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B.COM. PART 1

CORE CONCEPT OF FINANCIAL ACCOUNTING

Double Entry: In this system every business transaction is having a two fold effect of benefits giving and benefit receiving aspects. The recording is made on the basis of both these aspects. Double Entry is an accounting system that records the effects of transactions and other events in at least two accounts with equal debits and credits.

Steps involved in Double entry system

- (a) **Preparation of Journal:** Journal is called the book of original entry. It records the effect of all transactions for the first time. Here the job of recording takes place.
- (b) **Preparation of Ledger:** Ledger is the collection of all accounts used by a business. Here the grouping of accounts is performed. Journal is posted to ledger.
- (c) **Trial Balance preparation:** Summarizing. It is a summary of ledger balances prepared in the form of a list.
- (d) **Preparation of Final Account:** At the end of the accounting period to know the achievements of the organization and its financial state of affairs, the final accounts are prepared.

Advantages of Double Entry System

- i) **Scientific system:** This system is the only scientific system of recording business transactions in a set of accounting records. It helps to attain the objectives of accounting.
- ii) **Complete record of transactions:** This system maintains a complete record of all business transactions.
- iii) **A check on the accuracy of accounts:** By use of this system the accuracy of accounting book can be established through the device called a Trail balance.
- iv) **Ascertainment of profit or loss:** The profit earned or loss suffered during a period can be ascertained together with details by the preparation of Profit and Loss Account.
- v) **Knowledge of the financial position of the business:** The financial position of the firm can be ascertained at the end of each period, through the preparation of balance sheet.
- vi) **Full details for purposes of control:** This system permits accounts to be prepared or kept in as much detail as necessary and, therefore, affords significant information for purposes of control etc.



vii) Comparative study is possible: Results of one year may be compared with those of the previous year and reasons for the change may be ascertained.

viii) Helps management in decision making: The management may be also to obtain good information for its work, specially for making decisions.

ix) No scope for fraud: The firm is saved from frauds and misappropriations since full information about all assets and liabilities will be available

Journal is a historical record of business transactions or events. The word journal comes from the French word "Jour" meaning "day". It is a book of original or prime entry written up from the various source documents. Journal is a primary book for recording the day to day transactions in a chronological order i.e. in the order in which they occur. The journal is a form of diary for business transactions. This is also called the book of first entry since every transaction is recorded firstly in the journal. The format of a journal is shown as follows :

Date	Particulars	J.F	Debit	Credit

Illustration 1

From the following transactions, pass journal entries prepare ledger accounts

1. Anil started business with Rs8,000
2. Purchased furniture Rs 1,000
3. Purchased goods Rs6,000
4. Sold goods Rs 7,000
5. Purchased from Raja Rs 4,000