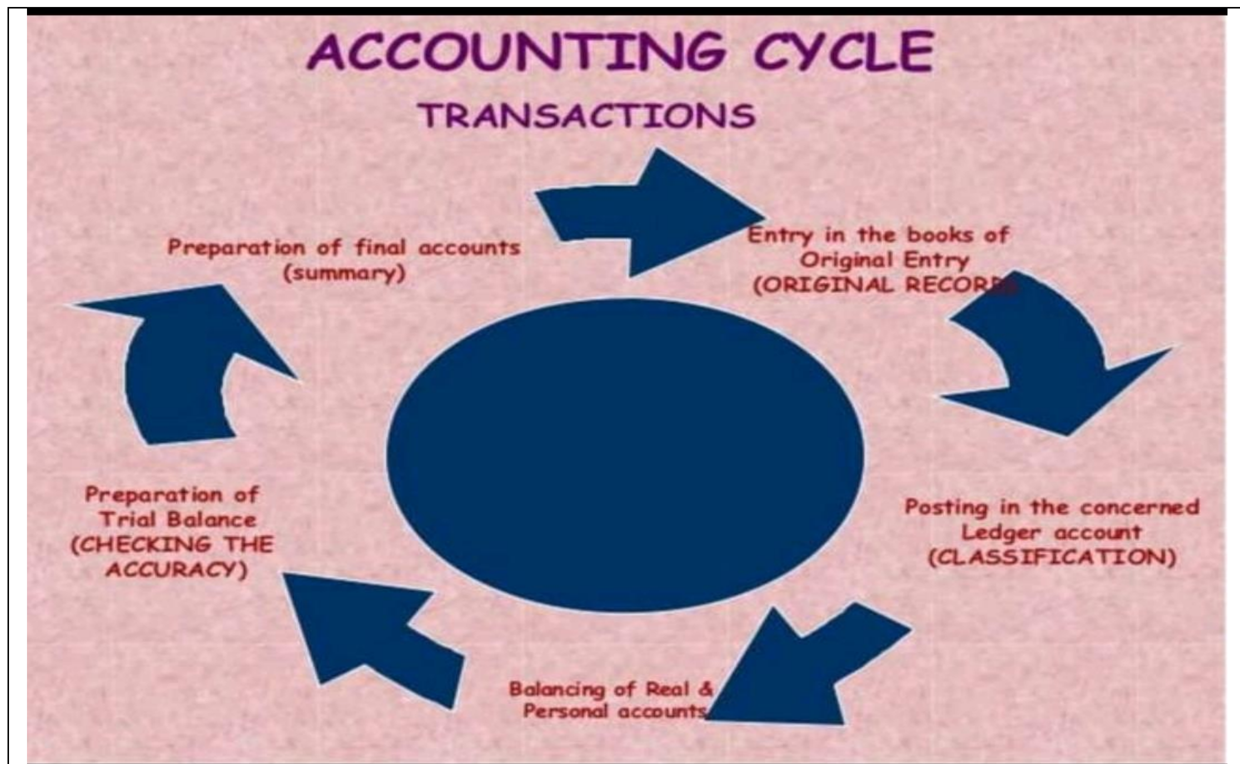
(i) **Trading account**: It shows gross profit/loss of the business.

(ii) **Profit & loss account**: It shows the net profit/loss of the business.

(iii) **Balance sheet**: It shows the financial position of the business.

These are prepared at the close of the year hence known as ***final accounts***.

Final balances of all the accounts in the ledger are transferred to trial balance. From trial balance, expenses and income accounts are transferred to trading account and profit and loss account. Accounts, with balances, which are to be carried forward to the next year, are shown in the balance sheet. The balance sheet constitutes the final stage of accounting.



Trading Account

Trading account is the first stage in the process of preparation of the final accounts. Trading account shows the gross profit or gross loss during an accounting year. Its main components are sales, services rendered in the credit side of such sales or services rendered in the debit side.

1. It is the first stage In the preparation of final accounts of a trading concern
2. It records only net sales and direct cost of goods sold
3. The balance of this account discloses the gross profit or gross loss
4. The balance of this account is transferred to the profit and loss account

1. It helps to measure profitability position of the business by showing the relationship between gross profit and sales
2. It shows the ratios between costs of goods sold and gross profit
3. It provide the information regarding the efficiency of trading activities
4. It makes easier to compare among sales, cost of goods sold and gross profit
5. It helps to provide information regarding closing stock.

Format of Trading Account

Trading Account

Dr. (For the period ended . . . .) Cr.

Particulars	Amount	Particulars	Amount
To Opening stock		By Sales	
To Purchases		Less: Sales returns	
Less: Purchases returns		By Closing stock	
To Wages			
To Customs and import duty			
To Carriage expenses			
To Royalty			
To Manufacturing expenses			
To Packing expenses			
Total		Total	
To gross profit transferred to profit and loss account		By gross loss transferred to profit and loss account	

Profit and Loss Account

- The profit and loss account shows what net profit and loss your business has made within an accounting period after deducting all expenditure from the income.
- A net profit is earned if the total expenditure is less than the sales and a net loss if it is greater.

to be continued...

- The profit & loss statement is considered one of the most important documents for keeping an eye on the financial health of a business.
- It is also sometimes referred to as the '**income statement**'.

Importance of Profit and Loss Account

1. It provides information about net profit earned or net loss suffered by the business.
2. It helps in determining whether the business is being run efficiently or not by comparing the Profit and Loss account of two accounting periods.
3. It helps in taking effective control steps by analysing the various expenses listed in the Profit and Loss account of two accounting periods years.
4. It allows in the estimation of profit for the coming years by comparing the profit of previous years.

Format of Profit and Loss Account

Profit and Loss Account

Dr. (For the period ended . . . .) Cr.

Particulars	Amount	Particulars	Amount
To Gross loss b/d		By Gross profit b/d	
To Salaries		By Interest received	
To Rent		By Commission received	
To Commission		By Discount received	
To Advertisements			
To Bad debts			
To Discount			
To Net profit transferred to Capital Account		To Net loss transferred to Capital Account	
Total		Total	

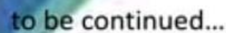
Balance Sheet

They represent assets or liabilities existing on a particular date.

Excess of assets over liabilities represent the capital and is indicative of the financial soundness of a company.

A Balance Sheet is also described as a "Statement showing the Sources and Application of Capital".

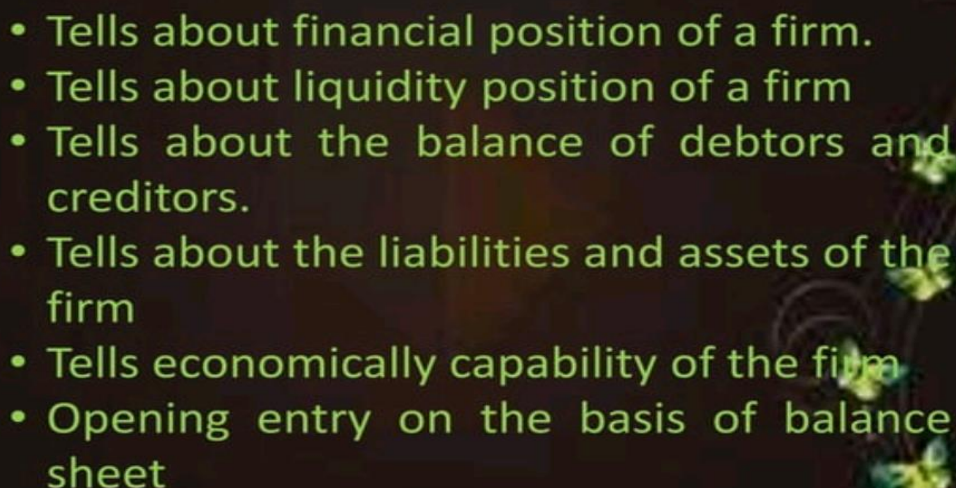
It is a statement and not an account and prepared from real and personal accounts.



to be continued...

- A balance sheet is often described as a "snapshot of a company's financial condition".
- Of the four basic financial statements, the balance sheet is the only statement which applies to a single point in time of a business' calendar year.
- The difference between the assets and the liabilities is known as equity or the net assets or the net worth or capital of the company and according to the accounting equation, net worth must equal assets minus liabilities.

Need and Importance of Balance Sheet



- Tells about financial position of a firm.
- Tells about liquidity position of a firm
- Tells about the balance of debtors and creditors.
- Tells about the liabilities and assets of the firm
- Tells economically capability of the firm
- Opening entry on the basis of balance sheet

Format of Balance Sheet

Balance Sheet

(As on . . . .)

Liabilities	**Amount**	**Assets**	**Amount**
Bank overdraft		Cash in Hand	
Outstanding expenses		Cash at bank	
Bills payable		Prepaid expenses	
Sundry creditors		Bills receivables	
Long-terms loans		Sundry debtors	
Capital		Closing stock	
		Raw materials	
		Work-in-progress	
		Finished goods	
		Plant and machinery	
Total		Total	

Need and Importance of Final Account

- To know the result of a business
- To know the financial position of a business
- To get loans from financial institutions
- To assess income tax
- To conduct comparative study
- To assist management of business.

QUESTION BANK

UNIT I & II

1. **Systematic recording** of business transaction is the first step in the accounting process.
2. **Ledger** is the second important stage in the accounting cycle.
3. **Journal** is the book of original entry.
4. All credit purchase of goods is recorded in the **purchase book**.
5. Subsidiary books are also known as **special journal**.
6. **Cash book** serves as a journal and a ledger.
7. Branch of accounting which deals with classification, recording, and allocation, summarisation of current and prospective cost is known as **Cost accounting**.
8. **Management accounting** is the branch of accounting which is used for managerial decision making.
9. The assets owned by a business are recorded in **real accounts**.
10. Accounts which record incomes, expenses, losses and gains are known as **nominal accounts**.
11. Accounts of persons with whom the business has dealings are known as **personal accounts**.
12. All the business transactions are to be recorded in terms of **money**.
13. **Going concern concept** assumes that the business entity has continuity of life.
14. **Dual aspect concept** is the basis of double entry system of book-keeping.
15. The **money measurement concept** excludes all business transactions and events which cannot be measured in terms of money.
16. According to the convention of **full disclosure,** all accounting statements should disclose fully all the significant information.
17. **Petty cash** book is maintained to record routine small payments.

18. Discount allowed is entered on the **debit** side of a two/three column cash book.
19. The assets which have a physical shape and which can be seen and touched are known as **tangible assets**.
20. The personal accounts representing outstanding expenses are called as **representative personal** accounts.
21. Drawings account is a **personal** account.
22. Transactions are recorded in the journal in **chronological** order.
23. The transactions which cannot be recorded in the subsidiary books are entered in **general journal**.
24. Details of customers' account are supplied by the bank in the form of a book known as **pass book**.
25. **Bank reconciliation statement** is a list in which the various items that cause a difference between the bank balance of cash book and pass book are indicated.
26. **Trade discount** is the deduction allowed by the manufacturer to the wholesaler or retailer on the list price of goods.
27. **Cash discount** is allowed by the creditor to the debtor as an incentive to make an early payment.
28. **Cash discount** is always recorded in the books of account.
29. **Trade discount** is not recorded in any account.
30. **Contra entries** are those entries which are shown on both the sides of the columnar cash book.
31. The **credit** balance of a passbook is an indicator of favourable position of a customer.
32. The unfavourable balance as per passbook indicates the amount of **bank overdraft.**
33. The process of recording financial transactions in the journal is called **journalizing.**

34. The process of recording transactions in the ledger is known as **posting.**
35. A **ledger** is a summary statement of all the transactions relating to a person, asset, expense or income which have taken place during a given period of time.
36. The best method of recording petty cash payments is **columnar petty cash book.**
37. Total of the discount column on the receipt side of the cashbook is **debited** to discount account.
38. Total of the sales book is **credited** to sales account.
39. **Accounting concepts** are the basic assumptions upon which the science of accounting is based.
40. **Accounting conventions** are the traditions which guide the accountants while preparing the accounting statements.

UNIT-III

1. The statement containing various ledger balances on a particular date is known as **Trial Balance**
2. Trial balance helps to establish the **Arithmetical Accuracy** of the books.
3. The trial balance shows both **Debit and Credit** balances of accounts.
4. Trial balance will detect **Error of Commission.**
5. Trial balance is not an **Account.**
6. **Financial statements** are prepared on the basis of agreed trial balance.
7. The balance in **suspense account** is the net effect of all the errors which affect the trial balance.
8. Omission of a transaction either in the journal or in the ledger is known as **Error of omission**
9. Omission of a transaction from a subsidiary book affects **Two** accounts.
10. Under casting of sales book is an **Error of casting**.
11. **Error of principle** arises when proper distinction is not made between capital and revenue item.

12. **Suspense account** is required when errors are not quickly located and final accounts are to be prepared without delay.
13. A transaction recorded in contravention of accounting principles is known as **Error of principle**
14. An error compensated or counter-balanced by the other error is known as **Compensating errors.**
15. Where a part of a transaction is recorded and the remaining portion is omitted, it is a case of **partial omission.**
16. **Error of duplication** occurs when the same transaction is recorded twice.
17. **Double sided errors** include errors of complete omission and errors of principle.
18. **Single sided error** can be rectified by an explanatory note in the account or by passing a journal entry using suspense account.

UNIT IV

1. Trading and Profit and Loss account and Balance sheet prepared to give the final results of the business are collectively called as **final accounts.**
2. Motive, power, coal, gas and fuel are **direct** expenses.
3. Debts which cannot be recovered are called **bad debts.**
4. Profit and loss account is prepared from nominal accounts and its balance is transferred to **capital** account.
5. If assets exceed liabilities, the firm is said to be **solvent.**
6. The income which has been earned but not received during the accounting year is called **accrued.**
7. Income received in advance is shown on the **liabilities** side of the balance sheet.
8. The account prepared to know the trading results of the business is called **trading account.**

9. Those expenses which have been incurred and not yet paid are called **outstanding expenses.**
10. Profit and loss account (debit balance), organization expenses, discount on issue of shares are examples of **fictitious** assets.
11. Statement prepared with a view to measure the financial position of a business on a certain fixed date is called **balance sheet.**
12. Reserve for discount on creditors is calculated on the amount of **sundry creditors.**
13. If the amount of sales is paid within a certain period by the customer, the seller will allow a certain percentage of discount called **provision for discount on debtors.**
14. Closing stock is to be valued at **cost or market price whichever is less.**
15. Interest on capital is shown on the **debit** side of profit and loss account.
16. Interest on drawings is a **business** expense.
17. The income received but not earned during the accounting period is called **income received in advance.**
18. Those expenses which have been paid in advance but relating to the future accounting period are called **prepaid expenses.**
19. To bring all expenses and incomes relating to the accounting period whether incurred or not and whether received or not, **adjustment** entries are passed.
20. Wages paid for installing a new plant are debited to **asset** account.
21. Prepaid expenses should appear as **an asset** in the balance sheet.
22. Provision for bad debts account normally has a **credit** balance.
23. Excess of assets over liabilities is called **capital.**
24. Income received in advance is debited to income account and credited to **income received in advance** account.
25. If outstanding salary appears in the trial balance, it is taken only to the **balance sheet.**

UNIT V

1. Depreciation is provided on **Fixed** assets.
2. The amount of depreciation charged on an asset will be debited to **Depreciation** account.
3. Under straight line method, depreciation is calculated on **Original cost less scrap** value.
4. Under **Depreciation fund** method, the amount of depreciation is invested outside the business.
5. Under straight line method of charging depreciation, the depreciation is **Constant** in every year.
6. **Diminishing balance method** of depreciation is acceptable for income tax purpose.
7. In case of wasting assets **depletion** method of depreciation is followed.
8. The main objective of providing depreciation is **to calculate true profit.**
9. The amount of depreciation charged on machinery will be debited to **depreciation account.**
10. The balance in depreciation fund account at the end will be transferred to **general reserve .**
11. If provision for depreciation account is maintained, all adjustment regarding sale of machinery should be made in **machinery disposal account.**
12. The asset account appears at its original value only if **provision for depreciation** account is maintained.
13. Under the diminishing balance method of charging depreciation, the depreciation amount **Decreases** every year.
14. Depreciation is a charge against **Profit.**
15. Depreciation arises because of **Wear and Tear.**

16. Under the **Sinking fund** method, the depreciation is charged on cost minus interest.
17. Under the annuity method interest is **Debited** to asset account.
18. **Depreciation** is a process of allocation of cost.
19. Annuity method of depreciation is suitable for **Leasehold** property.
20. Profit or loss on the sale of sinking fund investment is transferred to **Sinking fund** account.
21. The excess depreciation over actual depreciation of the asset is to be treated as **Profit.**
22. The economic factors causing depreciation are **Obsolescence and Inadequacy.**