

FUNDAMENTALS OF FINANCIAL ACCOUNTING CONCEPTS



NAGENDRA KUMAR ANGARA.

Accounts Officer (SAP FICO & Balance Sheet)/Corporate Office/APEPDCL



UNDERSTANDING THE DOUBLE ENTRY SYSTEM

■ DEFINITION OF DOUBLE ENTRY SYSTEM

A bookkeeping method where each transaction affects at least two accounts, ensuring accuracy.

■ CORE PRINCIPLE

For every debit entry, there is an equal and corresponding credit entry, maintaining balance.

■ PURPOSE OF THE SYSTEM

To ensure financial accuracy, detect errors early, and maintain complete records of transactions.

■ HISTORICAL ORIGIN

Developed by Luca Pacioli in 1494, the Father of Accounting, marking a significant advancement in bookkeeping.

FUNDAMENTALS OF DOUBLE ENTRY ACCOUNTING

Understanding the foundational principles in accounting

■ DUAL ASPECT CONCEPT

Every transaction involves giving and receiving, highlighting the dual nature of financial activities.

■ ACCOUNTING EQUATION

The cornerstone of accounting: $\text{Assets} = \text{Liabilities} + \text{Owner's Equity}$ ensures balance in financial statements.

■ PERSONAL ACCOUNT RULE

For personal accounts, debit the receiver and credit the giver, ensuring accurate tracking of individual transactions.

■ REAL ACCOUNT RULE

For real accounts, debit what comes in and credit what goes out, reflecting physical asset movements.

UNDERSTANDING JOURNAL ENTRIES

A guide to recording transactions effectively

■ DEFINITION OF GENERAL JOURNAL

The General Journal is a book of original entry for recording transactions chronologically.

■ PURPOSE OF GENERAL JOURNAL

It serves to document all financial transactions as they occur, maintaining a chronological order.

■ GENERAL JOURNAL FORMAT

The standard format includes Date, Particulars, L.F., Debit (INR), and Credit (INR).

■ STRUCTURE OF JOURNAL ENTRIES

Entries include a debit account, a credit account, and a brief explanation of the transaction.

■ EXAMPLE OF A JOURNAL ENTRY

For instance, 'Furniture A/c Dr. 10,000 To Cash A/c 10,000' indicates furniture bought for cash.

Journal Entry Format			
Date	Account Name	Debit	Credit
January 1	Debited Account -Credited Account	XXXX	XXXX
Description of the Journal Entry			

UNDERSTANDING THE LEDGER IN ACCOUNTING

Key aspects and examples of ledger in accounting

■ DEFINITION OF LEDGER

A ledger is a book of final entry for accounting transactions, organizing them systematically.

■ FUNCTION OF LEDGER

It groups similar transactions under specific account heads for easy tracking.

■ LEDGER FORMAT

The standard format includes Date, Particulars, J.F., Debit, and Credit columns.

■ EXAMPLE ENTRY

For instance, a transaction might show: | 01-04-2025 | To Cash A/c | 001 | 10,000 | - |

■ PURPOSE OF LEDGER

The primary purpose is to track individual account balances accurately.

Ledger Format

Dr.

Cr.

Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount

UNDERSTANDING THE TRIAL BALANCE CONCEPT

■ TRIAL BALANCE OVERVIEW

A trial balance is a list of all ledger accounts and their respective balances.

■ PURPOSE OF TRIAL BALANCE

The main purpose is to verify the arithmetical accuracy of the accounts and help prepare final accounts.

■ TRIAL BALANCE FORMAT

The format includes Account Title, Debit Balance (INR), and Credit Balance (INR).

TRIAL BALANCE		
Accounting Capital Company as on March, YYYY		
Account	Debit	Credit
Purchases		
Sundry Debtors		
Stock (as on Apr, YYYY)		
Sales		
Cash at Bank		
Machinery		
Discount Received		
Bank Loan		
Bad Debts		
Sundry Creditors		
Carriage Outwards		
Capital		
Provision for Doubtful Debts		
Rent		
Discount Allowed		
TOTAL =		

UNDERSTANDING THE BALANCE SHEET

BALANCE SHEET OVERVIEW

A balance sheet provides a snapshot of a company's financial position at a specific date.

CORE STRUCTURE

It consists of Assets, Liabilities, and Owner's Equity.

ACCOUNTING EQUATION

The fundamental equation is $\text{Assets} = \text{Liabilities} + \text{Owner's Equity}$.

FINANCIAL HEALTH INDICATOR

The balance sheet reflects the financial health of a business.

ASSETS DEFINED

Assets are resources owned by the company that have economic value.

LIABILITIES EXPLAINED

Liabilities are obligations of the company, representing debts owed.

OWNER'S EQUITY

Owner's Equity is the residual interest in the assets after liabilities are deducted.

Vertical Format of Balance Sheet		
Imaginary Company Name Balance Sheet as at..		
Particulars	Note	Amt
<u>Assets</u>		
Non-Current Assets:		
Property, Plant & Equipment		X
Intangible Assets		X
Investments		X
Other Non-Current Assets		X
Current Assets:		
Inventories		X
Investments		X
Trade Receivables		X
Cash And Cash Equivalents		X
Other Current Assets		X
Total Assets		X
<u>Equity And Liabilities</u>		
Equity		
Share Capital		X
Retained Earnings		X
Other Equity		X
Non-Current Liabilities:		
Long-Term Borrowings		X
Long-Term Provisions		X
Deferred Tax Liabilities (Net)		X
Other Non-Current Liabilities		X
Current Liabilities:		
Short-Term Borrowings		X
Trade Payables		X
Other Current Liabilities		X
Short-Term Provisions		X
Total Equity And Liabilities		X

OVERVIEW OF DOUBLE ENTRY ACCOUNTING

Understanding the principles of accounting methods

■ DUAL IMPACT OF TRANSACTIONS

Every transaction in the Double Entry System impacts two accounts, ensuring balanced bookkeeping.

■ RECORDING PROCESS STEPS

1. Record transactions in a Journal. 2. Post entries into the Ledger. 3. Prepare a Trial Balance. 4. Create a Balance Sheet.

■ ENSURING FINANCIAL ACCURACY

This system ensures accuracy in financial reporting by maintaining the balance of debits and credits.

■ TRANSPARENCY IN ACCOUNTING

Double Entry System enhances transparency, allowing stakeholders to track financial transactions easily.

GET IN TOUCH FOR MORE INSIGHTS

✉ AKNAGENDRA@GMAIL.COM

☎ +91 94906 10049

THANK YOU FOR YOUR INTEREST