Paper 6

CMA INTER - GROUP 1

FINANCIAL ACCOUNTING

Volume I (2nd Edition)

- Module • MQP PYQ Covered
- Concepts Simplified with Tables
- Solved Questions & Illustrations
- Colour-Coded for Better Learning

CA SNEHA BUDHIA (AIR 30)

शनैः पन्थाः शनैः कन्थाः शनैः पर्वतमस्तके।
शनैर्विद्या शनैर्वित्तं पञ्चैतानि शनैः शनैः ॥

हिंदी अर्थ

विद्या (ज्ञान) धीरे-धीरे प्राप्त होती है, धन भी धीरे-धीरे एकत्र होता है।
बड़े लक्ष्य भी एक-एक कदम से ही पूरे होते हैं।
इसलिए जीवन के महत्वपूर्ण कार्य धैर्य और निरंतर प्रयास से करने चाहिए।

English Meaning

Knowledge is gained gradually, wealth is accumulated gradually,
and great heights are reached step by step.
Patience and consistent effort lead to lasting success.

FROM THE AUTHOR

Dear Aspiring CMAs,

Welcome to Financial Accounting for CMA Intermediate - Group I!

For many students, Financial Accounting is the subject they fear the most. But trust me—it isn't difficult; it just needs the right approach. Once the concepts become clear, debits and credits stop feeling like a mystery (and yes, they do start making sense!).

This book has been written with one simple goal: to make Financial Accounting easy to understand, interesting to learn, and enjoyable to practise. Every chapter is explained in a clear, step-by-step manner with illustrations, solved examples, examination-oriented questions, and quick revision points to help you prepare with confidence.

As an educator, I have had the privilege of teaching thousands of CMA students. Their questions, feedback, and experiences have inspired me to create a book that focuses on conceptual clarity rather than rote learning. My aim is not just to help you pass the examination, but to help you truly understand accounting.

Remember, accounting is like riding a bicycle—you won't master it by watching others. The more you practise, the more confident you become. So, grab your pen, keep your calculator handy, and let's balance not just the Balance Sheet, but also your confidence!

I hope this book becomes your trusted companion throughout your CMA journey. Learn with curiosity, practise consistently, and believe in yourself.

Wishing you great success in your examinations and a wonderful career ahead.

"Success in accounting is not about balancing numbers; it's about balancing consistency, concepts, and confidence."

Happy Learning!

CA Sneha Budhia

ACKNOWLEDGEMENT

No journey is ever completed alone, and this book is no exception. I am deeply grateful to everyone who has supported and inspired me along the way.

First and foremost, I thank God for blessing me with the strength, wisdom, and opportunity to complete this book.

My heartfelt gratitude goes to my dear students. Your trust, curiosity, endless questions, and determination inspire me every day. This book is a reflection of everything I have learnt while teaching you, and I hope it becomes a trusted companion in your CMA journey.

I lovingly remember my beloved mother, Late Smt. Meena Budhia, whose unconditional love, values, and blessings continue to guide me every day. Though she is no longer with us, her presence lives on in everything I do. This book is a humble tribute to her loving memory.

A very special thank you to my husband, Mr. Atul Ramuka, for always believing in me, encouraging me, and standing by me through every challenge. Your unwavering support has been my greatest strength.

To my dearest daughter, Misha, thank you for filling my life with love, laughter, and happiness. You remind me every day of the importance of dreaming big and never giving up.

My sincere thanks to Vijay Sir (Vijju Bhaiya) for his constant guidance, encouragement, and faith in me. Your support and motivation have meant a great deal throughout this journey.

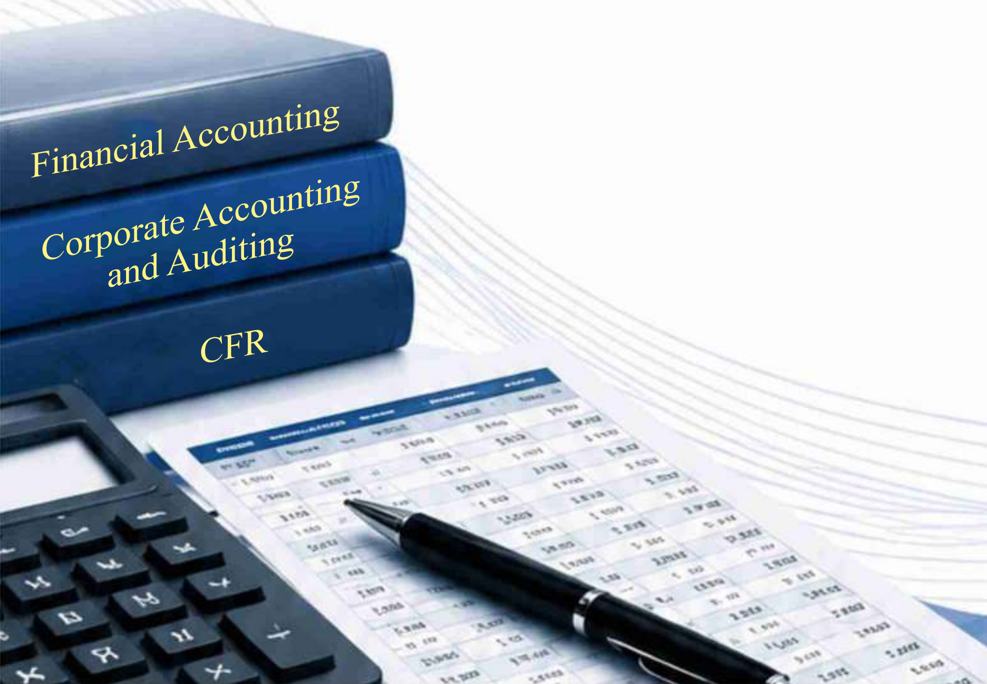
I also extend my heartfelt appreciation to my dedicated support staff for their hard work and commitment behind the scenes. Your efforts have played an important role in bringing this book to life.

To everyone who has been a part of this journey, directly or indirectly, thank you for your love, support, and encouragement.

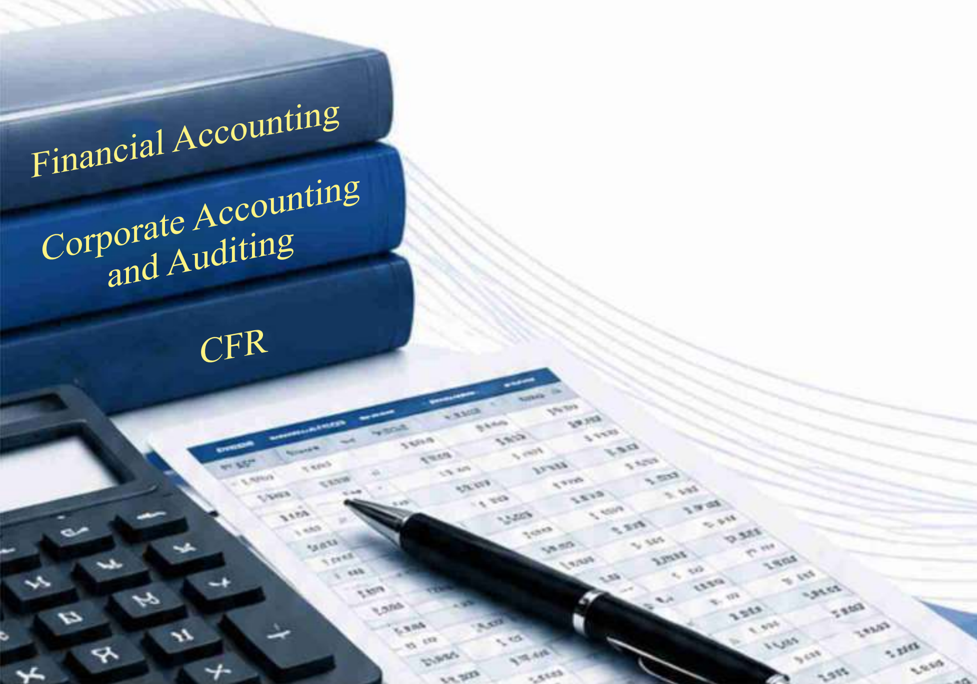
With gratitude,

CA Sneha Budhia

THEORY INDEX



QUESTION BANK INDEX



Concept To Question Tracker

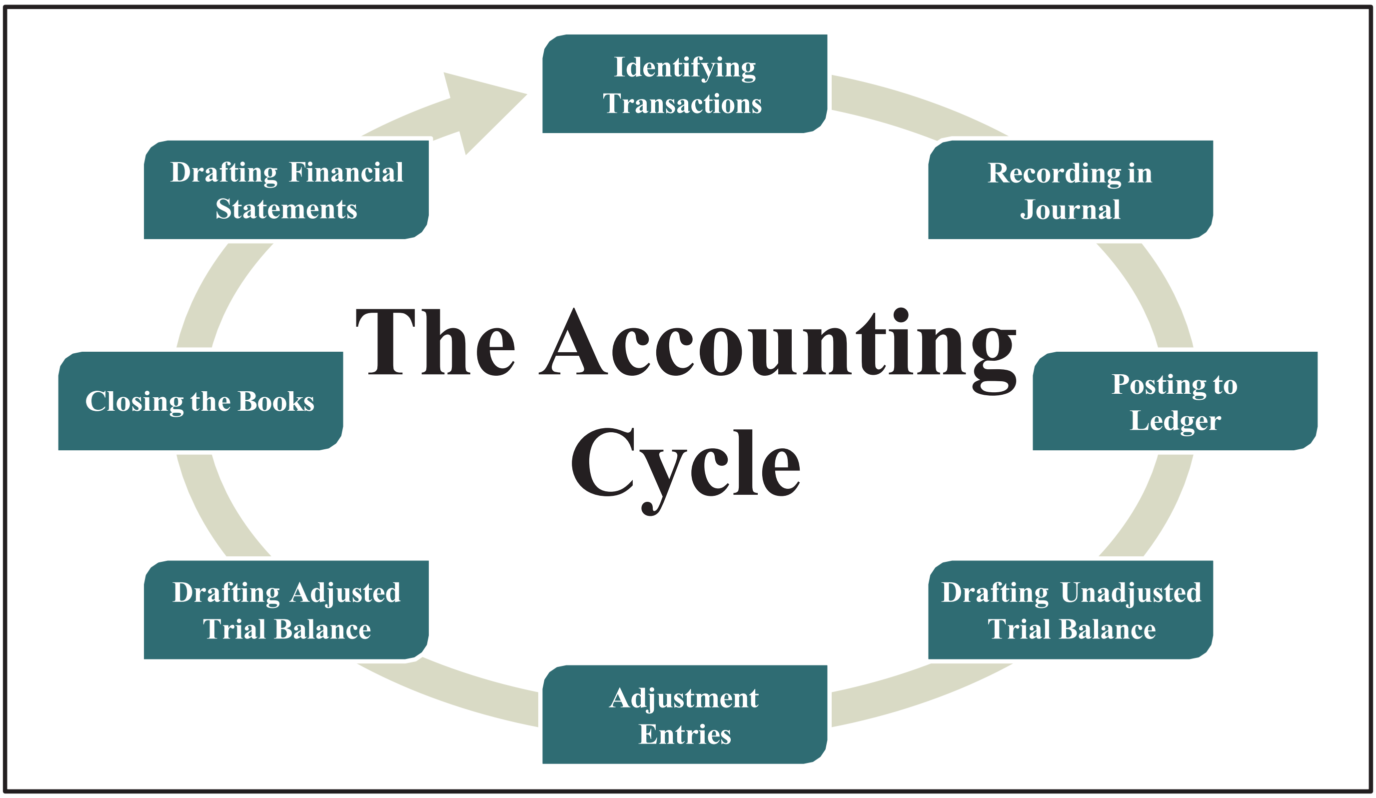
SR.NO	NAME OF THE CONCEPT	CONCEPT TO QUESTIONS	REVISE ONE DAY BEFORE

CHAPTER 3

JOURNAL, LEDGER AND TRIAL BALANCE

Stages of Accounting Cycle

The **Accounting Cycle** is a sequence of activities performed by an accountant to document and report an organisation's financial transactions during an accounting period.



Accounting Equation

The accounting equation is a representation of how the three important components of accounting namely Assets, Liabilities and Equity are associated with each other.
In the most simplistic form, the accounting equation is presented as: **Assets = Liabilities + Equity**.

Expanded Accounting Equation

The above equation can be further expanded by incorporating the various elements of the Equity component as under:
Assets = Liabilities + Equity or, Assets = Liabilities + [Capital + (Revenue – Expenses) – Drawings] or, Assets + Expenses + Drawings = Liabilities + Capital + Revenue

Journal

Journal is the book of original entry in which financial transactions are firstly recorded after their occurrence in chronological order. It is in this book of accounts where the transactions are recorded in the first place.

Types of Journal

The books of original entry broadly classified into two categories:

1. Special Journal:
2. General Journal

Special Journal	
A Special Journal is a book of primary entry in which transactions of a specific type viz. credit purchases, credit sales, return inwards etc. are first recorded before being posted in the respective ledger account. These are also referred to as Subsidiary Books. During the lifecycle of and organisation, when the volume of transactions increases to an extent that a single journal may no longer be adequate to record the transactions effectively, then special purpose books or subsidiary books are required for more efficient record keeping purposes. The different special journals that are usually maintained by an organisation for primary recording of its transactions are:	
a)	**Cash Journal or Cash Book** is a special journal which is maintained for recording all transactions which involve cash, whether cash inflows or cash outflows.
b)	**Purchase journal** is a special journal which is used by an organization to record all the credit purchases made by it during an accounting period. It is also known as Purchase Book or Purchase Daybook.
c)	**Sales Journal** is a type of special journal that is used to record credit sale transactions of an organisation. It is also known as Sales Book or Sales Daybook.
d)	**Purchase Return Journal** is the special journal that is used for record-ing the goods which have been returned by an organisation to its suppliers, for any reason. It is also known as Purchase Return Book or Purchase Day-book.
e)	**Sales Return Journal** is the special journal that is used for recording the goods which have been returned to an organisation by its customers, for any reason. It is also known as Sales Return Book or Sales Daybook.
f)	**Bills Receivable Journal** is the special journal which is used to record the details of bills of exchange received by an entity from its customers during an accounting period. It is also known as Bills Receivable Book or Bills Receivable Daybook.
g)	**Bills Payable Journal** is the special journal which is used to record the details of bills of exchange accepted by an entity towards its suppliers during an accounting period. It is also known as Bills Payable Book or Bills Payable Daybook.

General Journal
This is a book of original entry in which those transactions are recorded for which no specific day book is maintained are recorded.

Format

a)	Purchase Journal

Date	Particulars	Inward Invoice No.	Ledger Folio No.	(Rs.)

b)	Sales Journal

Date	Particulars	Outward Invoice No.	Ledger Folio No.	(Rs.)

c)	Purchase Returns Journal

Date	Particulars	Debit Note No.	Ledger Folio No.	(Rs.)

d)	Sales Returns Journal

Date	Particulars	Credit Note No.	Ledger Folio No.	(Rs.)

General Journal or Journal Proper	
General Journal is the book of original entry in which those transactions for which no special journal is maintained are recorded. In other words, transactions like credit purchases, credit sales, purchase returns, sales returns etc. (for which specific subsidiary books are maintained) are recorded in this book of primary entry. This book of original entry is also known as Journal Proper. The following transactions are recorded in this book of original entry:	
•	Purchase of a non-current asset on credit,
•	Sale of a non-current asset on credit,
•	Entries passed to rectify errors made in books of accounts (rectification entries),
•	Entries passed to adjust ledger balances (adjustment entries),
•	Entries passed to open accounts passed when the business starts operations (opening entries),
•	Closing entries to transfer Nominal Accounts to Trading & Profit and Loss Account.

Rules of Journalising

Rules of Debit and Credit Based on the Types of Account (Golden Rules Approach)

Nature of Account	Nature of Account	
Nominal Account	Debit Credit	Expenses and Losses Incomes and Gains
Real Account	Debit Credit	What comes in What goes out
Personal Account	Debit Credit	The receiver The giver

Rules of Debit and credit Based on the Accounting Equation (Accounting Equation Approach)

Components of Accounting Equation	Rule of Debit and Credit	
Assets	Debit Credit	Increase Decrease
Liabilities	Debit Credit	Decrease Increase
Capital	Debit Credit	Decrease Increase
Drawings	Debit Credit	Increase Decrease
Expenses	Debit Credit	Increase Decrease
Revenue	Debit Credit	Decrease Increase

Ledger

The book of account in which transactions are recorded in respective account, after they have been entered in the journal is called the Ledger. It is the book of account in which the transactions are recorded in a classified and permanent manner. It is the final destination of all the accounts, and hence, it is also called the Book of Final Entry.

Dr .... **Account** **Cr.**

Date	Particulars	J.F.	(Rs.)	Date	Particulars	J.F.	(Rs.)

Ledger Posting

Assets: Increases on the left hand side or the debit side and decreases on the credit side.
Liabilities: Increases on the credit side and decreases on the debit side.
Capitals: The same as liabilities.
Expenses: Increases on the debit side and decreases on the credit side.
Incomes or Gains: Increases on the credit side and decrease on the debit side.
To summarise

Dr.	Assets	Cr.	Dr.	Liabilities & Capital	Cr.
Increase		Decrease	Decrease		Increase

Dr.	Expenses or Loses	Cr.	Dr.	Income or Gains	Cr.
Increase		Decrease	Decrease		Increase

Trial Balance

The Trial Balance is a statement drawn up using the ledger balances to test of th arithmetical accuracy of the ledger account. The primary purpose of drafting a Tria Balance is to ensure that there are no arithmetical errors. However, it is to be note that after the use of computers in accounting, the requirement of drafting tria balance has substantially reduced. It is a columnar statement having five columns – Serial number, Name of ledger account, Ledger Folio (L.F.), Debit amount, and Credi amount. In case the accounting happen to be correct and complete, the two amoun columns of the Trial Balance should tally i.e. be of equal amount. The proforma of Trail Balance is as under:

Trial Balance of …….. as on ……..

Sl. No.	Ledger Accounts	L.F.	Dr. (Rs.)	Cr. (Rs.)

Features	
•	A trial balance is just a statement, and not an account.
•	It does not form part of the double entry system.
•	It does not appear in the actual books of accounts. It is usually prepared as a separate document.
•	It is prepared as on a particular date, and not for a period.
•	A trial balance may be prepared at any time, say, on monthly, quarterly, half-yearly or on annual basis. However, it is to be noted that the Trial Balance must be drafted at the end of every accounting year before the preparation of financial statements.
•	If the books are arithmetically accurate, the total of the debit balances must agree with the total of the credit balances.
•	The agreement of a trial balance is only a prima facie evidence of the arithmetical accuracy of the books of accounts but not a conclusive proof of absolute accuracy.

JOURNAL, LEDGER AND TRIAL BALANCE

QUESTION NO.	R1	R2	R3	SPECIAL POINT
Q.1				
Q.2				
Q.3				
Q.4				
Q.5				

CHAPTER 3

Journal, Ledger and Trial Balance

Q1. For the following transactions pass the journal entries and post them in Ledger:

ICMAI Study material

2023
April 1 – Mr. Vikas and Mrs. Vaibhavi who are husband and wife start consulting business by bringing in their personal cash of ₹ 5,00,000 and ₹ 2,50,000 respectively.
April 10-Bought office furniture of ₹25,000 for cash.
April 11 – Opened a Current Account with Bank of BB by depositing ₹1,00,000
April 15 – Paid office rent of₹15,000 for the month by cheque.
April 20- Bought a motor car for ₹4,50,000 from Millenium Motors by making a down payment of ₹50,000 by cheque and the balance by taking a loan from HH Bank.
April 25-Vikas and Vaibhabi carried out a consulting assignment for AA Pharmaceuticals and raised a bill for ₹10,00,000 as consultancy fees. AA Pharmaceuticals have immediately settled ₹2,50,000 by way of cheque and the balance will be paid after 30 days. The cheque received is deposited into bank.
April 30 – Salary of a receptionist at the rate ₹5,000 per month and an officer at the rate ₹10,000 per month the salary for the current month is payable to them.

Answer:

Books of Vikas and Vaibhavi

Journal

Date	Particulars	L.F.	V.N.	(₹)	(₹)
2023 April 1	Cash A/c Dr. To Vikas's Capital A/c To Vaibhavi's Capital A/c (Being capital brought by the partners)			7,50,000	 5,00,000 2,50,000
10 April	Furniture A/c Dr. To Cash A/c (Being furniture purchased in cash)			25,000	 25,000
11 April	Bank of BB A/c Dr. To Cash A/c (Being current account opened with Bank of BB)			1,00,000	 1,00,000
15-Apr	Rent A/c Dr. To Bank of BB A/c (Being Rent paid)			15,000	 15,000
20-Apr	Motor Car A/c Dr. To Bank of BB A/c To Loan from HH Bank A/c (Being car purchased from Millenium Motors by making a down payment and loan arrangements)			4,50,000	 50,000 4,00,000

25-Apr	Bank of BB A/c Dr. AA Pharmaceuticals A/c Dr. To Consultancy Fees A/c (Being amount received and revenue recognized for fees charged)			2,50,000 7,50,000	 10,00,000
30-Apr	Salary A/c Dr. To Salary Payable A/c (Being the entry to record salary obligation for the month)			15,000	 15,000

Ledger

Cash Account

Dr. Cr.

Date	Particulars	J.F.	(₹)	Date	Particulars	J.F.	(₹)
1.4.23	To Vikas's Capital A/c		5,00,000	10.4.23	By Furniture A/c		25,000
1.4.23	To Vaibhavi's Capital A/c		2,50,000	11.4.23	By Bank of BB A/c		1,00,000
				30.4.23	By Bal c/d		6,25,000
			7,50,000				7,50,000
1.5.23	To Bal b/d		6,25,000				

Mr.Vikas's Capital Account

Dr. Cr.

Date	Particulars	J.F.	(₹)	Date	Particulars	J.F.	(₹)
30.4.23	To Bal c/d		5,00,000	1.4.23	By Cash A/c		5,00,000
				1.5.23	By Bal b/d		5,00,000

Mrs.Vaibhavi's Capital Account

Dr. Cr.

Date	Particulars	J.F.	(₹)	Date	Particulars	J.F.	(₹)
30.4.23	To Bal c/d		2,50,000	1.4.23	By Cash A/c		2,50,000
				1.5.23	By Bal b/d		2,50,000

Furniture Account

Dr. Cr.

Date	Particulars	J.F.	(₹)	Date	Particulars	J.F.	(₹)
1.4.23	To Cash A/c		25,000	30.4.23	By Bal c/d		25,000
1.5.23	To Bal b/d		25,000				

Dr. **Bank of BB Account** **Cr.**

Date	Particulars	J.F.	(₹)	Date	Particulars	J.F.	(₹)
11.4.23	To Cash A/c		1,00,000	15.4.23	By Rent A/c		15,000
25.4.23	To Consultancy Fees A/c		2,50,000	20.4.23	By Motor Car A/c		50,000
				30.4.23	By Bal c/d		2,85,000
			3,50,000				3,50,000
1.5.23	To Bal b/d		2,85,000				

Dr. **Rent Account** **Cr.**

Date	Particulars	J.F.	(₹)	Date	Particulars	J.F.	(₹)
15.4.23	To Bank of BB A/c		15,000	30.4.23	By Bal c/d		15,000
1.5.23	To Bal b/d		15,000				

Dr. **Motor Car Account** **Cr.**

Date	Particulars	J.F.	(₹)	Date	Particulars	J.F.	(₹)
20.4.23	To Bank of Baroda A/c		50,000				
"	To Loan from HH Bank A/c		4,00,000	30.4.23	By Bal c/d		4,50,000
			4,50,000				4,50,000
1.5.23	To Bal b/d		4,50,000				

Dr. **Loan from HDFC Bank Account** **Cr.**

Date	Particulars	J.F.	(₹)	Date	Particulars	J.F.	(₹)
30.4.23	To Bal c/d		4,00,000	20.4.23	By Motor Car A/c		4,00,000
				1.5.23	By Bal b/d		4,00,000

Dr. **Avon Pharmaceuticals Account** **Cr.**

Date	Particulars	J.F.	(₹)	Date	Particulars	J.F.	(₹)
25.4.23	To Consultancy Fees A/c		7,50,000	30.4.23	By Bal c/d		7,50,000
1.5.23	To Bal b/d		7,50,000				

Dr. Consultancy Fees Account Cr.

Date	Particulars	J.F.	(₹)	Date	Particulars	J.F.	(₹)
				25.4.23	By Bank of BB A/c		2,50,000
30.4.23	To Bal c/d		10,00,000	"	By AA Pharmaceuticals A/c		7,50,000
			10,00,000				10,00,000
				1.5.23	By Bal b/d		10,00,000

Dr. Salay Account Cr.

Date	Particulars	J.F.	(₹)	Date	Particulars	J.F.	(₹)
30.4.23	To Salary Payable A/c		15,000	30.4.23	By Bal c/d		15,000
1.5.23	To Bal b/d		15,000				

Dr. Salary Payable Account Cr.

Date	Particulars	J.F.	(₹)	Date	Particulars	J.F.	(₹)
30.4.23	To Bal c/d		15,000	30.4.23	By Salary A/c		15,000
							15,000
				1.5.23	By Bal b/d		

Q2. From the following details, prepare an Adjusted Trial Balance as at 31-3-23.

	₹		₹
Purchase	65,000	Sundry Creditors	35,000
Carriage Inward	1,000	Plant and Machinery	10,000
Wages	6,000	Buildings	5,000
Salaries	10,000	Furniture	3,000
Rent, Rates and Taxes	1,800	Bills Receivable	10,000
Insurance	1,500	Sundry Debtors	40,000
Interest Paid	1,000	Capital	66,000
Sales	95,000	Sundry Expenses	5,000
Cash and Bank	21,500	Opening Stock	21,000
Bills Payable	5,800		

Notes:

(a) Salaries and wages due to be paid 2,000 and ₹ 1,000 respectively.

(b) Insurance was paid to the extent of ₹300 advance.

(c) A sum of 500 to be written off as bad debt out of sundry debtors and a provision of 5% to be created for doubtful debts.

(d) Sundry expenses include ₹2,000 spent for the personal purpose of the proprietor.

(e) Sales for the period include₹ 500 worth of goods (cost price) taken by the proprietor for personal consumption. He has also taken goods worth 1,000 (cost price) for personal consumption which has not been recorded in the books.

(f) Depreciation to be provided as follows:

Plant and Machinery	10%
Buildings	5%
Furniture	10%

(g) Closing Stock 20,000.

[Dec. 2023, 7 Marks]

Answer:

Adjusted Trial Balance as at 31.03.2023

Heads of Accounts	Debit Balance (₹)	Credit Balance (₹)
Salaries (10,000 + 2,000)	12,000	—
Outstanding Salaries	—	2,000
Wages (6,000 + 1,000)	7,000	—
Outstanding Wages	—	1,000
Insurance (1,500 – 300)	1,200	—
Prepaid Insurance	300	—
Bad Debts	500	—
Bad Debts Reserve (40,000 – 500) × 5%	—	1,975
Profit & Loss Account (BDR)	1,975	—
Sundry Debtors (40,000 – 500)	39,500	—
Sundry Expenses (5,000 – 2,000)	3,000	—

Drawings (2,000 + 1,000)	3,000	—
Sales (95,000 – 500)	—	94,500
Depreciation on Plant & Machinery	1,000	—
Plant & Machinery (10,000 – 1,000)	9,000	—
Depreciation on Buildings	250	—
Buildings (5,000 – 250)	4,750	—
Depreciation on Furniture	300	—
Furniture (3,000 – 300)	2,700	—
Closing Stock	20,000	—
Adjusted Purchases (21,000 + 65,000 – 20,000 – 1,500)	64,500	—
Carriage Inward	1,000	—
Rent, Rates and Taxes	1,800	—
Interest Paid	1,000	—
Cash and Bank	21,500	—
Bills Payable	—	5,800
Sundry Creditors	—	35,000
Bills Receivable	10,000	—
Capital	—	66,000
Total	2,06,275	2,06,275

Note: Adjusted Purchases = *Opening Stock + Purchases – Closing Stock – Goods withdrawn for personal use*

Q3. Which transactions will:
(i) Decrease the assets and decrease the capital.
(ii) Increase the assets and increase the liabilities.
(iii) Increase the assets and decrease another asset.
(iv) Decrease the assets and decrease the liabilities. **[Dec. 2021, 4 Marks]**

Answer:

(i) Drawing or expenses.

(ii) Purchase of an asset on credit.

(iii) Purchase or sale of an asset in cash.

(iv) Payment of liability.

Q4. An accountant of a large-sized firm records all the transactions in a Journal instead of maintaining Subsidiary Books. His views on this are that it will result in better control and also large team of accountants will not be required. Whether his decision is correct? **[Dec. 2023, 5 Marks]**

Answer:

The accountant's decision to record all transactions inga Journal instead of maintaining subsidiary books is not recommended. Subsidiary books are a set of books of original entry that are used to record transactions of similar nature. They help in overcoming the limitations of journal book or journal entries.

Subsidiary books provide the following benefits:

- They help in maintaining a better control over the transactions.
- They help in saving time and effort by reducing the number of entries in the journal book.
- They help in reducing the chances of errors and frauds.
- They help in providing a detailed analysis of the transactions.

Therefore, it is advisable to maintain subsidiary books in addition to the journal book. This will help in ensuring better control over the transactions and provide a detailed analysis of the transactions. It will also help in reducing the chances of errors and frauds.

Q5. What are the steps or phases of 'Accounting Cycle'?

[Dec. 2013, July 2023, 4 Marks]

Answer:

Steps/Phases of Accounting Cycle:

(i) **Recording of Transaction:** As soon as a transaction happens it is at first recorded in subsidiary book.

(ii) **Journal:** The transactions are recorded in Journal chronologically.

(iii) **Ledger:** All journals are posted into ledger chronologically and in a classified manner.

(iv) **Trial Balance:** After taking all the ledger account's closing balances, a Trial Balance is prepared at the end of the period for the preparations of financial statements.

(v) **Adjustment Entries:** All the adjustments entries are to be recorded properly and adjusted accordingly before preparing financial statements.

(vi) **Adjusted Trial Balance:** An adjusted Trail Balance may also be prepared.

(vii) **Closing Entries:** All the nominal accounts are to be closed by the transferring to Trading Account and Profit and Loss Account.

(viii) **Financial Statements**: Financial statement can now be easily prepared which will exhibit the true financial position and operating results.