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**VIRTUAL COACHING CLASSES  
ORGANISED BY BOS, ICAI**

**FOUNDATION LEVEL  
PAPER 1: PRINCIPLES AND PRATICE OF  
ACCOUNTING**

**Faculty: CA VS Hiranmai**



# CHAPTER 2- ACCOUNTING PROCESS

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- There are 6 units in total for this chapter
- This chapter mainly deals with the basics to the recording, classifying and summarizing steps of accounting.
- **Summarizing** is the third step which aims at checking the arithmetical accuracy of the accounts prepared.
- The basics for preparation of the Trial balance is the ledger balances
- There are two methods in which the Trial balance can be prepared- using the **balance method** or **totals method**.
- The **balance method**- refers to posting only one balance against the heading of each account.
- The **Totals method**- refers to posting both the credit and debit balances in the Trial balance as against a particular account.



# Unit 3- Trial Balance

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- This trial balance in statement format is prepared to check if the total of the debit balances is equal to the total of the credit balances since the accounting is based on the concept of double entry system of book keeping where in every debit has a corresponding credit.
- The questions that can be asked from this chapter are only of two types-
  - **Question type 1-** The preparation of trial balance as per both the methods- but mostly it is the totals method which will be asked.
  - **Question type 2-** To prepare a corrected trial balance.
- For the purpose of this solving the illustrations under this unit it is essential that we learn thoroughly the balances of each account as per the **Accounting equation approach**.
- For easy reference, I have given the table mentioning the nature of accounts and the related balances.



# Unit 3- Trial Balance

- Classification of the balance sheet items (general items)

| Name of the account   | Balances |
|---|----------|
| Cash account, Trade receivables (Debtors), Inventory, Bills receivables, Prepaid expenses, accrued income (Current Assets)  | Debit    |
| Furniture, Plant & Machinery, Land and building , investments in FD (Assets)  | Debit    |
| Trade payables (creditors), bills payable, Outstanding expenses, Income in advance, long term loans from banks/ financial institutions, Provisions/reserves (Liabilities) | Credit   |
| Capital   | Credit   |
| Drawings  | Debit    |



# Unit 3- Trial Balance

- Classification of the Profit and loss Account items (general items)

| Name of the account  | Balances |
|--|----------|
| Purchases, opening stock, Salary, rent, Electricity, Printing & stationery, General administration expenses, general expenses, depreciation, sales return (direct and indirect expenses) | Debit    |
| Sales, Purchases returns, rent received, commission received, (any other indirect incomes)   | Credit   |



# Unit 3- Trial Balance

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- After understanding the normal balances part for the accounts- it becomes easy to construct the a Trial balance from the examination point of view.
- From this unit Illustration 4 and practical question 1( both of them of the same type) have been asked in the November 2019 paper for 5 marks.



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**THANK YOU**