ACCOUNTING AND FINANCIAL FUNDAMENTALS

Q.1,2) **WHAT IS DEBIT AND CREDIT EXPLAIN WITH EXAMPLE?**

ANS: In accounting double entry was devloped LUCAPACIOLI of italy .Every accounting transaction has two aspects both of which are recoreded.

Every transaction has two sides

1)**DEBIT**

2)**CREDIT**

DEBIT: It is one of the aspect in a transaction ,which arises in the following

Situations.

- Reciept of cash: cash must be debited.
- expenses must be debited.
- increase in assets:assest must be debited.

CREDIT: It is another part of the transaction ,which arises in the following

Situations.

- Payment of cash:cash must be credited
- Incomes must be credited
- Increases in liability:liability has to be credited.

EXAMPLE:

1)CASH PAID TO Mr.X

Mr.X a/c…………DR xxxxx …………

TO cash a/c …….. xxxxxx

[here cash account is credited for payment]

2)ASSEST PURCHASED FOR ₹ 5000000

ASSEST a/c…………..DR   5000000   ……………

TO cash a/c   ……………. 5000000

[here assest a/c is debited for increasing it is value]

Q.3]WHAT IS VOUCHER?DEFINE IT'S TYPES AND RELAVENCE ,USAGE IN ACCOUNTING ENTRIES?

ANS: Voucher is a supporting document ,it means it is evident for the transacation recorded in the books.

In general there is several types of vouchers like

- Sales vouchers
- Purchase vouchers
- Cash payments
- Cash reciepts
- Adjustment vouche

TYPE OF VOUCHER	RELAVENCE	USAGE
1)SALES VOUCHER	It is primary evidence for recording amount of sales in books.	1.It is used for crosschecking the amount in voucher with books. 2.it is used for determinig whether that voucher relates to same accounting year or not.
2)PURCHASE VOUHER	It is primary evidence for recording amount of purchases in books.	1.It is used for crosschecking the amount in voucher with books. 2.it is used for determinig whether that voucher relates to same accounting year or not.
3)CASH RECIEPTS&PAYMENTS	It is evident for recording cash payments and reciepts in cash book.	These vouchers place a vital role for auditing cash book balance correctnes.
4)ADJUSTMENT VOUCHERS	These are used for adjusting the wrong transactions	1.These are used for adjusting wrong issues between departments,wrong amount of

		vouchers are adjusted.

Q.4)NAME FEW FUNDAMENTAL ACCOUNTING RULES,IF POSSIBLE WITH EXAMPLES ?

ANS:The traditional accounts are classified as follows, The golden rules applicable to these traditional accounts are FUNDAMENTAL ACCOUNTING RULES.

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PERSONAL a/c: Personal a/c shows the balances due to or due from persons or organisation.

GOLDRN RULE OR **FUNDAMENTAL RULE:**

- DEBIT THE RECIEVER.
- CREDIT THE GIVER.

Eg. 1)cash received from Mr.X:here giver is Mr.X so X a/c must be credited.

2)cash paid to Mr.X:here cash reciever is Mr.X so X a/c must be debited.

- **REAL a/c:** The real a/c shows the balances of the items in balancesheet like fised assets,capital,.etc

GOLDRN RULE OR **FUNDAMENTAL RULE:**

- DEBIT WHAT COMES IN .
- CREDIT WHAT GO OUT.

Eg: Purchase of fixedasset for cash:here fixed asset a/c has to be debited and cash must be credited.

Fixed asset a/c dr

TO cash a/c

- **NOMINAL a/c:** These accounts provide relavent information for preparing financial statements.the validity of these accounts confined to one accounting period only.

GOLDRN RULE OR **FUNDAMENTAL RULE:**

- DEBIT EXPENSES and LOSSES.
- CREDIT INCOMES and GAINS.

Eg: Payment of salaries is an expense :so salarie must be debited.

Reciept of rent income:here rent must be credited.

- **VALUATION a/c:** These are some specialtype of a/c's like Prov.for depreciation,prov.for debtors..etc

GOLDRN RULE OR **FUNDAMENTAL RULES:**

- If fixedassets are shown at cost in the balancr sheet ,then the Prov.for depreciation must be shown in liability side.

Q.5).DEFINE DEBTOR AND CREDITOR,ILLUSTRATE THEM WITH ANY BALANCESHEET?

ANS:

- ***DEBTOR***:It is the current asset, It means a person or firm or organisation from whom the person or firm or organisation will get some money or its worth.

- ***CREDITOR***:It is the current liability,It means a person or firm or organisation to whom the person or firm or organisation owes money or its worth.

ILLUSTRATION:

THE BALANCE SHEET OF **XYZ.CO** AS ON 31.3.2011

LIABILITIES	AMOUNT (₹)	ASSETS	AMOUNT (₹)
Share capital Reserves&surplus Secured loans Current liabilities i)**CREDITORS** **ii)**others	xxxxxxxx xxxxxxxx xxxxxxxx 5000000 xxxxxxxx	FIXED ASSETS CURRENT ASSETS **i)DEBTORS** ii)others	XXXXXX 10000000 xxxxxxxx

- In the given illustration the amount of ₹ 1000000 represents debtors ,it means the XYZ.CO will get that debtoramount from debtors.
- In thw given illustration the amount of ₹ 500000 represents creditors,it means the XYZ.CO will have to pay that creditoramount to creditors.

NOTE:CREDITORS AND DEBTORS ARE PERSONAL ACCOUNTS.

Q.6).WHAT ARE FINANCIAL STATEMENTS,EXPLAIN THEM WITH ALL POSSIBLE ACCOUNTING&FINANCIAL KNOWLEDGE?

ANS: FINANCIAL STATEMENTS

- BALANCE SHEET: It is a statement shows the posotion in the form of assets&liabilities of the organisation at a given date.
- PROFIT &LOSS a/c: It is a ledger account which shows the net profit or loss of the organisation for a given period.
- CASH FLOW&FUND FLOW STATEMENTS:

i)cashflow statement shows the cash infloe and outflow during the period.

ii)fundflow statement shows the sources from which funds have been raised,and application of those funds.

- OTHER NOTES&SCHEDULES: These are some notes and schedules which give supporting for other financial statements.

Q.7).WHAT ARE IMPORTANT RATIOS FOR ANY FINANCIAL STATEMENTS?

ANS: The important ratios for the purpouse of financialstatements are as follows.

Q.8).WHY JOURNAL VOUCHER IS IMPORTANT?DESCRIBE THE ADVANTAGES AND DISADVANTAGES ?

ANS:

- The first and most important aspect of a business organisation is recording of transactions.
- The journal voucher is the primary document evidence for the recording of an entry for a transaction.
- Each and every transaction must be supported by a voucher.

ADVANTAGES OF JOURANAL VOUCHER	DISADVANTAGES OF JOURANAL VOUCHER
➢ It is an integral part of audit trail. ➢ It enforce a transaction in the books. ➢ It is used as a evidence for an entry in the books. ➢ It gives brief discription of transaction.	➢ The collution of finincial information is starts from misintrepritation of financial data in journal voucher. ➢ The easy way for fraud is generation of fake journalvouchers. ➢ The accuracy,fairness of journal voucher may not be quantified in somecases.

Q.9).WHY ACCOUNTING IS VERY IMPORTANT?

ANS: The business organisation involve in huge number of transactions in the regular course of business.

The each and every transaction must be recorded ,classified,summarised,analysed. The whole work is technically termed as accounting.

So for running business eficiently,effectively in a timely manner the accounting is compulsory.

The accounting is the heart of the organisation.

- The accouniting objective is maintaining the proper records of the business.
- Accounting is used to know the financial position of an organisation.
- It is used to know the profit or loss of the organisation.
- Accounting is used for providing financial information to various users.