Entry Concepts of Accounting for SSC CGL Tier II

Entry Concepts of Accounting are essential to understand Basic Accounting if you are appearing for the upcoming SSC CGL Tier II. The SSC CGL Tier II Exam will be conducted form 17th to 22nd February 2018. It is a very important topic if you have to prepare Financial Awareness and General Awareness section for SSC CGL & other Banking Exams as well. Being well-versed with this topic can assure you a good score in less efforts. Read these notes to learn about Entry Concepts of Accounting for SSC CGL Tier II exam. Once you are done reading, you can download this article as PDF.

Entry Concepts of Accounting for SSC CGL

Entry Concepts of Accounting Book-keeping is the process of recording daily activities of the business, including receipts, payment, purchases, sales and expenditure.

Single & Double Entry Concepts of Accounting for SSC

⇒ **Single-entry system** of book-keeping requires inputting the entry only once in either the credit column or the debit column whereas

⇒ **Double-entry system** requires putting one entry twice, once in the credit column and once in the debit column of another account.

The other differences between them are as follows:

Single-Entry System	Double-Entry System
Not based on the concept of Duality	Based on the concept of Duality
Maintains simple and personal accounts of debtors, creditors and cashbook	Maintains all personal, real and nominal accounts
Cannot help in making the company's profit or loss statement.	Can help in making the company's profit or loss statement
Small businesses where transactions are small and simple	Big businesses and corporations that deal with complex transactions and huge inventories.
Cannot prepare Trial Balance	Can prepare Trial Balance
Not acceptable for tax purposes	Acceptable for tax purposes
Cannot ascertain the true financial position of the business	Can ascertain financial position of the business.
Simple, less-expensive, easier to manage, provides general view of earnings and expenditure	Complete data is available, provides an arithmetic check on bookkeeping, helps track debits and credits, can help ascertain the financial position of the business, and makes it easier to produce year-end accounts.
Incomplete data, are not able to provide a check against clerical error, does not record all transactions, and does not provide a detailed record of assets, theft and loss cannot be detected.	Expensive, harder to understand, requires hiring external staff and time-consuming

In double entry system of book-keeping, transactions are recorded in the books of accounts in two stages:

1. Journal
2. Ledger

Entry Concepts of Accounting for SSC - Journal

- Journal is a historical record of business transactions or events. 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.
- When more than two accounts are involved in a transaction and the transaction is recorded by means of a single journal entry instead of passing several journal entries, such single journal entry is termed as 'Compound Journal Entry'.
- A journal entry, by means of which the balances of various assets, liabilities and capital appearing in the balance sheet of previous accounting period are brought forward in the books of the current accounting period, is known as 'Opening Entry'.

Format of Journal:

Journal

Date	Particulars	L.F.	Debit (Rs.)	Credit (Rs.)

- **Date Column**: This column shows the date on which the transaction is recorded.
- **Particular Column**: Under this column, first the names of the accounts to be debited, then the names of the accounts to be credited and lastly, the narration (i.e. a brief explanation of the transaction) are entered.
- **F., i.e. 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.

Advantages of Journal:

- The transactions are recorded in journal as and when they occur so the chance of error is minimized.
- It helps in preparation of ledger.
- Any transfer from one account to another account is made through Journal.
- The entries recorded in journal are self-explanatory as it includes narration also.
- It can record any such transaction which cannot be entered in any other books of account.
- Every transaction is recorded in chronological order (date wise) so the chances of manipulations are reduced.
- Journal shows all information in respect of a transaction at one place.
- The closing balances of previous year of accounts related to assets and liabilities can be brought forward to the next year by passing journal entry in journal.

Entry Concepts of Accounting for SSC - Ledger

- Journal is a daily record of all business transactions. In the journal all transactions related to persons, expenses, assets, liabilities and incomes are recorded.
- Journal does not give a complete picture of the fundamental elements of book keeping i.e. properties, liabilities, proprietorship accounts and expenses and incomes at a glance and at one place.
- Business transactions being recurring in nature, a number of entries are made for a particular type of transactions such as sales, purchases, receipts and payments of cash, expenses etc., throughout the accounting year.

- The entries are therefore scattered over in the Journal.
- It is thus of dire need to get a summarized/grouped record of all the transactions relating to a particular person, or a thing or an expenditure to take managerial decisions.
- The mechanics of collecting, assembling and summarizing all transactions of similar nature at one place can better be served by a book known as 'ledger' i.e. a classified head of accounts.
- Ledger is a principal book of accounts of the enterprise. It is rightly called as the 'King of Books'. Ledger is a set of accounts. Ledger contains the various personal, real and nominal accounts in which all business transactions of the entity are recorded.

Relationship between Journal & Ledger - Entry Concepts of Accounting for SSC

Journal and Ledger are the most useful books kept by a business entity. The points of distinction between the two are given below:

- The journal is a book of original entry whereas the ledger is the main book of account.
- In the journal business transactions are recorded as and when they occur i.e. date-wise. However posting from the journal is done periodically, may be weekly, fortnightly as per the convenience of the business.
- The journal does not disclose the complete position of an account. On the other hand, the ledger indicates the position of each account debit wise or credit wise, as the case may be. In this way, the net position of each account is known immediately.
- The record of transactions in the journal is in the form of journal entries whereas the record in the ledger is in the form of an account.

Utility of a Ledger:

- It provides complete information about all accounts in one book.
- It enables the ascertainment of the main items of revenues and expenses
- It enables the ascertainment of the value of assets and liabilities.
- It facilitates the preparation of Final Accounts.

Format of a Ledger Account:

A ledger account can be prepared in any one of the following two forms:

Form 1

Name of the Account ....

Dr. Cr.

Date	Particulars	Journal Folio	Amount (Rs.)	Date	Particulars	Journal Folio	Amount (Rs.)

Form 2

Name of the Account..............

Date	Particulars	Journal Folio	Debit Amount Rs.	Credit Amount Rs.	Dr./Cr.	Balance Rs.

Balancing of Ledger Account:

- After transferring the entries from Journal to the ledger, the next stage is to ascertain the net effect of all the transactions posted to relevant account.
- The process of finding out the difference between the totals of the two sides of a Ledger account is known as balancing and the difference of the total debits and the total credits of accounts are known as balance.
- If the total of the credit side is bigger than the total of the debit side, the difference is known as credit balance. In the reverse case, it is called debit balance.

Steps for Balancing Ledger Accounts:

Ledger accounts may be balanced as and when it is required. The balances of various accounts are ascertained as under:

1. Make the total of both sides of an account in a worksheet.
2. Write down the higher amount on the side obtained.
3. Also write down the same total on the other side of the account.
4. Find out the difference between the two sides of the account.
5. Finally, the amount of the closing balance should be brought down as the opening balance at the beginning of the next day. Remember that if the opening balance is not written on the next day, the balancing is incomplete.

Self-Balancing Ledgers:

- Self-balancing system is a system whereby separate Trial Balance can be taken out from each ledger. "General Ledger Adjustment Account" will be maintained in each of the sales and bought ledger.
- It is the reverse of the Total Debtors Account in Sales Ledger and Total Creditors Account in Bought Ledger.

Advantages of Ledger:

- Speedy detection of errors is possible.
- Balancing is done quickly and thus saves time, labour and money.
- The system helps reducing fraud.
- Final Accounts can be prepared easily and quickly.
- It acts as an effective internal check.
- It is very useful when there is a large number of debtors and creditors.
- It is easy to prepare periodical final accounts.
- Efficient office control is possible.
- It promotes specialization and increases efficiency.
- It facilitates division of work among different employees.
- Arithmetical accuracy can be proved by drawing a Trial Balance.
- Ledger keeping can be decentralized.

Trial Balance:

- A Trial Balance is a two-column schedule listing the titles and balances of all the accounts in the order in which they appear in the ledger.
- The debit balances are listed in the left-hand column and the credit balances in the right-hand column.
- The sum total of debit amounts must equal the credit amounts of the ledger at any date. If the same is not true then the books of accounts are arithmetically inaccurate.
- A Trial Balance may thus be defined as a statement of debit and credit totals or balances extracted from the various accounts in the ledger books with a view to test the arithmetical accuracy of the books.
- Trial Balance forms a connecting link between the ledger accounts and the final accounts.

Objectives of Preparing Trial Balance:

- To check the arithmetical accuracy of books of accounts
- Helpful in preparing final accounts
- To serve as an aid to the management

Limitations of Trial Balance:

- Trial Balance can be prepared only in those concerns where double entry system of accounting is adopted.
- Trial balance is not a conclusive proof of the accuracy of the books of accounts.
- If trial balance is not prepared correctly then the final accounts prepared will not reflect the true and fair view of the state of affairs of the business.

Methods for Preparation of Trial Balance:

- **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).
- **Balance Method:** In this method, the difference of each amount 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.
- Of the two methods of the trial balance preparation, the second is usually used in practice because it facilitates the preparation of the final accounts.

Valuation of Inventories - Entry Concepts of Accounting for SSC

According to the International Accounting Standard-2 (IAS-2), **'Inventories' mean tangible property held**;

- For sale in the ordinary course of business,
- In the process of production for such sale, or
- For consumption in the production of goods or services for sale

Objectives of Inventory Valuation:

- Determination of Income
- Determination of financial position

Methods of Recording Inventory:

There are two methods for Recording Inventory - Periodic and Perpetual.

1. Periodic Inventory System

- Under this system the quantity and value of inventory is ascertained by physically counting the stock at the end of the year and as on the accounting date.
- This method offers the **advantage** of simplicity. However, the **limitation** of this method is that discrepancies and losses in inventory will never come to light as it makes no accounting for theft, losses, shrinkage and wastage.

2. Perpetual Inventory System:

- According to the **Institute of Cost and Management Accountants**, London, it is "a system of records maintained by the controlling department which reflects the physical movement of stocks and their current balance."
- The main **advantage** of this method is that it provides details about the quantity and value of stock of each item all times. Thus it provides a basis for control. The main **drawback** of this system is that it requires elaborate organisation and records and, therefore, it is more expensive.

Methods of Valuation of Inventory:

There are three crucial methods of Valuation of Inventory.

1. Historical cost based method:

The various methods for assigning historical costs to inventory and goods sold are:

1. First in first out method
2. Last in first out method
3. Highest in first out
4. Base stock method
5. Specific identification method
6. Simple average price
7. Weighted average price

2. Sale price based method:

The inventories may be valued at marked or sale prices. Important among these prices are current selling prices, and net realizable value.

3. Lower of cost or market price:

LCM rule can be applied in anyone of the following ways:

1. Aggregate/total inventory method
2. Group method
3. Item-by-item method
4. Base stock method

Now that you have read the Entry Concepts of Accounting for SSC CGL Tier II, read more Accounting & Statistics related articles through the links given below!

Generally Accepted Accounting Principles

Statistics Notes – Time Series Analysis

Statistics Notes – Index Numbers Analysis

How to Prepare Probability

Practice questions for various Government Recruitment Exams

If you have doubts you can discuss here