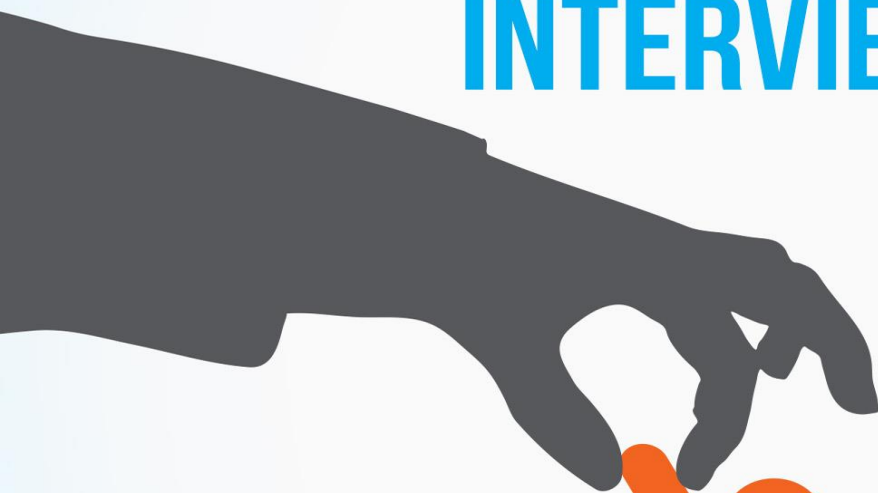


GOLDEN BOOK

— OF —

ACCOUNTING & FINANCE INTERVIEWS - I



By - www.AccountingCapital.com

Are you striving for a career in Accounting or Finance?

Do you want to get ahead of the competition and have more success in interviews?

If you are, then this new book, Golden Book of Accounting & Finance Interviews - Part I, could hold the answers you've been looking for.

Inside you will find compilation of 40 very common questions you could be asked when attending interviews with some of the biggest global companies, including questions like:

- **Why is depreciation not charged on land**
 - **What are fictitious assets**
 - **What is deferred revenue expenditure**
 - **What are chart of accounts**
- **Why is closing stock not shown in trial balance**
 - **What are accruals**
 - **And many more...**

Aimed at helping Accounting & Finance students/professionals to feel more confident in their interviews, the book is the end result of personal research carried out over many years. It has been devised in close interaction with over 100 accounting and finance professionals and their interview experiences and will provide you with the right way to answer those tricky questions.

The research involved aspirants which went for an interview in companies such as EY, KPMG, Deloitte, PWC, Grant Thornton, Ameriprise Financial, American Express, FIS, Fluor Corporation, Genpact, Bechtel, Citigroup, Accenture, Agilent, UHG, UBS, Bank of America, HCL, Sapient, BlackStone, HSBC, FIS, WNS, XL Catlin, BT, Boston Consulting Group, Royal Bank of Scotland, Whirlpool, GE, EXL, BlackRock, etc.

If you are planning for a career in business with endless opportunities, **Golden Book of Accounting & Finance Interviews - Part I** is something you simply must read.

Copyright - Golden Book of Accounting & Finance Interviews – Part I

By- Founder – www.AccountingCapital.com

No portion of this book may be reproduced to make money in any form without permission from the publisher. For permissions contact: Contact@AccountingCapital.com

© 2014-2018 All rights reserved.

Though every effort has been made to avoid errors or omissions in the site there is still no guarantee that all content is perfect, an error or disagreement may be brought to our notice along with evidence of it being incorrect.

All such errors shall be corrected at the earliest preferably within a month. It is notified that no person related with the eBook in any manner shall be responsible for any damage or loss of action to anyone, of any kind, in any manner, therefrom. It is suggested that to avoid any doubt you should cross-check information with facts, laws, contents, publications, government documents etc.

You should consult with a chartered accountant, lawyer, personal advisor, tax advisor, or someone authorized by law on specific facts and situations.

Index – Part I

1. Real life accounting & finance interview questions (40 questions)

Index – Part II (Currently in Progress & to be launched soon)

1. More role specific accounting & finance interview questions
2. MS-Excel related interview questions
3. Tips on business & communication skills
4. Resume & Job-Hunting guidelines
5. Dos & Don'ts



Odds are high that your next finance and accounting interview will begin with the usual phrase “**Tell us something about yourself**” and will follow a similar pattern like all other interviews. It may or may not be successful but it will definitely be another opportunity for you to learn and grow.

My first handshake with accounting wasn't as great as expected however struggle, sweat, determination & practice eventually created enough comfort that I can now write an e-book and try genuinely to help people in this area.

I can say without an ounce of doubt there is no substitute for hard work and should definitely be your weapon of choice against failure but “most successful people in the world are not always the hardest workers” so no excuse can ever justify not adding smart work to your gear.

The objective here is not to teach you everything but to mentor in the right direction which can hopefully **fingers crossed** help more & more aspirants increase their confidence and succeed in the corporate world.

This eBook is a product of more than 5 years' research, interaction with friends in this field & most importantly personal failures. The first part contains a handpicked compilation of FAQs related to finance & accounting.

The e-book contains excerpts from my website www.AccountingCapital.com and every question has a link to the website's page for you to be able to understand more with examples.

*To be available in online stores across America, Asia, Africa, Australia, & Europe
Kindle, Smashwords, Apple, Kobo, LuLu, etc.*

Table of Contents

- [Ques. 1 – What are Three Golden Rules of Accounting?](#)
- [Ques. 2 – What are Three Main Types of Accounts in Accounting?](#)
- [Ques. 3 – Why is Depreciation Not Charged on Land?](#)
- [Ques. 4 – What is Working Capital, How is it Calculated?](#)
- [Ques. 5 – What are the Three Main Financial Statements?](#)
- [Ques. 6 – What is an Accounting Equation or Balance Sheet Equation?](#)
- [Ques. 7 – Why is Closing Stock Not Shown in Trial Balance?](#)
- [Ques. 8 – What is an Accounting Cycle or Accounting Trail?](#)
- [Ques. 9 – What is Capital, Type of Account & where is it Shown in the Financial Statements?](#)
- [Ques. 10 – What are Fictitious Assets?](#)
- [Ques. 11 – What is the Journal Entry for Goods Given for Charity or Distributed as Free Samples?](#)
- [Ques. 12 – What is Depreciation, Types of Depreciation & Journal Entry for Depreciation?](#)
- [Ques. 13 – What are Contingent Liabilities?](#)
- [Ques. 14 – What is the Difference between Reserves & Provisions?](#)
- [Ques. 15 – What are Preliminary Expenses & where is it Shown in the Financial Statements?](#)
- [Ques. 16 – What is Amortization?](#)
- [Ques. 17 – What is a Compound Journal Entry, Give Example?](#)
- [Ques. 18 – What is Deferred Revenue Expenditure?](#)
- [Ques. 19 – What are Current Assets & Current Liabilities, Where are they shown in the Financial Statements?](#)
- [Ques. 20 – What are Tangible & Intangible Assets?](#)
- [Ques. 21 –What is Sales Ledger Control Account & Purchase Ledger Control Account?](#)
- [Ques. 22 –What is a Bank Reconciliation Statement & why is it Prepared?](#)
- [Ques. 23 – What are Bad-Debts & Journal Entry for Bad-Debts?](#)
- [Ques. 24 – Explain Provision for Doubtful Debts, what is its Journal Entry?](#)
- [Ques. 25 – What are Chart of Accounts?](#)
- [Ques. 26 – What are Contingent Assets?](#)
- [Ques. 27 – What are Drawings, Type of Account, where is it shown in Financial Statements & what is its Journal Entry?](#)
- [Ques. 28 – What is a Contra Account?](#)
- [Ques. 29 – What is a Debit and Credit Note, Journal Entries for Both?](#)
- [Ques. 30 – What is \(cost of goods sold\) COGS & how to Calculate COGS?](#)
- [Ques. 31 – How to Prepare a Trial Balance From Ledger Balances?](#)
- [Ques. 32 – What do you know about SOX \(Sarbanes-Oxley Act\)?](#)
- [Ques. 33 – What is a Cost Center, Service Center & Profit Center?](#)
- [Ques. 34 – What is Purchase Order & Different Types of Purchase Orders?](#)
- [Ques. 35 – What is a Suspense Account?](#)
- [Ques. 36 – Explain Accrued Income & Income Received in Advance along with their Journal Entry?](#)
- [Ques. 37 – Explain Outstanding Expenses & Prepaid Expenses along with their Journal Entry?](#)
- [Ques. 38 – What are Accruals?](#)
- [Ques. 39 – What is Cash Discount & Trade Discount with Examples?](#)
- [Ques. 40 – What is the Difference between Direct and Indirect Expenses?](#)

Real Life F&A Interview Questions

Ques. 1 – What are Three Golden Rules of Accounting?

• Level – Beginners • FAQ in Genpact, Bechtel, Bank of America, Accenture, Govt. Cos, EXL etc.

Three golden rules of accounting are

Type of Account	Debit	Credit
Personal	The Receiver	The Giver
Real	What Comes in	What Goes Out
Nominal	Expenses and Losses	Incomes and Gains

In double entry bookkeeping system this is one of the most commonly used terms. They are also called the **traditional rules of accounting or the rules of debit and credit.**

*Learn this by heart for this is your alpha and you don't want to mess up your first impression.

I would recommend going to the website here [Three Golden Rules of Accounting with Examples](#) to understand it in-depth with illustrations.

Ques. 2 – What are Three Main Types of Accounts in Accounting?

• Level – Beginners • FAQ in Whirlpool, RR Donnelley, IBM, Barclays, XL Dynamics, Genpact, EXL etc.

Three types of accounts in accounting are **Real, Personal and Nominal** accounts. If you want to be good with journal entries it's necessary for you to be accurate while identifying the type of an account.

*This question has been asked countless times in classrooms/interviews and I expect it to remain this way.

Real Accounts - All assets of a firm, which are tangible or intangible, fall under the category of "Real Accounts".

Tangible real accounts are related to things that can be touched and felt physically. Examples of tangible real accounts are **building, machinery, stock, land, etc.**

Intangible real accounts are related to things that can't be touched and felt physically. Examples of Intangible real accounts are **goodwill, patents, trademarks, etc.**

Personal Accounts – These accounts are related to individuals, firms, companies, etc. Examples of personal accounts are **debtors, creditors, banks, outstanding/prepaid accounts, capital, drawings, etc.**

Nominal Accounts – These accounts are related to expenses, losses, incomes & gains. Nominal accounts do not really exist in physical form, but behind every nominal account money is involved. Examples of nominal accounts are **purchases, salaries, sales, commission received, etc.**

Here at the link [Three Types of Accounts in Accounting](#) I have explained this topic in more detail with examples.

Ques. 3 – Why is Depreciation Not Charged on Land?

• Level – Beginners & Intermediate • FAQ in Fluor Corp, Citigroup, Agilent, Mercer, EY, Deloitte, etc.

The reason why depreciation is not charged on land is because **land has infinite useful life**. It is necessary for an asset to have an estimated useful life for it to be depreciated, which in case of land can't be determined.

Example – A company built its HQ on a piece of land in 1910, the building has been rebuilt and renovated many times since 1910, but the piece of land is still there and no one can say for how many more years it is going to exist (possibly infinite).

So, just because there is no set useful life of land there is no depreciation charged on that. In fact, with time the value of land may have appreciated.

Learn more here about [Why Depreciation is Not Charged on Land and the Related Formula](#)

Ques. 4 – What is Working Capital, How is it Calculated?

• Level – Beginners • FAQ for credit control, P2P, O2C, WC Mgmt. roles in almost all major banks & companies

Working capital is the money which is employed in a company's day-to-day operations. It is cash or liquid assets necessary for running a company's daily activities and it also helps to find out if a business has enough current assets to cover all its short-term liabilities.

Working capital ensures efficient management of a company's operations and maintenance of its financial health.

Technically the excess of current assets over current liabilities is known as working capital, calculations are as follows:

$$\text{Working Capital} = \text{Current Assets} - \text{Current Liabilities}$$

Example; Current Assets = 3, 00,000, Current Liabilities = 1, 75,000

$$\text{WC} = (3, 00,000 - 1, 75,000) \text{ WC} = 1, 25,000$$

You can follow this link to learn more about [Working Capital](http://www.AccountingCapital.com)

Ques. 5 – What are the Three Main Financial Statements?

• Level – Beginners • FAQ for entry level roles in companies such as Genpact, Accenture, Bank of America, UHG, etc.

1. **Profit & Loss Account** or Income Statement
2. **Balance Sheet** or Statement of Financial Position
3. **Cash Flow Statement** or Statement Accounting for Variations in Cash

Three major financial statements are prepared as a summary of figures and facts showing the financial condition of a business.

They are prepared to show how a business uses its funds committed by the shareholders and lenders, also to see where the business stands in terms of its financial position.

You may explore [Three Financial Statements, their Templates Along with Some More Details](#) here on the website.

Ques. 6 – What is an Accounting Equation or Balance Sheet Equation?

• Level – Beginners • FAQ in Sandmartin, Blackstone, Sapient, BT, EY, Deloitte, PWC, HCL, etc.

Accounting Equation is **Assets = Capital + Liabilities**

Also known as balance sheet equation it is based on the dual concept of accounting, which says that every transaction has two aspects, debit and credit, and for every debit there is equal and opposite credit.

Accounting equation indicates that sources of funds are equal to the uses of funds. In other words, the accounting equation means that capital and liabilities together are equal to assets at all times.

You can find a [Detailed Explanation Along with an Example, Integrity & Application of Accounting Equation](#)

Ques. 7 – Why is Closing Stock Not Shown in Trial Balance?

• Level – Beginners & Intermediate • FAQ in a Fluor Corp, Boston Consulting, XL Catlin, Ameriprise Financial, etc.

Closing stock is the leftover balance out of goods which were purchased during an accounting period but are still unsold.

Total purchases are already included in the trial balance; hence closing stock should not be included in the trial balance again. If it is included, the effect will be doubled.

Example - Suppose total purchases during an accounting period are – 10,000 & Closing Stock – 2,000 (This is included in purchases already)

If both of these figures are shown in trial balance then there will be a mismatch of 2,000 because the effect will be doubled.

Learn more about [Why Closing Stock is Not Shown in Trial Balance and what is the Exception to this Rule?](#)

Ques. 8 – What is an Accounting Cycle or Accounting Trail?

• Level – Beginners • FAQ in British Telecom, Accenture, Accretive, RBS, FIS etc.

Accounting cycle is a chronological order in which an accounting process flows. It is a step by step process followed to achieve the ultimate goals of accounting.

Step by Step Accounting Cycle/Trail

1. Identify a Transaction
2. Prepare Voucher/Evidence
3. Record a Journal Entry
4. Prepare Ledger
5. Balance Ledger
6. Adjustments
7. Trial Balance
8. Financial Statements

Here is an [Example Along with an Image Showing Accounting Trail](#)

Ques. 9 – What is Capital, Type of Account & where is it Shown in the Financial Statements?

• Level – Beginners & Intermediate • FAQ in Ameriprise Financial, S&P, All BIG 4s, Bechtel, CEB, DBS, etc.

In its simplest form, capital means the funds brought in to start a business by the owner(s) of a company. It is an investment by proprietor(s) or partner(s) in the business.

$$\text{Capital} = \text{Assets} - \text{Liabilities}$$

Capital is a liability for the business and, according to the traditional classification of accounts; **it is a Personal A/C**. Capital is shown on the **“Liability” (left hand) side of a balance sheet.**

This question is one to look for as you may find this a lot in both written and technical rounds. It is important to remember that capital is provided by someone either a person or an organization which means it should be categorized as a personal account.

You can find more precise text on the topic with some examples here [what is Capital?](#)

Ques. 10 – What are Fictitious Assets?

• Level – Beginners & Intermediate • FAQ in GE, Accenture, Whirlpool, Hughes, EXL, BIG 4s, Mercer, etc.

Fictitious assets are not assets at all however they are shown as assets in the financial statements only for the time being. In fact, they are expenses & losses which for some reason couldn't be written off during the accounting period of their incidence.

Examples

- Promotional expenses of a business
- Preliminary expenses
- Discount allowed on issue of shares
- Loss incurred on issue of debentures

I endorse one of our top viewed articles on the website [Fictitious Assets and where is it shown in Financial Statements](#)

Ques. 11 – What is the Journal Entry for Goods Given for Charity or Distributed as Free Samples?

• Level – Beginners & Intermediate • FAQ in Genpact, Bank of America, Amex, BIG 4s, I-Gate, etc.

When accounting for **goods given as charity** purchases are reduced with the exact cost of goods contributed.

Charity Account	Debit
To Purchases Account	Credit

When accounting for **goods distributed as free samples** purchases are credited and advertisement account is debited.

Advertisement Account	Debit
To Purchases Account	Credit

This is an article on [Journal Entries for Charity and Free Samples with an Example Each](#)

Ques. 12 – What is Depreciation, Types of Depreciation & Journal Entry for Depreciation?

• Level – Beginners • FAQ for fixed assets, general accounting, R2R related roles

The reduction in value of a tangible fixed asset due to normal usage, wear and tear, new technology or unfavorable market conditions is called Depreciation. Some assets which are depreciated are plant and machinery, buildings, vehicles, etc.

The 2 main types of depreciation are;

1. Straight Line Method
2. Diminishing Value Method

Other not very common types are;

1. Annuity method
2. Machine hour rate method
3. Revaluation method
4. Sum-of-the-years' digit method

Journal Entry for Depreciation

Depreciation Account	Debit
To Asset Account	Credit

Learn more on [Types of Depreciation & Examples](#)

Learn more on [Journal Entry of Depreciation & its Closing Entry](#)

Ques. 13 – What are Contingent Liabilities?

• Level – Beginners & Intermediate • FAQ in Macquarie, Fluor Corp, Big4s, BlackRock, Grant Thornton, etc.

Contingent liabilities are those liabilities that may or may not be incurred by a business depending on the outcome of a future event. Existence of this kind of liability is completely dependent on the occurrence of a probable event in future.

Example - Let's suppose that Apple files a case of patent violation on Samsung and Samsung not only realizes that it may have to pay for violations, but also estimates how much in total.

In this case, Samsung will record the estimated amount in balance sheet as contingent liability & expense in income statement.

In a different scenario if Samsung cannot estimate the amount in question it will be shown only as a footnote to the balance sheet.

Read more here on [Contingent Liabilities & Example](#)

Ques. 14 – What is the Difference between Reserves & Provisions?

• Level – Beginners • FAQ in Genpact, RR Donnelley, Capgemini, WNS, Accenture, Deloitte, etc.

Reserves	Provisions
1. Reserves are made to strengthen the financial position of a business and meet unknown liabilities or losses.	1. Provisions are made to meet specific liability or contingency, e.g. provision for doubtful debts.
2. Reserves are only made when the business is profitable.	2. Provisions are made irrespective of profits earned or losses incurred by a business.
3. They can be used to distribute dividends to shareholders.	3. They cannot be used to distribute dividends as they are made for a specific liability.
4. They are made by debiting P&L Appropriation Account.	4. They are made by debiting P&L Account.
5. It is not mandatory to create reserves for the business; it is mainly done for prudence.	5. Legally, it is mandatory to create provisions.
6. Reserves are shown on the liability side of a balance sheet.	6. Provisions are either shown on the liability side of a balance sheet or as a deduction from the asset concerned.

This topic has been covered on the website here [Reserves Vs Provisions](#)

Here is a link to Wikipedia for in-depth knowledge on [Reserves](#)

Here is a link to Wikipedia for in-depth knowledge on [Provisions](#)

Ques. 15 – What are Preliminary Expenses & where is it Shown in the Financial Statements?

• Level – Beginners • FAQ in RBS, XL Catlin, BNP Paribas, JP Morgan, XL Dynamics, etc.

The expenses incurred when a company is formed and before the start of any business operations are termed as preliminary expenses, they are a good example of **fictitious assets** which are written off every year from the profits earned by the business.

Some examples of preliminary expenses incurred before business incorporation are **legal cost, professional fees, stamp duty, printing fees, etc.**

Preliminary expenses are shown on **the Assets side of the balance sheet.**

This topic has been illustrated on the website here [Preliminary Expenses](#)

Ques. 16 – What is Amortization?

• Level – Beginners & Intermediate • FAQ in HSBC, Amazon, BIG 4s, HCL, IHG, Aricent, etc.

Reduction in the value of an asset by prorating its cost over a period of time (generally in years) is called **Amortization**. It can only be done for intangible assets such as **copyrights, patents, trademarks, goodwill, etc.** Amortization is for intangible assets whereas **depreciation** is for tangible assets.

Difference between Tangible & Intangible Assets

Example - A company Unreal Pvt. Ltd. develops new software and gets a copyright for 30,000,000 and it is expected to last for 3 years.

Now, if the company shows entire 30,000,000 as an expense, it will not show the true and fair picture for that accounting period and the profits for that year will show deflated numbers. Hence, every year the company shall record 10,000,000 for 3 years to write off the entire cost.

Very common in written tests, read more about [what is Amortization?](#)

Ques. 17 – What is a Compound Journal Entry, Give Example?

• Level – Beginners & Intermediate • FAQ in Macquarie, Public sector companies, Amex, IHG, Ameriprise etc.

A compound journal entry means a journal entry which includes multiple accounts that are either debited or credited, unlike a simple journal entry which only includes 1 debit and 1 credit.

In other words an entry which has more than one account in debit or credit or both is termed as a compound journal entry.

Example – 9,500 received in cash as full and final settlement of an account worth 10,000 by Unreal Pvt. Ltd.

Cash Account	9,500
Discount Allowed	500
To Unreal Pvt. Ltd.	10,000

Click to learn more about [Compound Journal Entry](#)

Ques. 18 – What is Deferred Revenue Expenditure?

• Level – Beginners & Intermediate • FAQ in Amex, Deloitte, Fluor Corp, KPMG, PWC, etc.

Deferred Revenue Expenditure is an expenditure which is revenue in nature and incurred during an accounting period, but its benefits are to be derived over multiple accounting periods.

These expenses are unusually large in amount and, essentially, the benefits are not consumed within the same accounting period.

Example - A company Unreal Pvt. Ltd. spends 30,000,000 on advertising in a year for a new product launch as benefits from the advertising are to be derived for 3 years.

Now, if the company shows entire 30,000,000 as an expense, it will not show the true and fair picture for that accounting period and the profits for that year will show deflated numbers. Hence, every year the company shall record 10,000,000 for 3 years to write off the copyright's entire cost, 10,000,000 X 3 Years.

Read more on [Deferred Revenue Expenditure](#) here

Ques. 19 – What are Current Assets & Current Liabilities, Where are they shown in the Financial Statements?

• Level – Beginners • FAQ in financial/ratio analysis related profiles & written tests

Current Assets - Assets which are held by a business for a short period, mainly a year or for an [accounting cycle of a business](#). Current Assets are [balance sheet accounts](#) that can either be converted to cash or used to pay current liabilities within the above mentioned time frame.

Follow this link for more detailed explanation on [Current Assets](#)

Examples of current assets include **cash, bank, debtors, stock, prepaid expenses, etc.** They are shown on the **assets side of the balance sheet.**

Current Liabilities – Current liabilities are those obligations of a company which are payable within a year or an accounting cycle of a business. They are either settled by current assets or by introduction of new current liabilities.

Examples include **overdraft, creditors, short-term loans, outstanding expenses, etc.** They are shown on the **liabilities side of the balance sheet.**

Follow this link for more detailed explanation on [Current Liabilities](#)

Ques. 20 – What are Tangible & Intangible Assets?

• Level – Beginners • FAQ in all assets related profiles & written tests

Tangible Assets - Assets which have a physical existence and can be touched and felt are called Tangible Assets. They can include both fixed and current assets.

Examples of tangible assets are **furniture, stock, computers, buildings, machines, etc.**

Intangible Assets - Intangible Assets don't have a physical existence and cannot be touched or felt. They can either be definite or indefinite, depending on the kind of asset in question.

Examples of intangible assets are **goodwill, patent, copyright, trademark, company's brand name, etc.**

Here is a quick [Difference between Tangible & Intangible Assets](#)

Ques. 21 – What is Sales Ledger Control Account & Purchase Ledger Control Account?

• Level – Beginners & Intermediate • FAQ in Ameriprise Financial, Franklin Covey, Boston Consulting etc.

Sales Ledger Control Account - Also known as the “Trade debtors control account” it shows the total debtors of a company at a given time.

In other words, the sales ledger control account shows the total amount owed to a business by its customers at a particular time, i.e. total of [Accounts Receivables](#).

Purchase Ledger Control Account - Also known as the “Trade creditors control account” it shows the total creditors of a company at a given time.

In other words, it shows how much in total a business owes to its suppliers at a particular time, i.e. the total of [Accounts Payable](#).

Here is a more detailed explanation on [Sales Ledger Control Account & Purchase Ledger Control Account](#)

Ques. 22 – What is a Bank Reconciliation Statement & why is it Prepared?

• Level – Beginners • FAQ in written tests, companies such as McKinsey, UHG, Ameriprise Financial, DBS etc.

In case of business, Bank Reconciliation Statement or BRS refers to a statement which is made to reconcile balance shown in the bank statement with the balance shown in cash book.

This helps a business to keep control of cash and get satisfactory explanations regarding differences between both balances.

Reasons to prepare

- Bank reconciliation statement helps to detect any errors and mistakes in cash book or passbook.
- Any delay in clearance or collection of checks can be identified.
- Timely reconciliations help prevent and find any frauds related to cash.
- It helps to identify the actual bank balance of a business.

- It helps in separating valid and invalid transactions such as a wrongly charged fee by the bank.

*Almost all accounting related positions which require you to take a written test will have a question on BRS; ensure you know “How to prepare a bank reconciliation statement”.

Ques. 23 – What are *Bad-Debts* & Journal Entry for *Bad-Debts*?

• Level – Beginners & Intermediate • FAQ in Macquarie, BIG4s, Amex, IHG, etc.

In a business scenario, amount which is overdue to a business owner by its debtor(s) and declared irrecoverable are known as bad-debts.

There are few reasons for debtor(s) to not pay their debts on time, for example a debtor going bankrupt or experiencing hardship due to business losses.

Journal Entry for Bad Debts

Bad Debts Account	Debit
To Debtor's Account	Credit

At the time of preparing final accounts debts which are written off during the accounting period are transferred to profit and loss account with the below journal entry.

Transfer to Income Statement

Profit and Loss Account	Debit
To Bad Debts Account	Credit

Take some time to go through this link to understand [Bad Debts with Example, see where Bad Debts are shown in Financial Statements etc.](#)

Ques. 24 – Explain Provision for Doubtful Debts, what is its Journal Entry?

• Level – Beginners & Intermediate • FAQ in Macquarie, E&Y, KPMG, PWC, Amex, IHG, etc.

Doubtful debts, as the name suggests, are those receivables which might become bad debts at some point in future. In other words, they are doubtful in recovery. By analyzing the past trend, a business can ascertain the approximate percentage that becomes bad every year out of the total credit allowed to buyers.

Journal Entry to Create Provision for Doubtful Debts

Profit and Loss Account	Debit
To Provision for Doubtful Debts	Credit

Provision for doubtful debts is a liability for a business and is shown on the liability side of a balance sheet.

This is where you can find more on [Provision for Doubtful Debts, what Sequence are they Calculated in etc.](#)

Ques. 25 – What are Chart of Accounts?

• Level – Beginners & Intermediate • FAQ in Macquarie, E&Y, KPMG, PWC, Amex, IHG, etc.

Chart of accounts is a list of all accounts in a company's general ledger. They are the identified accounts which are available for a company to record transactions into.

Think of chart of accounts as a Tree!

- “Assets” will be branches of the tree.
- “Current assets, fixed assets, other assets” are its sub branches.
- Finally, accounts such as Cash, Bank, Debtor and Prepaid Insurance are like leaves of the sub branches.

Keeping the same fundamentals, chart of accounts tree can be differently designed for separate businesses depending on need, size and divisions inside a company.

For example – Let's say in a company's chart of accounts current assets are provided IDs from – 2001 to 2999

2001 – Cash

2002 – Receivables

2003 – Prepaid expenses

2004 – Stock etc.

For a sample listing of [Chart of Accounts with more Examples, Reasons for Creating Chart of Accounts](#) you can follow this link.

Ques. 26 – What are Contingent Assets?

• Level – Beginners & Intermediate • FAQ in Macquarie, E&Y, KPMG, PWC, Amex, IHG, etc.

Contingent assets are as those assets which may or may not become a real asset for a business depending on the outcome of a future event. Existence of this kind of asset is completely dependent on the occurrence of a probable event in future. It is a potential asset but there is no surety.

An example of such asset is a court case. Only if the company wins the court case & gains from it, the contingent asset will actually be realized.

A contingent asset may be disclosed as a foot note to the balance sheet, these are not recognized in financial statements since this may result in the recognition of income that may never be realized.

Some more details on contingent assets can be found on Investopedia here

[what are Contingent Assets?](#)

Ques. 27 – What are Drawings, Type of Account, where is it shown in Financial Statements & what is its Journal Entry?

• Level – Beginners & Intermediate • FAQ in Ameriprise Financial, EY, KPMG, Deloitte, Amex, IHG, etc.

Assets in the form of Cash or Goods withdrawn from a business by the owner(s) for their personal use are termed as drawings. It reduces the capital invested in the business by the owner(s) and if goods are withdrawn, they are valued at cost price.

It is a **Personal A/C** which is reduced from the capital. It is **shown in balance sheet on the liability side** as a reduction in capital.

When Cash is withdrawn

Drawings Account	Debit
To Cash or Bank Account	Credit

When Goods are withdrawn

Drawings Account	Debit
To Purchases Account	Credit

[More on Drawings & its exact location in Balance Sheet can be seen here.](#)

Ques. 28 – What is a Contra Account?

• Level – Beginners & Intermediate • FAQ in Ameriprise Financial, E&Y, KPMG, PWC, Amex, IHG, etc.

Contra account is an account which is used to reduce or offset the value of an associated account. A contra account holds the opposite of normal balance for a particular type of an account.

If an account has debit balance (e.g. for an Asset a/c), then there will be a credit balance the contra account related to that. The opposite is true for a liability account.

Example – In this case **accumulated depreciation account** is a contra asset account linked to the plant and machinery account.

Plant and Machinery A/C	Debit
Accumulated Depreciation A/C (Contra Account)	Credit

Plant and Machinery A/C	5,00,000
Accumulated Depreciation A/C	-60,000
Actual Book Value of Plant and Machinery	$5,00,000 + (60,000) = 4,40,000$

Learn more on [Contra Asset Account, it's Uses & More Examples Here](#)

Ques. 29 – What is a Debit and Credit Note, Journal Entries for Both?

• Level – Beginners • FAQ for P2P/AP roles in companies such as Genpact, Bank of America, Ameriprise

Debit Note - It is a document **sent by a buyer to a seller**, or in other words a purchaser to a vendor, while returning goods received on credit, this notifies that a debit has been made to their accounts.

A debit note is issued for the value of the goods returned & works as a formal evidence/document to request for a credit note.

Journal Entry for Debit Note

In the books of Seller

Sales Returns Account	Debit
To Debtor's Account	Credit

You can find [Detailed Explanation, Sample Format & Characteristics of Debit Note here](#)

Credit Note - It is a document **sent by a seller to the buyer**, or in other words, a vendor to a purchaser, notifying that a credit has been made to their account against the goods returned by the buyer.

It notifies that the currency value in question is credited to the buyer's account (on records).

Journal Entry for Credit Note

In the books of buyer

Creditor's Account	Debit
To Goods Returned Account	Credit

You can find [Detailed Explanation, Sample Format & Characteristics of Credit Note here](#)

Ques. 30 – What is (cost of goods sold) COGS & how to Calculate COGS?

• Level – Beginners • FAQ in written tests companies such as McKinsey, UHG, Genpact, Competitive exams, etc.

Cost of Goods, also known as COGS or Cost of Sales is the actual cost of commodities sold to customers. It involves both cost of the material used for production and direct labor cost. **The cost of goods sold (COGS) is shown in profit and loss account.**

Calculation of COGS = Opening Stock + Purchases – Closing Stock

Also, COGS = Net Sales – Gross Profit

Example of Business XYZ

Opening Stock = 25, 00,000, Purchases = 10, 00,000 & Closing Stock valued at = 15, 00,000

COGS = OS + P – CS

= 25, 00,000 + 10, 00,000 – 15, 00,000

= 20,00,0000

This article can be seen here on the website [what is COGS?](#)

Ques. 31 – How to Make a Trial Balance From Ledger Balances?

• Level – Beginners • FAQ in almost all written tests in companies such as Ameriprise Financial, McKinsey, etc.

Preparing a trial balance is the next step to posting and balancing ledger accounts. Trial balance is a statement of debit and credit balances that are extracted from ledger accounts on a specific date.

Prepare a trial balance from the below ledger balances

Account	Balance	Account	Balance
Capital	70,000	Carriage Inwards	1500
Opening Stock	20,000	Carriage Outwards	2000
Salaries	10,000	Plant & Machinery	17,000
Return Inwards	500	Investments	7000
Return Outwards	6000	Sales	90,000
Purchases	10,000	Patents	10,000
Sales Ledger Control	7000	Furniture	8000
Purchase Ledger Control	40,000	Discount Allowed	1000
Cash in Hand	3000	Misc. Receipts	4000
Cash at Bank	3000	Closing Stock	9000

The way a balance is transferred to either debit or credit side of a trial balance depends on the nature of that account, below is the table showing the relationship between types of accounts and their usual balances.

Types of Account	Usual Balance
Assets	Debit
Liabilities	Credit
Capital	Credit
Revenue	Credit
Expenses	Debit
Drawings	Debit
Contra Asset Account	Credit
Contra Liability Account	Debit

Solution trial balance from ledger balances above

Particulars	Debit	Credit
Capital		70,000
Opening Stock	20,000	
Salaries	10,000	
Returns Inwards	500	
Returns Outwards		6000
Purchases	80,000	
Sales Ledger Control	7000	
Purchases Ledger Control		40,000
Cash in Hand	15,000	
Cash at Bank	11,000	
Carriage Inwards	1500	
Carriage Outwards	2000	
Plant & Machinery	17,000	
Investments	7000	
Sales		70,000
Patents	10,000	
Furniture	8000	
Discount Allowed	1000	
Misc. Receipts		4000
Total	1,90,000	1,90,000

This is one of our high ranking articles on [how to prepare trial balance?](#)

Ques. 32 – What do you know about SOX (Sarbanes-Oxley Act)?

• Level – Beginners • FAQ in all audit related profiles in companies such as Amex, HSBC, FIS, BIG4s, etc.

SOX or Sarbanes-Oxley Act refers to a United States federal law that came into existence in 2002. It has set standards which are expected to be followed in corporate governance, financial reporting and auditing for all publicly listed companies under the SEC (Securities and Exchange Commission).

The law was passed as a reaction to corporate governance failures and high-profile scandals. The SOX helps protect and safeguard the investors. The U.S. Securities and Exchange Commission is required to enforce the rulings on the listed companies.

Few infamous scandals which lead to forced government intervention included companies like Enron, WorldCom, Adelphia, etc.

[Lots of detailed material can be found on SOX at Wikipedia](#)

[This is our article on SOX on the website](#)

Ques. 33 – What is a Cost Center, Service Center & Profit Center?

• Level – Intermediate • FAQ for second level and above F&A roles

Cost Center - Cost center is a part of an organization that helps with business operations by providing guidance and support. A cost center doesn't add directly to the profits however adds to the cost of company operations. It can also be seen as a type of department.

Example – Human Resources Department, Finance Department, etc.

Read [Cost Center on Wikipedia](#) Read [Cost Center on our Website](#)

Service Center - A service center is an organizational unit which provides services to other departments within an organization. Its main task is to serve other departments within the organization.

Example – Technology, Real Estate, etc.

Read more on [what is Service Center](#) here.

Profit Center - Profit Center is a section of a company which is treated as separate sub-business within the organization to which revenues can be traced. It directly adds to the profits of the company, hence it is responsible for its own costs and revenues.

Example – Sales Department, Asset Management (For an asset management company), Advice & Wealth Management (For a wealth management co.) etc.

Read [Profit Center on Wikipedia](#) Read [Profit Center on our Website](#)

Ques. 34 – What is Purchase Order & Different Types of Purchase Orders?

• Level – Beginners • FAQ for all Procurement, AP & P2P related roles

Purchase order (PO) is an official document generated by a buyer of goods or services as an offer for the seller; it becomes a legal document of contract once the seller accepts the purchase order.

There are 4 different types of purchase orders such as **Standard PO, Planned PO, Blanket PO and Contract PO.**

Nowadays companies manage their entire procurement process with ERP systems for e.g. **SAP Ariba, Oracle iProcurement, IBM Emptoris Procurement etc.**

Follow this link for a detailed [Explanation on Different Types of Purchase Orders.](#)

Ques. 35 – What is a Suspense Account?

• Level – Beginners • FAQ for all generic accounting related profiles & written tests

A suspense account is an account temporarily used in general ledger to carry doubtful amounts which can either be a payment or a receipt.

Despite considerable efforts, if the reason(s) causing these questionable amounts are not found, the difference in the trial balance is temporarily transferred to a suspense account till it is properly analyzed and classified.

Suspense account is used only because a proper account for a particular transaction couldn't be determined at the time when the transaction was recorded.

I have explained [suspense account with examples](#) here on the website

Ques. 36 – Explain Accrued Income & Income Received in Advance along with their Journal Entry?

• Level – Beginners • FAQ in Fluor Corp, Accretive, Fidelity, GE, Hewitt, Ericsson, etc.

Accrued Income - Also known as outstanding income, it is earned during a particular accounting period, but is not received till the end of that accounting period.

Accrued income is a **personal account and is shown on the asset side of a balance sheet.**

Journal Entry for Accrued Income;

Accrued Income Account	Debit
To Income Account	Credit

Read more on [what is Accrued Income with the help of an example](#)

Income Received in Advance - Also known as unearned income, this is income which has been received in advance. The income belongs to a future accounting period (generally the next one); however, the payment is received in the current accounting period.

Income received in advance is a **personal account and is shown on the liability side of a balance sheet.**

Journal Entry for Income Received in Advance;

Income Account	Debit
To Income Received in Advance Account	Credit

Read more on [what is Income Received in Advance with example](#)

Ques. 37 – Explain Outstanding Expenses & Prepaid Expenses along with their Journal Entry?

• Level – Beginners • FAQ in Fluor Corp, Accretive, Fidelity, GE, Hewitt, Encore, etc.

Outstanding Expenses - Expenses which have been incurred during an accounting period and are due to be paid, but are not paid due to some reason are called outstanding expenses. Examples - **outstanding salary, outstanding rent, etc.**

Outstanding expense is a **personal account** and is **shown on the liability side of a balance sheet.**

Journal Entry for Outstanding Expenses;

Expenses Account	Debit
To Outstanding Expense Account	Credit

Follow this to read more [Outstanding Expenses and see how an Example looks like.](#)

Prepaid Expenses - Expenses which have been paid in advance and related benefits are not consumed within the same accounting period are called prepaid expenses. The benefits of expenses incurred are carried to the next accounting period. Examples include **prepaid salary, prepaid rent etc.**

Prepaid (Unexpired) expense is a **personal account** and is **shown on the Assets side of a balance sheet.**

Journal Entry for Prepaid Expenses;

Prepaid Expense Account	Debit
To Expense Account	Credit

Follow this to read more on [Prepaid Expenses with an Example](#)

Ques. 38 – What are Accruals?

• Level – Beginners & Intermediate • FAQ for all accounting profiles especially the ones involving journal entries

To understand Accruals we need to understand the meaning of the word accrual, which is “The act of accumulating something”. Accruals are mainly related to prepayments and arrears.

In accrual based accounting, accruals refer to expenses and revenues that have been incurred or earned, but have not been recorded in the books of accounts. Adjustment entries are incorporated in the financial statements to report these at the end of accounting period.

Illustration 1 - Company pays 25,000 for rent every month. On January, 1 it decides to pay 1, 00,000 advances towards rent.

Accruals related treatment – Company will not record the payment as an expense immediately because the building has not been used yet. So when they report their quarterly results after March, 31, they will report

expenses for 3 months i.e. $25,000 \times 3 \text{ months} = 75,000$ because the building will only be used for 3 months till that time.

Read more on [Accruals with More Examples](#) on our website

Ques. 39 – What is Cash Discount & Trade Discount with Examples?

• Level – Beginners • FAQ in written tests, ensure you know the journal entries involved

Cash discount - is a deduction allowed by the supplier of goods or by the provider of services to the buyer from the invoice price. This is done as an incentive in return for paying a bill within a specified time.

Common terms are **2/10, Net 30 (or) 2%/10 days, Net 30**. This payment term means that the buyer has an option to avail a 2% cash discount from the invoice price if the payment is made within the first 10 days of receiving the invoice. If the cash discount is not availed, the net amount due is to be paid within net 30 days.

Here is a link to know more about [Benefits of Cash Discount and Illustration](#).

Trade Discount - A reduction granted by a supplier of goods/services on list or catalog price is called trade discount. This is done due to business consideration such as trade practices, large quantity orders, etc.

It is not separately shown in the books of accounts; entries recorded in purchases or sales book are recorded as net amount, i.e. Gross Amount - Trade Discount.

Example - Let's assume that 100 keyboards are sold for the list price of 300 each with a trade discount of 10%.

100 Keyboards X 300 each = 30,000

Less 10% of 30,000

30,000 – 3000 = 27,000

Here is an [Example and Journal Entry for Trade Discount](#)

Ques. 40 – What is the Difference between Direct and Indirect Expenses?

• Level – Beginners • FAQ for roles related to mainly to cost accounting

Direct Expenses - are those expenses which are completely related or assigned to the core business operations. They are mainly related to purchases and production of goods/services.

Examples - Wages, Factory rent, Material Cost, Premises Renting, Fuel, Freight, Carriage Inwards, etc.

Indirect Expenses - Unlike direct, indirect expenses are **not** directly related or assigned to the core business operations. Indirect expenses are necessary to keep the business up and running, but they can't be directly related to the cost of the core revenue generating goods/services.

Examples - Salaries, Telephone bills, Printing & Stationery, Legal & Accounting charges, Carriage Outwards etc.

[Direct vs Indirect Expenses and their Position in Financial Statements](#)

Second book of this series - [Golden Book of Accounting & Finance](#)

[Interviews - Part II](#) will be unraveled soon & will include the following;

- 1. More role specific interview questions & journal entries**
- 2. MS-Excel topics to be ready with before an interview**
- 3. Business & Communication skills**
- 4. Resume & Job-Hunting skills**
- 5. Dos & Don'ts**

To remain in touch & stay informed about our new releases & updates [like](#)

[our FB Page Here!](#) 

For Tie-ups, Internships, Corrections, Inclusions, Volunteers, Questions, Inquiries, Reviews, Testimonials, etc. – Contact@AccountingCapital.com

Thank You for reading :)