

Fourth Edition

Eastern  
Economy  
Edition

# FINANCIAL

# ACCOUNTING



V.K. Goyal  
Ruchi Goyal

# FINANCIAL ACCOUNTING



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FOURTH EDITION

**V.K. Goyal**

Professor of Finance and Accounting  
Delhi School of Professional Studies and Research  
Guru Gobind Singh Indraprastha University, New Delhi

Formerly, Associate Professor  
Shri Ram College of Commerce, University of Delhi

**Ruchi Goyal**

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**FINANCIAL ACCOUNTING, Fourth Edition**

V.K. Goyal and Ruchi Goyal

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To  
*The Almighty*



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# Preface

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This is a thoroughly revised and enlarged edition of Financial Accounting, 3rd ed. by the first author. The Fourth Edition is based on the positive feedback and valuable suggestions received from the readers and the teaching community on the previous edition. We have strived to provide a comprehensive analysis of Financial Accounting and its fundamental concepts. The text is based on the B.Com. Programme/Pass course of Indian universities, especially on Delhi University semesterwise syllabus.

Organized into 15 chapters, the initial chapters (Chapters 1–3) discuss the meaning and objectives of accounting and accounting information, theory of accounting, and acquaint the reader with the accounting standards and the accounting process. Chapters 4 and 5 are devoted to a discussion on source documents, vouchers, books of business, and subsidiary books of business. While Chapter 6 deals with trial balance and errors and rectification of errors, Chapter 7 gives a detailed description of depreciation method for providing depreciation and reserves and provision. In Chapters 8 and 9 we try to acquaint the reader with final accounts of trading concerns wherein the meanings of financial statements, trading account, profit and loss account, balance sheet, etc., as well as of non-trading organization are clearly explained.

Chapters 10–12 cover accounts from incomplete records (dealing with single entry system), consignment account, and joint venture account.

Finally, Chapters 13–15 are devoted to a detailed discussion on hire purchase system, the instalment system, branch accounts, and dissolution of a partnership firm.

While the new edition retains all the topics of the third edition, it features more solved and unsolved problems in every chapter, has more practice exercises, and gives question papers of Delhi University examinations and institutes up to 2012.

We are really thankful to all our colleagues and friends for their thoughtful comments and valuable suggestions for further improving the text. We sincerely express our gratitude towards our family, particularly Mrs. Savita Goyal, without whose active support the present work would have not been completed. We would also like to mention the support and active cooperation of the editorial and production team of PHI Learning.

Suggestions for further improvement of the text will be warmly appreciated and gratefully acknowledged.

**V.K. Goyal**  
**Ruchi Goyal**

# Meaning and Objectives of Accounting and Accounting Information

## Learning Objectives

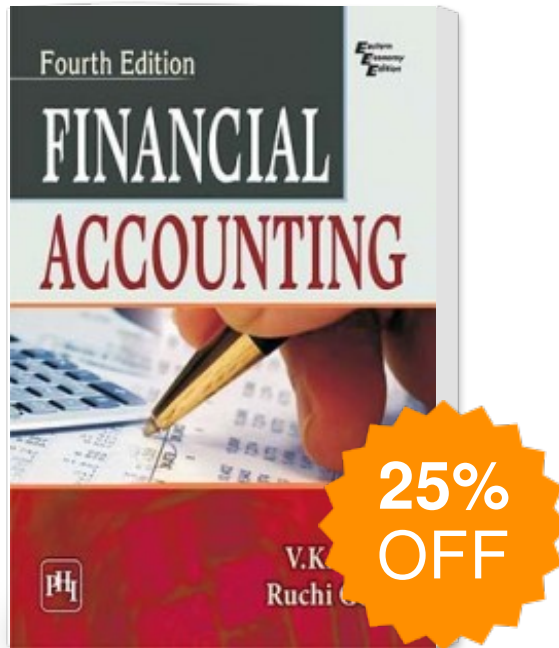
*After studying this chapter, you would be able to:*

- Explain the need of accounting
- Define accounting
- Explain the stages of accounting
- Understand the objectives of accounting
- Know the relationship between accounting and other subjects (Disciplines)
- Define the various users of accounting information
- Understand the systems and basis of accounting
- Know the advantages or role of accounting
- Explain the limitations of accounting
- Understand the different terms which are frequently used in accounting

## NEED FOR ACCOUNTING

The fundamental objective of a business is to earn profit. An accurate analysis of the business activities is possible, only when the information related to the cost of the products or services and revenue from such products or services is available, especially when (1) the volume of sales is very high and (2) when the sales are in cash as well as in credit. We know that the magnitude of transactions taking place in the business is increasing exponentially because of globalization, i.e. because of the increasing scope of business—both nationally as well as internationally. Thus, there is a need for recording of all such transactions or activities which are in money or are money's worth. The recording of transactions is done through a process which is known as *Accounting* also known as the language of business. The recording of business transactions is necessary, as it is clear from the statement/experiences of a well-known author of Accounting, Prof. R.R. Gupta, Principal, Poddar College, Nawalgarh (Rajasthan), "First write/record before

# Financial Accounting



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Goyal Ruchi

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