

Unit 3

BOOKS OF PRIME ENTRY



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Points to recall

The following points are to be recalled before learning books of prime entry:

- Business entity concept
- Money measurement concept
- Dual aspect concept
- Realisation concept
- Accrual concept
- Materiality concept
- Cost concept



Learning Objectives

To enable the students to

- Understand the meaning and principles of double entry system
- Analyse the transactions on the basis of accounting equation approach
- Apply the rules of double entry system to pass journal entries for transactions



Key terms to know

- Source documents
- Cash receipt
- Invoice
- Debit note
- Credit note
- Pay-in-slip
- Cheque
- Double entry system
- Accounting equation
- Golden rules of accounting
- Journal entry

3.1 Introduction



Student activity

Think: A trader sold goods on credit to one of his customers for ₹ 2,000. After two days, the customer returned some of the goods worth ₹ 300, which were in damaged condition. The trader received back the goods. Later, when the customer paid ₹ 1,700, the trader demanded for full payment. He forgot about the returned goods. How can this situation be avoided?

Accounting process starts with identifying transactions involving money or money's worth and recording these financial transactions in the books of accounts. Transactions are recorded as and when they take place based on authentic documents or proofs or evidences. The authentic proofs are called as the source documents.

3.2 Source documents

Source documents are the authentic evidences of financial transactions. These documents show the nature of transaction, the date, the amount and the parties involved. Source documents include cash receipt, invoice, debit note, credit note, pay-in-slip, salary bills, wage bills, cheque record slips, etc. They are the bases of recording transactions in the books of accounts. They also serve as legal evidence in case of any legal dispute. The source documents commonly used are discussed below:

(i) Cash receipt/voucher

It is a document that shows the date, amount and details of cash purchases and cash sales or other cash transactions. Business persons receive cash receipt for cash purchases and issue cash receipt for cash sales.

Specimen of a cash voucher

Organization Name : Tamilnadu Newsprint & Papers Limited	
Invoice Type	Voucher No
Party Code	Party Name
Party Address	
Party Site	Payment Mode
Po No	Chq. Party Name
BIC Code	A/C No
Pay Group	Pay Group Desc

Transaction Details					
Invoice No	Due Date	Invoice Date	Voucher No	Voucher Date	Amount
TOTAL					

Prepared By	Checked By	Approved By


Acknowledgement	
Received ₹	
Rupees in words	Only

Signature with Date
PAYMENTS - OTHERS

(ii) Invoice

Invoice is used for credit purchases and credit sales. The date, amount and details of credit purchases and credit sales are given in the invoices. Invoice is generally prepared by the seller in three copies. The first copy is given to the purchaser, the second copy is sent along with the goods for checking and the third is retained by the seller and used as the source document for recording the transaction.

Specimen of an invoice

		TAMILNADU NEWSPRINT AND PAPERS LIMITED (A Government of Tamil Nadu Enterprise) KAGITHAPURAM - 639 136, Karur District, Tamilnadu.		EXTRA DEALER COPY	
Telephone : (04324) - Fax : (04324) - Mobile : E-mail :		TAX INVOICE			
CIN :					
SUPPLIER : TAMILNADU NEWSPRINT AND PAPERS LIMITED KAGITHAPURAM-639136, TAMILNADU		GST INVOICE NO. : DATE :			
STATE : STATE CODE : GSTIN :		AR INVOICE NO. : DATE :			
BILL TO : PAN :		SHIP TO : PAN :			
ADDRESS :		ADDRESS :			
STATE : STATE CODE : GSTIN :		STATE : STATE CODE : GSTIN :			
P.O.NO. : SALES ORDER : DEALER CODE : DEALER NAME :		RANGE & DIVISION : COMMISSIONERATE :			
DELIVERY ID : TRANSPORTER : TRUCK NO : RR/LR NO. :		BASIC PRICE : VALUE AFTER DISCOUNT : + FIXED FREIGHT : + INSURANCE : TAXABLE AMOUNT : SGST @ 6% : CGST @ 6% :		(Rs.)	
HSN CODE : DESCRIPTION :		NET AMOUNT :			
ITEM CODE : SUBSTANCE(GSM) : SIZE(CM) : REAM WT : REELS/BUNDLES(No.) : REAMS(KG) :		AMOUNT IN WORDS :			
UNIT CODE (UQC) : QUANTITY(MT) : LIST PRICE : Rate / MT :		PAYMENT DETAILS : Amount : By Date : % Discount :			
LC N NO :		Int% : From : To : If Paid After :			
Whether tax is payable on reserve charge basic:					
E. & O. E.		DESP / F-04.		Prepared by :	
Subject to Terms and Conditions given overleaf. REGD. OFFICE : 67, Mount Road, Guindy, Chennai - 600 032.		Checked by :		For Tamil Nadu Newsprint and Papers Limited Authorised Signatory	

(iii) Debit note

A buyer may return the goods to the seller in various situations such as when goods are defective or damaged, goods do not meet the specifications, etc. When goods are returned by a buyer, the buyer prepares a debit note and sends it to the seller. It contains details such as the description of the goods, quantity returned and also their value. Two copies are prepared in general, one copy is sent to the seller and another one is retained by the buyer. It is a document issued by a buyer stating the amount owed by the seller. A debit note is also called as debit memo.

Specimen of a debit note

GSTIN : STATE : STATE CODE :		Tamil Nadu Newsprint and Papers Limited (A Govt. of Tamil Nadu Enterprise) Kagithapuram-639 136, Karur District, Tamilnadu. Telephone Nos: _____ Fax: _____					
DEBIT NOTE							
GST SERIAL NO	:		DATE				
TRANSACTION NO	:		TRANSACTION DATE				
SALES ORDER NO	:		SALES ORDER DATE				
ORIGINAL AR INVOICE NO	:		ORIGINAL AR INVOICE DATE				
ORIGINAL GST INVOICE	:		ORIGINAL GST INV DATE				
RECIPIENT BILL TO CODE : NAME : ADDRESS : STATE : STATE CODE : GSTIN / UIN : PAN :			RANGE & DIVISION : COMMISSIONERATE : SHIP TO CODE : CUSTOMER : ADDRESS : STATE : STATE CODE : GSTIN / UIN : PAN :				
S. No.	DESCRIPTION	HSNCODE	ITEM NO.	INV QTY	UOM	RATE(Rs.)	AMOUNT(Rs.)
Taxable Amount							
CGST@6%							
SGST@6%							
NET AMOUNT							
Taxable Amount (in words) :							
Tax Amount (in words) :							
Net Amount (in words) :							
Narration :							
Dealer Code & Name							
For TAMILNADU NEWSPRINT AND PAPERS LIMITED							
Prepared By				Authorised Signatory			

Whether tax is payable on reverse charge basis: No
E.&O.E



Student activity

Think: A customer has returned the goods to his supplier along with a debit note. But, the supplier does not agree with the customer's claim that the goods are damaged. Can the customer consider his debit note as a valid source document and enter the purchases returns?

(iv) Credit note

It is a statement prepared by the seller who receives back from his customer the goods sold. It contains details such as the description of the goods, quantity returned and also their value. It is a document sent by a seller to the buyer, stating that a certain amount is owed to the buyer. It is also called as credit memo.

Specimen of a credit note

GSTIN : STATE : STATE CODE :		Tamil Nadu Newsprint and Papers Limited (A Govt. of Tamil Nadu Enterprise) Kagithapuram-639 136, Karur District, Tamilnadu. Telephone Nos: _____ Fax: _____					
CREDIT NOTE							
GST SERIAL NO	:		DATE	:			
TRANSACTION NO	:		TRANSACTION DATE	:			
SALES ORDER NO	:		SALES ORDER DATE	:			
ORIGINAL AR INVOICE NO	:		ORIGINAL AR INVOICE DATE	:			
ORIGINAL GST INVOICE	:		ORIGINAL GST INV DATE	:			
RECIPIENT BILL TO CODE : NAME : ADDRESS : STATE : STATE CODE : GSTIN / UIN : PAN :			RANGE & DIVISION : COMMISSIONERATE : SHIP TO CODE : CUSTOMER : ADDRESS : STATE : STATE CODE : GSTIN / UIN : PAN :				
S. No.	DESCRIPTION	HSN CODE	ITEM NO.	INV QTY	UOM	RATE(Rs.)	AMOUNT(Rs.)
Taxable Amount							
CGST@6%							
SGST@6%							
NET AMOUNT							
Taxable Amount (in words)							
Tax Amount (in words)							
Net Amount (in words)							
Narration							
Dealer Code & Name							
For TAMILNADU NEWSPRINT AND PAPERS LIMITED							
Prepared By						Authorised Signatory	

Whether tax is payable on reverse charge basis: No
E.&O.E

When cash or cheque is deposited in bank, a form is to be filled by a customer and submitted to the banker along with cash or cheque. This is called as pay-in slip or deposit slip. The main part of this will be retained by the bank and the counterfoil duly stamped and signed by the banker is returned to the customer.

<p>SBI <small>State Bank of India</small></p> <p>भारतीय स्टेट बैंक</p> <p>Branch : _____ Date : / / 20</p> <p>S/C A/R/D/O/D/C/T/L/DL A/c No. / Credit Card No.</p> <p>Name _____</p> <p>Tel. No. _____</p> <p>Amount ₹ _____ P.</p> <p>Rupees in words _____</p> <p>Cash / Cheque No. / Date / Name of Bank & Branch ₹ P.</p> <p>Total _____</p> <p>SWO / Passing Officer _____</p>	<p>SBI <small>State Bank of India</small></p> <p>भारतीय स्टेट बैंक</p> <p>Branch : _____ Date _____</p> <p>S/B / CA / RD / OD / CC / TL / DL A/c No. / Credit Card No.</p> <p>Name _____</p> <p>Tel.No. / Mobile No. _____</p> <p>E-mail ID _____</p> <p>Rupees in words _____</p> <p>Cheque No. / Date / Name of Bank & Branch ₹ P.</p> <p>Transaction ID _____ Total _____</p> <p>SWO Passing Officer _____</p> <p>Signature of Depositor _____</p>	<p>SBI <small>State Bank of India</small></p> <p>भारतीय स्टेट बैंक</p> <p>Branch : _____ Date _____</p> <p>S/B / CA / RD / OD / CC / TL / DL A/c No. / Credit Card No.</p> <p>Name _____</p> <p>Tel.No. / Mobile No. _____</p> <p>E-mail ID _____</p> <p>Rupees in words _____</p> <p>Cheque No. / Date / Name of Bank & Branch ₹ P.</p> <p>Transaction ID _____ Total _____</p> <p>SWO Passing Officer _____</p> <p>Signature of Depositor _____</p>
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Cheque is a negotiable instrument. Cheque book is issued by a bank to its customers for withdrawing money for own use or for making payment to others. By issue of cheque, a bank is directed to pay a specific amount of money from a person's account either to the same person or to the person in whose favour the cheque has been issued. Each cheque book has record slips for entering the details of cheques issued. It remains with the account holder for future reference.

[illegible]



Student activity

Think: Crossed cheque is preferred to a bearer cheque. Why?

3.3 Double entry system

Double entry system of book keeping is a scientific and complete system of recording the financial transactions of an organisation. According to this system, every transaction has a two fold effect. That is, there are two aspects involved, namely, receiving aspect and giving aspect. It is denoted by debit (Dr.) and credit (Cr.). The basic principle of double entry system is that for every debit there must be an equivalent and corresponding credit. Debit denotes an increase in assets or expenses or a decrease in liabilities, income or capital. Credit denotes an increase in liabilities, income or capital or a decrease in assets or expenses.



'Dr.' is abbreviation of 'addebitare', the Italian word and debere, the Latin word meaning 'debit'. Hence, though there is no 'r' in the word debit. It has been abbreviated as 'Dr.' based on the Italian and Latin words having 'r' in these.

3.3.1 Definition

"Every transaction involving money or money's worth has two fold aspects, the receiving of a value on the one hand and the giving of the same value on the other. This two fold nature in all transactions must be recorded in the books and this gives rise to the term Double Entry Book keeping".

– Munro and Palmer

"Every business transaction has a two-fold effect and that it affects two accounts in opposite directions and if a complete record is to be made of each such transaction it is necessary to debit one account and credit another account. It is this recording of two fold effect of every transaction that has given rise to the term Double Entry".

– J.R Batliboi

3.3.2 Principles of double entry system

Following are the principles of double entry system:

- (i) In every business transaction, there are two aspects.
- (ii) The two aspects involved are the benefit or value receiving aspect and benefit or value giving aspect.
- (iii) These two aspects involve minimum two accounts; at least one debit and at least one credit.
- (iv) For every debit, there is a corresponding and equivalent credit. If one account is debited the other account must be credited.

3.3.3 Advantages of double entry system

Following are the advantages of double entry system:

(i) Accuracy

In this system, the two aspects of each transaction are recorded in the books of accounts. This helps in checking the accuracy in accounting.



(ii) Ascertainment of business results

Details regarding expenses, losses, incomes, gains, assets, liabilities, debtors, creditors, etc., are readily available. This helps to ascertain the net profit earned or loss incurred during an accounting period and also to know the financial position as on a particular date.

(iii) Comparative study

The business results of the current year can be compared with those of the previous years and also with other business firms. It facilitates business planning for future.

(iv) Common acceptance

The business records maintained under this system are accepted by financial institutions, government and others, because it is a systematic and scientific system.

3.4 Transaction

Transaction involves transfer of money or money's worth (goods or services or ideas) from one person to another. Transaction can be classified into cash transaction, bank transaction and credit transaction.

(a) Cash transaction

When immediate cash is involved in a transaction, it is called cash transaction. For example, goods are sold for cash ₹ 5,000. In this case, cash ₹ 5,000 comes into the business and goods worth ₹ 5,000 go out of the business.

(b) Bank transaction

In a transaction, if bank is involved, it is a bank transaction. Bank transaction includes the following:

- (i) Cash deposited into the bank
- (ii) Income of the business directly received by the bank
- (iii) Receipts through Cash Deposit Machine (CDM)
- (iv) Payment made by the customers of the business through debit card, credit card, net banking, National Electronic Funds Transfer (NEFT), Real Time Gross Settlement (RTGS), etc.
- (v) Cash withdrawn from the bank
- (vi) Bank charges levied by the bank
- (vii) Payments made by the bank as per standing instructions
- (viii) Payments made by cheque
- (ix) Payments made by the business through debit card, net banking, NEFT and RTGS



Automated Teller Machine (ATM): ATM is a computerised machine that provides the customers of banks the facility of accessing their account for dispensing cash and to carry out other financial and non-financial transactions without the need to actually visit their bank branch.

Cash Deposit Machine (CDM): It is an ATM like machine that allows depositing cash directly into a customer's account without any manual intervention of the bank employee. There is no need to fill deposit slips.





Debit card: The debit cards are used to withdraw cash from an ATM, to purchase goods and services at Point of Sale (POS) and in E-commerce (online purchase). A customer can use debit card for the money he has in the bank account with some restrictions.

Credit card: The credit cards are used to purchase goods and services at Point of Sale (POS) and in E-commerce (online purchase). A customer can use credit card within the limit specified by the bank even if there is inadequate balance in the account. The bank may charge interest and other charges for credit card usage.



NEFT: National Electronic Funds Transfer (NEFT) is a nation-wide payment system facilitating one-to-one funds transfer. Under this scheme, any person can electronically transfer funds from any bank branch to any person having an account with any other bank branch in the country.

RTGS: The acronym 'RTGS' stands for Real Time Gross Settlement, which can be defined as the continuous (real-time) settlement of funds transfers individually on an order by order basis.

(c) Credit transaction

When settlement is not made by cash or through bank immediately in a transaction, it is called credit transaction. But, the amount is to be settled within a specified period. For example, purchase of goods on credit for ₹ 3,000. In this case, goods worth ₹ 3,000 come into the business and a liability of creditors worth ₹ 3,000 arises.

3.5. Account

Every transaction has two aspects and each aspect affects minimum one account. An account is the basic unit of identification in accounting. A ledger account is a summary of relevant transactions at one place relating to a particular head. Account is the systematic presentation of all material information regarding a particular person or item at one place, under one head.

3.6. Approaches of recording transactions

There are two approaches for recording transactions, namely, i) Accounting equation approach and ii) Traditional approach.

3.6.1. Accounting equation approach

The relationship of assets with that of liabilities to outsiders and to owners in the equation form is known as accounting equation.

Under the double entry system of book keeping, every transaction has two fold effect, which causes the changes in assets and liabilities or capital in such a way that an accounting equation is completed and equated.

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

Capital can also be called as owner's equity and liabilities as outsider's equity.

Accounting equation is a mathematical expression which shows that the total of assets is equal to the total of liabilities and capital. This is based on the dual aspect concept of accounting. This means that total claims of outsiders and the proprietor against a business enterprise will always be equal to the total assets of the business enterprise.

As the revenues and expenses will affect capital, the expanded equation may be given as under:

$$\text{Assets} = \text{Liabilities} + \text{Capital} + \text{Revenues} - \text{Expenses}$$

Therefore, under this approach, accounts are classified into five categories: (i) Asset account, (ii) Liability account, (iii) Capital account, (iv) Revenue account and (v) Expense account as follows:



(i) **Asset account**

Any physical thing or right owned that has a monetary value is called asset. The assets are grouped and shown separately; for example, Land and Buildings account, Plant and Machinery account.

(ii) **Liability account**

Financial obligations of the enterprise towards outsiders are shown under separate heads as liabilities; for example, creditors account, expenses outstanding account.

(iii) **Capital account**

Financial obligations of a business enterprise towards its owners are grouped under this category; for example, capital contributed by owner.

(iv) **Revenue account**

Accounts relating to revenues of an enterprise are grouped under this category, for example; revenues from sale of goods, rent received.

(v) **Expense account**

Expenses incurred and losses suffered for earning revenue are grouped under this category; for example, purchase of goods, salaries paid.

A transaction may have the effect on either side of the equation by the same amount or it may have the effect on one side of the equation only, by both increasing and decreasing it by an equal amount.

Recording of transactions as per accounting equation approach is explained below:

(a) Increase in capital and increase in asset

Commenced business with cash ₹ 1,00,000

Effects: (i) Cash comes in → Increase in asset

(ii) Capital provided by the owner → Increase in capital of owner

Capital	=	Assets
Capital	=	Cash
(+) ₹ 1, 00,000	=	(+) ₹ 1, 00,000

(b) Decrease in liability and decrease in asset

Paid creditors ₹ 10,000

Effects: (i) Cash goes out → Decrease in asset

(ii) Creditors are paid → Decrease in liability

Liabilities	=	Assets
Creditors	=	Cash
(-) ₹ 10,000	=	(-) ₹ 10,000

(c) Decrease in one asset and increase in another asset

Bought furniture costing ₹ 5,000 by paying cash

Effects: (i) Furniture comes in → Increase in asset
(ii) Cash goes out → Decrease in asset

$$\begin{aligned}\text{Liabilities} &= \text{Assets} \\ \text{Liabilities} &= \text{Cash} + \text{Furniture} \\ &= (-) ₹ 5,000 (+) ₹ 5,000\end{aligned}$$

(d) Decrease in one liability and increase in another liability

Accepted a bill drawn by creditors for ₹ 10,000

Effects: (i) Bills payable arises → Increase in liability
(ii) Reduction in creditors → Decrease in liability

$$\begin{aligned}\text{Liabilities} &= \text{Assets} \\ + \text{Bills payable} - \text{Creditors} &= \text{Assets} \\ (+) ₹ 10,000 (-) ₹ 10,000 &= \text{Assets}\end{aligned}$$

(e) Transactions affecting more than two accounts:

Goods costing ₹ 30,000 sold for ₹ 40,000

Effects: (i) Goods go out → Decrease in assets
(ii) Cash comes in → Increase in assets
(iii) Sold goods at a profit → Increase in capital

$$\begin{aligned}\text{Liabilities} + \text{Capital} &= \text{Assets} \\ \text{Capital} &= \text{Cash} - \text{Stock} \\ (+) ₹ 10,000 &= (+) ₹ 40,000 (-) ₹ 30,000\end{aligned}$$

Illustration 1

Complete the missing items.

	Assets ₹ =	Liabilities ₹ +	Capital ₹
(a)	30,000	20,000	?
(b)	60,000	25,000	?
(c)	?	25,000	30,000
(d)	?	10,000	80,000
(e)	25,000	?	15,000
(f)	40,000	?	30,000

Solution

	Assets ₹ =	Liabilities ₹ +	Capital ₹
(a)	30,000	20,000	10,000
(b)	60,000	25,000	35,000
(c)	55,000	25,000	30,000
(d)	90,000	10,000	80,000
(e)	25,000	10,000	15,000
(f)	40,000	10,000	30,000

Illustration 2

Show the accounting equation on the basis of the following transactions for Rani, who is dealing in automobiles.

(i) Started business with cash	₹ 80,000
(ii) Goods bought on credit from Ramesh	₹ 10,000
(iii) Purchased furniture for cash	₹ 6,000
(iv) Paid creditors by cash	₹ 8,000
(v) Purchased goods for cash	₹ 2,000
(vi) Paid rent by cash	₹ 500

Solution

In the books of Rani Accounting Equation

Transaction	Assets				Capital ₹	Creditors ₹
	Cash ₹	Stock ₹	Furniture ₹			
(i) Started business with cash	+80,000				+80,000	
Equation	+80,000			=	+80,000	
(ii) Credit purchases		+10,000				+10,000
Equation	+80,000	+10,000		=	+80,000	+10,000
(iii) Cash purchase of furniture	-6,000		+6,000			
Equation	+74,000	+10,000	+6,000	=	+80,000	+10,000
(iv) Paid creditors by cash	-8,000					-8,000
Equation	+66,000	+10,000	+6,000	=	+80,000	+2,000
(v) Purchased goods for cash	-2,000	+2,000				
Equation	+64,000	+12,000	+6,000	=	+80,000	+2,000
(v) Paid rent by cash	-500				-500	
Equation	+63,500	+12,000	+6,000	=	+79,500	+2,000

Illustration 3

Selvi is a dealer in furniture. Show the accounting equation for the following transactions.

(i) Started business with cash	₹ 1,00,000
(ii) Deposited cash into bank	₹ 60,000
(iii) Borrowed loan from bank	₹ 25,000
(iv) Bought goods and paid by cheque	₹ 10,000
(v) Cash withdrawn for personal use	₹ 5,000
(vi) Cash withdrawn from bank for office use	₹ 3,000

Solution

In the books of Selvi Accounting Equation

Transaction	Assets				Capital ₹	Bank loan ₹
	Cash ₹	Stock ₹	Bank ₹			
(i) Started business with cash	+1,00,000			=	+1,00,000	
Equation	+1,00,000				+1,00,000	
(ii) Deposited cash with bank	- 60,000		+60,000			
Equation	+40,000		+60,000	=	+1,00,000	
(iii) Borrowed loan from bank			+25,000			+25,000
Equation	+40,000		+85,000	=	+1,00,000	+25,000
(iv) Bought goods and paid by cheque		+10,000	-10,000			
Equation	+40,000	+10,000	+75,000	=	+1,00,000	+25,000
(v) Cash withdrawn for personal use	- 5,000				-5,000	
Equation	+35,000	+10,000	+75,000	=	+95,000	+25,000
(vi) Cash withdrawn from bank for office use	+3,000		-3,000			
Equation	+38,000	+10,000	+72,000	=	+95,000	+25,000

Illustration 4

Show the effect of following business transactions on the accounting equation.

- Anbu started business with cash ₹ 20,000; goods ₹ 12,000 and machine ₹ 8,000
- Purchased goods from Ramani on credit ₹ 7,000
- Payment made to Ramani in full settlement ₹ 6,900
- Sold goods to Rajan on credit costing ₹ 5,400 for ₹ 6,000
- Received from Rajan ₹ 5,800 in full settlement of his account
- Wages outstanding ₹ 400

Solution

Accounting Equation

Transaction	Assets					Capital ₹	Liabilities ₹
	Cash ₹	Stock ₹	Machine ₹	Debtors ₹			
(i) Started business with cash, stock & machine	+20,000	+12,000	+8,000			+40,000	
Equation	+20,000	+12,000	+8,000		=	+40,000	
(ii) Credit purchases		+7,000					+7,000
Equation	+20,000	+19,000	+8,000		=	+40,000	+7,000
(iii) Payment made to Ramani in full settlement	-6,900					+100	-7,000
Equation	+13,100	+19,000	+8,000		=	+40,100	

(iv) Credit sales		-5,400		+6,000		+600	
Equation	+13,100	+13,600	+8,000	+6,000	=	+40,700	
(v) Cash receipt from Rajan. in full settlement	+5,800			-6,000		-200	
Equation	+18,900	+13,600	+8,000		=	+40,500	
(vi) Wages outstanding						-400	+400
Equation	+18,900	+13,600	+8,000		=	+40,100	+400

3.6.2 Traditional approach

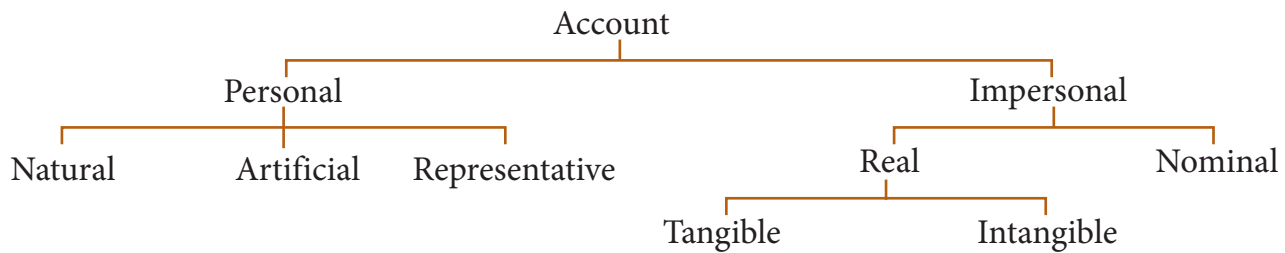
Under this approach, the two fold aspects (debit and credit) in each transaction are recorded in the journal by following double entry system. For the purpose of recording the transactions, accounts are classified into personal and impersonal accounts.

3.6.2.1 Classification of accounts:

Under double entry system of book keeping, for the purpose of recording the various financial transactions, the accounts are classified as personal accounts and impersonal accounts.

- (i) **Personal account:** Account relating to persons is called personal account. The personal account may be natural, artificial or representative personal account.
 - (a) **Natural person's account:** Natural person means human beings. Example: Vinoth account, Malini account.
 - (b) **Artificial person's account:** Artificial person refers to the persons other than human beings recognised by law as persons. They include business concerns, charitable institutions, etc. Example: BHEL account, Bank account.
 - (c) **Representative personal accounts:** These are the accounts which represent persons natural or artificial or a group of persons. Example: Outstanding salaries account, Prepaid rent account. When expenses are outstanding, it is payable to a person. Hence, it represents a person.
- (ii) **Impersonal accounts:** All accounts which do not affect persons are called impersonal accounts. These are further classified into a) Real accounts and b) Nominal accounts.
 - (a) **Real account:** All accounts relating to tangible and intangible properties and possessions are called real accounts.
 1. **Tangible real accounts:** These include accounts of properties and possessions which can be seen and touched. These have physical existence. Example: Plant, Machinery, Building, Furniture, Stock.
 2. **Intangible real accounts:** These include accounts of properties and possessions which can not be seen and touched. These do not have physical existence. Example: Goodwill, Patents, Copy rights.
 - (b) **Nominal account:** The accounts relating to expenses, losses, revenues and gains are called nominal accounts. Example: Salaries, wages, rental income, interest income, etc. These are temporary accounts and are transferred to Trading and Profit and Loss account depending on whether these are direct or indirect respectively.

Classification of account



3.7 Accounting rules

All the above classified accounts have two rules each, one related to debit and another related to credit for recording the transactions which are termed as golden rules of accounting or rules of double entry system.

Golden rules of double entry system

Personal account	Debit the receiver	Credit the giver
Real account	Debit what comes in	Credit what goes out
Nominal account	Debit all expenses and losses	Credit all incomes and gains

Illustration 5

Classify the following into personal, real and nominal accounts.

- | | |
|-------------------------|--------------|
| (a) Capital | (b) Building |
| (c) Carriage inwards | (d) Cash |
| (e) Commission received | (f) Bank |
| (g) Purchases | (h) Chandru |
| (i) Outstanding wages | |

Solution

Sl. No.	Items	Classification
(a)	Capital	Personal account
(b)	Building	Real account
(c)	Carriage inwards	Nominal account
(d)	Cash	Real account
(e)	Commission received	Nominal account
(f)	Bank	Personal account
(g)	Purchases	Nominal account
(h)	Chandru	Personal account
(i)	Outstanding wages	Personal account



- Purchases is treated as a nominal account as it is an expenditure and sales is treated as a nominal account as it is a revenue to the business.
- Purchases, Purchases returns, Sales and Sales returns may also be treated as real accounts as they are related to goods.

3.8 Journal entries

The word journal has been derived from the French word 'Jour' which means day. So, journal means daily. Transactions are recorded daily in the journal as and when the transactions take place. As soon as a transaction takes place, its debit and credit aspects are analysed and recorded in the journal together with a short description called narration. This facilitates making entries in the ledger. Since transactions are first recorded in the journal, it is called book of original entry or prime entry or primary entry or preliminary entry, or first entry. Journalising is the beginning of the accounting process for the financial transactions.

3.8.1 Meaning

Journal is the book of original entry in which business transactions are recorded in chronological order, that is, in the order of occurrence. Transactions are recorded for the first time in the journal. Entries are made in the journal based on source documents. Record of business transactions in the journal is known as Journal entry. The process of recording the transactions in journal is called as journalising.

According to Professor Carter, "The journal as originally used, is a book of prime entry in which transactions are copied in order of date from a memorandum or waste book. The entries as they are copied are classified into debits and credits, so as to facilitate their being correctly posted, afterwards in the ledger".

3.8.2 Format of Journal

The format of journal is given below:

In the books of..... Journal				
Date	Particulars	L.F.	Debit ₹	Credit ₹

A journal contains five columns; Date, Particulars, L.F., Debit and Credit.

Date column: In this column the date of the transaction is recorded.

Particulars column: The accounts involved in the transaction are recorded in this column. The account debited is recorded first with the word 'Dr.' entered towards the end of the row and the account credited is entered in the next line after leaving a little space on the left and preceded by the word 'To'.

Leder Folio column (L.F.): The page number of ledger in which the accounts debited and credited are maintained is recorded here. Folio means page and ledger folio means page number of ledger. This L.F. helps in cross verification of accounts in the ledger and helps in audit of accounts.

Debit column: The amount to be debited is recorded in this column. The unit of measurement, that is, amount expressed in the currency of the country is recorded in this column. For example, in India amount is recorded in rupees (₹).

Credit column: The amount to be credited is recorded in this column. The unit of measurement, that is, the currency of the country is written in this column. For example, in India amount is recorded in rupees (₹).

Narration: A short description of each transaction is written under each entry which is called narration.

Tutorial note

- (i) While entering the date, the year may be written at the top, then the month and then the particular date.
- (ii) The narration must be simple and complete. The words 'Being' or 'For' may also be prefixed before the narration.
- (iii) It is customary to write 'Dr' and 'To' in the journal entries.
- (iv) L.F. column is filled when the transaction is posted to the ledger. In computerised accounting, it is the reference number.
- (v) The amount columns of a journal may be totalled at the end of the each page and the grand total may be given at the end of the month.
- (vi) To show each journal entry separately, a line may be drawn after narration in particulars column.
- (vii) When transactions of similar nature take place on the same date, they may be combined while they are journalised.

3.8.3 Steps in journalising

The process of analysing the business transactions under the heads of debit and credit and recording them in the journal is called journalising. An entry made in the journal is called a journal entry. The following steps are followed in journalising:

- (1) Analyse the transactions and identify the accounts (based on aspects) which are involved in the transaction.
- (2) Classify the above accounts under Personal account, Real account or Nominal account
- (3) Apply the rules of debit and credit for the above two accounts.
- (4) Find which account is to be debited and which account is to be credited by the application of rules of double entry system
- (5) Record the date of transaction in the date column.
- (6) Enter the name of the account to be debited in the particulars column very close to the left hand side of the particulars column followed by the abbreviation 'Dr.' at the end in the same line. Against this, the amount to be debited is entered in the debit amount column in the same line.
- (7) Write the name of the account to be credited in the second line starting with the word 'To' prefixed a few spaces away from the margin in the particulars column. Against this, the amount to be credited is entered in the credit amount column in the same line.
- (8) Write the narration within brackets in the next line in the particulars column.

3.8.4 Different types of journal entries

The journal entries may be of the following types:

- | | |
|--------------------------|----------------------|
| (i) Single entry | (ii) Compound entry |
| (iii) Opening entry | (iv) Closing entry |
| (v) Rectifying entry | (vi) Adjusting entry |
| (vii) Transferring entry | |



- (i) **Single entry:** Single entry is an entry in which only two accounts are involved, one account is debited and another is credited.
- (ii) **Compound entry:** Compound entry is an entry in which more than two accounts are involved. Either more than one account is debited or more than one account is credited or both.
- (iii) **Opening entry:** Through opening entry the balances of assets and liabilities at the end of the previous accounting year are brought forward to the current accounting year. This is dealt in unit 6.
- (iv) **Closing entry:** At the end of the accounting period, the nominal accounts are closed by transferring to trading account or profit and loss account. All direct expenses and direct revenues are transferred to Trading Account. All indirect expenses and indirect revenues are transferred to Profit and Loss Account. This is dealt in unit 6.
- (v) **Rectifying entry:** Rectifying entries are passed to make correction of errors in accounting. This is dealt in unit 9.
- (vi) **Adjusting entry:** Adjusting entry is the entry made for the transactions which remain unrecorded or require adjustment after closing the accounts for the accounting year. This is dealt in unit 13.
- (vii) **Transfer entry:** Transfer entry is the entry through which amount is transferred from one account to another account.

3.8.5 Application of rules of double entry system

Rules of double entry system of book-keeping are applied for business transactions as follows:

(i) **Personal account**

‘Debit the receiver and Credit the giver’. In case of personal accounts, the rule is debit the account of the person who receives the benefit and credit the account of the person who gives the benefit.

Example	:	Paid Anbu ₹ 10,000 by cheque
Accounts affected	:	Anbu account and Bank account
Nature of accounts	:	Both are personal accounts in nature
Rule	:	Debit the receiver and credit the giver
Applying the rule	:	Anbu is the receiver and the Bank is the giver
Debit		Anbu account
Credit		Bank account

(ii) **Real account**

‘Debit what comes in and Credit what goes out’. In case of real accounts, the rule is debit what comes in and credit what goes out.

Example	:	Furniture purchased for cash ₹ 5,000
Accounts affected	:	Furniture account and Cash account
Nature of accounts	:	Both are real accounts in nature
Rule	:	Debit what comes in and credit what goes out
Applying the rule	:	Furniture comes in and cash goes out
Debit		Furniture account
Credit		Cash account

(iii) Nominal account

'Debit all expenses and losses and Credit all incomes and gains'. For nominal accounts, the rule is debit all expenses and losses and credit all incomes and gains.

Example	:	Paid rent of ₹ 5,000 in cash
Accounts affected	:	Rent account and cash account
Nature of accounts	:	Rent is a nominal account and cash account is a real account
Rule	:	Debit all the expenses and losses and credit all the incomes and gains
Applying the rule	:	Rent is an expense and cash goes out
Debit		Rent account
Credit		Cash account

3.8.6 Analysis of transactions

Example 1

Transaction: Somu commenced printing business with cash ₹ 50,000.

Analysis: This is a cash transaction as cash is involved.

Transaction	Accounts involved	Nature of accounts	How affected in business	Debit / Credit
Somu commenced business with cash ₹ 50,000	Cash A/c	Real A/c	Cash comes in	Debit
	Somu's capital A/c	Personal A/c	Somu is the giver	Credit

Journal entry

Date	Particulars	L.F.	Debit ₹	Credit ₹
	Cash A/c To Somu's capital A/c (Somu commenced business with capital)	Dr.	50,000	50,000

Example 2

Transaction: Bought goods for cash ₹ 4,000

Analysis: This is a cash transaction as cash is involved.

Transaction	Accounts involved	Nature of accounts	How affected in business	Debit / Credit
Bought goods for cash ₹ 4,000	Purchases A/c	Nominal A/c	Expenses made	Debit
	Cash A/c	Real A/c	Cash goes out	Credit

Journal entry

Date	Particulars	L.F.	Debit ₹	Credit ₹
	Purchases A/c To Cash A/c (Cash purchase made)	Dr.	4,000	4,000

Example 3

Transaction: Purchased goods from Rahul for ₹ 10,000 on credit

Analysis: This is a credit transaction.

Transactions	Accounts involved	Nature of accounts	How affected in business	Debit / Credit
Purchased goods from Rahul for ₹ 10,000 on credit	Purchases A/c Rahul A/c	Nominal A/c Personal A/c	Expenses made Rahul is the giver	Debit Credit

Journal entry

Date	Particulars	L.F.	Debit ₹	Credit ₹
	Purchases A/c Dr. To Rahul A/c (Bought goods from Rahul on credit)		10,000	10,000

Example 4

Transaction: Cash paid to Rahul ₹ 4,000

Analysis: This is a cash transaction as cash is involved.

Transaction	Accounts involved	Nature of accounts	How affected in business	Debit / Credit
Paid Rahul ₹ 4,000	Rahul A/c Cash A/c	Personal A/c Real A/c	Rahul is the receiver Cash goes out	Debit Credit

Journal entry

Date	Particulars	L.F.	Debit ₹	Credit ₹
	Rahul A/c Dr. To Cash A/c (Paid Rahul)		4,000	4,000

Example 5

Transaction: Withdrew cash for personal use ₹ 8,000

Analysis: This is a cash transaction as cash is involved.

Transactions	Accounts involved	Nature of accounts	How affected in business	Debit / Credit
Withdrew cash for personal use ₹ 8,000	Drawings A/c Cash A/c	Personal A/c Real A/c	Proprietor is the receiver Cash goes out	Debit Credit

Journal entry

Date	Particulars	L.F.	Debit ₹	Credit ₹
	Drawings A/c Dr. To Cash A/c (Cash withdrawn for personal use)		8,000	8,000

Example 6

Transaction: Cash deposited into bank ₹ 5,000

Analysis: This is a cash transaction as cash is involved.

Transaction	Accounts involved	Nature of accounts	How affected in business	Debit / Credit
Cash deposited into bank ₹5,000	Bank A/c	Personal A/c	Bank is the receiver	Debit
	Cash A/c	Real A/c	Cash goes out	Credit

Journal entry

Date	Particulars	L.F.	Debit ₹	Credit ₹
	Bank A/c Dr. To Cash A/c (Cash deposited into bank)		5,000	5,000

Example 7

Transaction: Paid salary by cheque ₹ 3,000

Analysis: This is a bank transaction as bank is involved.

Transaction	Accounts involved	Nature of accounts	How affected in business	Debit / Credit
Paid salary by cheque ₹ 3,000	Salary A/c	Nominal A/c	Expense made	Debit
	Bank A/c	Personal A/c	Bank is the giver	Credit

Journal entry

Date	Particulars	L.F.	Debit ₹	Credit ₹
	Salaries A/c Dr. To Bank A/c (Salary paid by cheque)		3,000	3,000

Example 8

Transaction: Sold goods to Mahesh on credit ₹ 9,000

Analysis: This is a credit transaction.

Transaction	Accounts involved	Nature of accounts	How affected in business	Debit / Credit
Sold goods to Mahesh on credit ₹ 9,000	Mahesh A/c	Personal A/c	Mahesh is the receiver	Debit
	Sales A/c	Nominal A/c	Revenue earned	Credit

Journal entry

Date	Particulars	L.F.	Debit ₹	Credit ₹
	Mahesh A/c Dr. To Sales A/c (Sold goods to Mahesh on credit)		9,000	9,000

Example 9

Transaction: Goods sold to Mahendran for cash ₹ 5,000

Analysis: This is a cash transaction as cash is involved.

Transaction	Accounts involved	Nature of accounts	How affected in business	Debit / Credit
Cash sales made to Mahendran for ₹ 10,000	Cash A/c Sales A/c	Real A/c Nominal A/c	Cash comes in Revenue earned	Debit Credit

Journal entry

Date	Particulars	L.F.	Debit ₹	Credit ₹
	Cash A/c To Sales A/c (Cash sales made)	Dr.	5,000	5,000

Example 10

Transaction: Borrowed loan from Bank ₹ 10,000

Analysis: This is a cash transaction as cash is involved.

Transaction	Accounts involved	Nature of accounts	How affected in business	Debit / Credit
Borrowed loan from Bank ₹10,000	Bank A/c Bank loan A/c	Personal A/c Personal A/c	Bank is the receiver Bank is the giver	Debit Credit

Journal entry

Date	Particulars	L.F.	Debit ₹	Credit ₹
	Bank A/c To Bank loan A/c (Borrowed loan from bank)	Dr.	10,000	10,000

Example 11

Transaction: Received commission of ₹ 5,000 by cash

Analysis: This is a cash transaction as cash is involved.

Transaction	Accounts involved	Nature of accounts	How affected in business	Debit / Credit
Received commission ₹ 5,000	Cash A/c Commission A/c	Real A/c Nominal A/c	Cash comes in Receipt of commission	Debit Credit

Journal entry

Date	Particulars	L.F.	Debit ₹	Credit ₹
	Cash A/c To Commission received A/c (Commision received)	Dr.	5,000	5,000

Example 12

Transaction: Paid ₹ 4,800 in full settlement of ₹ 5,000 due to the creditor, Keerthana.

Analysis: This is a cash transaction as cash is involved.

Transaction	Accounts involved	Nature of accounts	How affected in business	Debit / Credit
Paid ₹ 4,800 in full settlement of ₹ 5,000 to Keerthana	Keerthana A/c	Personal A/c	Keerthana is the receiver	Debit
	Cash A/c	Real A/c	Cash goes out	Credit
	Discount received A/c	Nominal A/c	Discount is a gain	Credit

Journal entry

Date	Particulars	L.F.	Debit ₹	Credit ₹
	Keerthana A/c Dr.		5,000	
	To Cash A/c			4,800
	To Discount received A/c			200
	(Paid Keerthana in full settlement)			

Example 13

Transaction: Dinesh, a customer is declared insolvent and 40 paise in a rupee is received from the estate for his due ₹ 10,000.

Analysis: This is a cash transaction as cash is involved.

Transaction	Accounts involved	Nature of accounts	How affected in business	Debit / Credit
Dinesh who owed ₹ 10,000, became insolvent and 40 paise in a rupee is received from his estate	Cash A/c	Real A/c	Cash comes in	Debit
	Bad debts A/c	Nominal A/c	Bad debts is a loss	Debit
	Dinesh A/c	Personal A/c	Dinesh is the giver	Credit

Journal entry

Date	Particulars	L.F.	Debit ₹	Credit ₹
	Cash A/c Dr.		4,000	
	Bad debts A/c Dr.		6,000	
	To Dinesh A/c			10,000
	(Cash received in final settlement on insolvency)			

Tutorial note

Though the procedure for analysis of transactions, classification of accounts and rules for recording transactions under accounting equation approach and traditional approach are different, the accounts affected and entries in affected accounts remain the same under both approaches. In other words, accounts to be debited and credited to record the dual aspect remain the same under both the approaches.

Illustration 6

Jeyaseeli is a sole proprietor having a provisions store. Following are the transactions during the month of January, 2018. Journalise them.

Jan.	₹
1 Commenced business with cash	80,000
2 Deposited cash with bank	40,000
3 Purchased goods by paying cash	5,000

4	Purchased goods from Lipton & Co. on credit	10,000
5	Sold goods to Joy and received cash	11,000
6	Paid salaries by cash	5,000
7	Paid Lipton & Co. by cheque for the purchases made on 4th Jan.	
8	Bought furniture by cash	4,000
9	Paid electricity charges by cash	1,000
10	Bank paid insurance premium as per standing instructions	300

Solution

In the books of Jeyaseeli Journal entries

Date	Particulars	L.F.	Debit ₹	Credit ₹
2018 Jan. 1	Cash A/c Dr. To Jeyaseeli's Capital A/c (Jeyaseeli commenced business with cash)		80,000	80,000
2	Bank A/c Dr. To Cash A/c (Deposited cash into bank)		40,000	40,000
3	Purchases A/c Dr. To Cash A/c (Goods purchased by cash)		5,000	5,000
4	Purchases A/c Dr. To Lipton & Co. A/c (Goods purchased on credit)		10,000	10,000
5	Cash A/c Dr. To Sales A/c (Cash sales made)		11,000	11,000
6	Salaries A/c Dr. To Cash A/c (Salaries paid)		5,000	5,000
7	Lipton & Co. A/c Dr. To Bank A/c (Payment made by cheque)		10,000	10,000
8	Furniture A/c Dr. To Cash A/c (Furniture bought for cash)		4,000	4,000
9	Electricity charges A/c Dr. To Cash A/c (Electricity charges paid)		1,000	1,000
10	Insurance premium A/c Dr. To Bank A/c (Insurance premium paid)		300	300

Illustration 7

Ananth is a trader dealing in textiles. For the following transactions, pass journal entries for the month of January, 2018.

Jan.	₹
1 Commenced business with cash	70,000
2 Purchased goods from X and Co. on credit	30,000
3 Cash deposited into bank	40,000
4 Bought a building from L and Co. on credit	95,000
5 Cash withdrawn from bank for office use	5,000
6 Cash withdrawn from bank for personal use of Ananthu	4,000
7 Towels given as charities	3,000
8 Shirts taken over by Ananth for personal use	12,000
9 Sarees distributed as free samples	3,000
10 Goods (table clothes) used for office use	200

Solution

In the books of Ananth Journal entries

Date	Particulars	L.F.	Debit ₹	Credit ₹
2018 Jan. 1	Cash A/c To Ananth's capital A/c (Commenced business with cash)	Dr.	70,000	70,000
2	Purchases A/c To X and Co. A/c (Credit purchases made)	Dr.	30,000	30,000
3	Bank A/c To Cash A/c (Cash deposited into bank)	Dr.	40,000	40,000
4	Buildings A/c To L and Co. A/c (Building bought on credit)	Dr.	95,000	95,000
5	Cash A/c To Bank A/c (Cash withdrawn from bank for office use)	Dr.	5,000	5,000
6	Drawings A/c To Bank A/c (Cash withdrawn from bank for personal use)	Dr.	4,000	4,000
7	Charities A/c To Purchases A/c (Goods given for charities)	Dr.	3,000	3,000
8	Drawings A/c To Purchases A/c (Goods taken over for personal use)	Dr.	12,000	12,000

9	Sales promotion A/c To Purchases A/c (Goods distributed as free samples)	Dr.	3,000	3,000
10	Office expenses A/c To Purchases A/c (Goods used for office use)	Dr.	200	200

Illustration 8

Bragathish is a trader dealing in electronic goods who commenced his business in 2015. For the following transactions took place in the month of March 2018, pass journal entries.

March	₹
1. Purchased goods from Y and Co. on credit	60,000
2. Sold goods to D and Co. on credit	30,000
3. Paid Y and Co. through bank in full settlement	58,000
4. D and Co. accepted a bill drawn by Bragathish	30,000
5. Sold goods to L on credit	20,000
6. Sold goods to M on credit	40,000
7. Received a cheque from M in full settlement and deposited the same to the bank	39,000
8. Goods returned to Y and Co.	4,000
9. L became insolvent and only 90 paise per rupee is received by cash in final settlement	
10. Goods returned by M	3,000

Solution

In the books of Bragathish Journal entries

Date	Particulars	L.F.	Debit ₹	Credit ₹
2018 March 1	Purchases A/c To Y and Co. A/c (Goods purchased on credit)	Dr.	60,000	60,000
2	D and Co. A/c To Sales A/c (Credit sales made to D and Co.)	Dr.	30,000	30,000
3	Y and Co. A/c To Bank A/c To Discount received A/c (Payment made to Y and Co. and discount received)	Dr.	60,000	58,000 2,000
4	Bills Receivable A/c To D and Co. A/c (Bills received from D and Co.)	Dr.	30,000	30,000
5	L A/c To Sales A/c (Goods sold on credit to L)	Dr.	20,000	20,000

6	M A/c To Sales A/c (Goods sold on credit to M)	Dr.		40,000	40,000
7	Bank A/c Discount allowed A/c To M A/c (Cheque received and discount allowed)	Dr. Dr.		39,000 1,000	40,000
8	Y and Co. A/c To Purchases returns A/c (Goods returned to Y and Co.)	Dr.		4,000	4,000
9	Cash A/c (20,000 × 0.9) Bad debts A/c To L A/c (Cash received from L in final settlement)	Dr. Dr.		18,000 2,000	20,000
10	Sales returns A/c To M A/c (Goods returned by M)	Dr.		3,000	3,000

Illustration 9

Valluvar is a sole trader dealing in textiles. From the following transactions, pass journal entries for the month of March, 2018.

March	₹
1 Commenced business with cash	90,000
with goods	60,000
2 Purchased 20 readymade shirts from X and Co. on credit	10,000
3 Cash deposited into bank through Cash Deposit Machine	30,000
4 Purchased 10 readymade sarees from Y and Co. by cash	6,000
5 Paid X and Co. through NEFT	
6 Sold 5 sarees to A and Co. on credit	4,000
7 A and Co. deposited the amount due in Cash Deposit Machine	
8 Purchased 20 sarees from Z & Co. and paid through debit card	12,000
9 Stationery purchased for and paid through net banking	6,000
10 Bank charges levied	200

Solution

In the books of Valluvar Journal entries

Date	Particulars	L.F.	Debit ₹	Credit ₹
2018 March 1	Cash A/c Stock A/c To Valluvar's Capital A/c (Valluvar commenced business with cash and goods)	Dr. Dr.	90,000 60,000	1,50,000

2	Purchases A/c To X and Co. A/c (Credit purchases made)	Dr.		10,000	10,000
3	Bank A/c To Cash A/c (Deposited cash into bank)	Dr.		30,000	30,000
4	Purchases A/c To Cash A/c (Goods purchased by cash)	Dr.		6,000	6,000
5	X and Co. A/c To Bank A/c (Deposited cash into bank)	Dr.		10,000	10,000
6	A and Co. A/c To Sales A/c (Credit sales made to A and Co.)	Dr.		4,000	4,000
7	Bank A/c To A and Co. A/c (Money received through CDM)	Dr.		4,000	4,000
8	Purchases A/c To Bank A/c (Purchases made)	Dr.		12,000	12,000
9	Stationery A/c To Bank A/c (Stationery purchased)	Dr.		6,000	6,000
10	Bank charges A/c To Bank A/c (Bank charges levied)	Dr.		200	200

Illustration 10

Deri is a sole trader dealing in automobiles. From the following transactions, pass journal entries for the month of January, 2018.

Jan.	₹
1 Commenced business with cash	1,00,000
with goods	2,00,000
with buildings	5,00,000
2 Purchased goods from A and Co. on credit	3,00,000
3 Cash deposited into bank	80,000
4 Purchased goods from B and Co. and payment made through debit card	5,000
5 Paid A and Co. through RTGS	
6 Sold goods to C and Co. and cheque received	50,000
7 Deposited the cheque received from C and Co. with the bank	
8 Purchased goods from Z & Co. and paid through debit card	12,000
9 Stationery purchased for and paid through net banking	6,000
10 Income tax of Deri is paid by cheque	10,000

Solution

In the books of Deri Journal entries

Date	Particulars	L.F.	Debit ₹	Credit ₹
2018 Jan. 1	Cash A/c Dr. Stock A/c Dr. Buildings A/c Dr. To Deri's capital A/c (Deri commenced business with cash, goods and buildings)		1,00,000 2,00,000 5,00,000	8,00,000
2	Purchases A/c Dr. To A and Co. A/c (Credit purchases made)		3,00,000	3,00,000
3	Bank A/c Dr. To Cash A/c (Amount deposited in the bank)		80,000	80,000
4	Purchases A/c Dr. To Bank A/c (Goods purchased through credit card)		5,000	5,000
5	A and Co. A/c Dr. To Bank A/c (Payment through RTGS)		3,00,000	3,00,000
6	Cash A/c Dr. To Sales A/c (Sales made and cheque received)		50,000	50,000
7	Bank A/c Dr. To Cash A/c (Cheque received from C and Co. deposited in the bank)		50,000	50,000
8	Purchases A/c Dr. To Bank A/c (Goods purchased by debit card)		12,000	12,000
9	Stationery A/c Dr. To Bank A/c (Stationery purchased through net banking)		6,000	6,000
10	Drawings A/c Dr. To Bank A/c (Income tax of the owner paid)		10,000	10,000

Illustration 11

Chandran is a sole trader dealing in sports items. From the following transactions, pass journal entries for the month of March, 2018.

March	₹
1 Commenced business with cash	4,00,000
2 Cash deposited into bank	3,00,000
3 Purchased goods from Ravi and payment made through net banking	90,000
4 Sales made to Kumar, who deposited the money through CDM	10,000

5	Sales made to Vivek, who made the payment by debit card	60,000
6	Sold goods to Keerthana, who made the payment through credit card	50,000
7	Dividend directly received by bank	2,000
8	Money withdrawn from ATM	3,000
9	Salaries paid through ECS	6,000
10	Cricket bats donated to a trust	10,000

Solution

In the books of Chandran Journal entries

Date	Particulars	L.F.	Debit ₹	Credit ₹
2018 March 1	Cash A/c Dr. To Chandran's capital A/c (Capital contributed by Chandran)		4,00,000	4,00,000
2	Bank A/c Dr. To Cash A/c (Cash deposited into bank)		3,00,000	3,00,000
3	Purchases A/c Dr. To Bank A/c (Goods purchased and payment made by net banking)		90,000	90,000
4	Bank A/c Dr. To Sales A/c (Sales made and money received through CDM)		10,000	10,000
5	Bank A/c Dr. To Sales A/c (Sales made and money credited through debit card)		60,000	60,000
6	Bank A/c Dr. To Sales A/c (Sales made and money credited through credit card)		50,000	50,000
7	Bank A/c Dr. To Dividend A/c (Dividend directly received by bank)		2,000	2,000
8	Cash A/c Dr. To Bank A/c (Cash withdrawn through ATM)		3,000	3,000
9	Salaries A/c Dr. To Bank A/c (Salaries paid through ECS)		6,000	6,000
10	Donation A/c Dr. To Purchases A/c (Cricket bats donated to a trust)		10,000	10,000

Illustration 12

Deepak is a dealer in stationery items. From the following transactions, pass journal entries for the month of January and February, 2018.

Jan.	₹
1 Commenced business with cash	2,00,000
2 Opened a bank account by depositing cash	1,00,000
3 'A 4 papers' sold on credit to Padmini and Co.	60,000
4 Bills received from Padmini and Co. for the amount due	
5 Bills received from Padmini and Co. discounted with the bank	58,000
Feb.	
15 Bills of Padmini and Co. dishonoured	

Solution

In the books of Deepak Journal entries

Date	Particulars	L.F.	Debit ₹	Credit ₹
2018 Jan. 1	Cash A/c Dr. To Deepak's capital A/c (Capital contributed by Deepak)		2,00,000	2,00,000
2	Bank A/c Dr. To Cash A/c (Cash deposited with the bank)		1,00,000	1,00,000
3	Padmini and Co. A/c Dr. To Sales A/c (Credit sales to Padmini and Co.)		60,000	60,000
4	Bills receivable A/c Dr. To Padmini and Co. A/c (Bill received for the amount due)		60,000	60,000
5	Bank A/c Dr. Discount A/c Dr. To Bills receivable A/c (Bills receivable discounted with the bank)		58,000 2,000	60,000
Feb. 15	Padmini and Co. A/c Dr. To Bank A/c (Bill discounted with the bank dishonoured)		60,000	60,000

3.8.7 Advantages of journal

Following are the advantages of journal:

- Complete information about the business transactions can be obtained on time basis as the transactions are recorded in chronological order.
- Correctness of the entry can be checked through narration.
- Journal forms the basis for posting the entries in the ledger.

Points to remember

- Transactions are recorded in the books of account with the help of source documents.
- There are two aspects involved in every business transaction namely debit and credit.
- Every debit has a corresponding and equal credit.
- Every credit has a corresponding and equal debit.
- Accounts can be classified into personal, real and nominal.
- $\text{Assets} = \text{Capital} + \text{Liabilities}$
- Transactions are first recorded in journal.

Golden rules of accounting:

Personal account	Debit the receiver	Credit the giver
Real account	Debit what comes in	Credit what goes out
Nominal account	Debit all expenses and losses	Credit all incomes and gains

Self-examination questions

I Multiple choice questions

Choose the correct answer:

1. Accounting equation signifies
 - (a) Capital of a business is equal to assets
 - (b) Liabilities of a business are equal to assets
 - (c) Capital of a business is equal to liabilities
 - (d) Assets of a business are equal to the total of capital and liabilities
2. 'Cash withdrawn by the proprietor from the business for his personal use' causes
 - (a) Decrease in assets and decrease in owner's capital
 - (b) Increase in one asset and decrease in another asset
 - (c) Increase in one asset and increase in liabilities
 - (d) Increase in asset and decrease in capital
3. A firm has assets of ₹ 1,00,000 and the external liabilities of ₹ 60,000. Its capital would be
 - (a) ₹ 1,60,000
 - (b) ₹ 60,000
 - (c) ₹ 1,00,000
 - (d) ₹ 40,000
4. The incorrect accounting equation is
 - (a) $\text{Assets} = \text{Liabilities} + \text{Capital}$
 - (b) $\text{Assets} = \text{Capital} + \text{Liabilities}$
 - (c) $\text{Liabilities} = \text{Assets} + \text{Capital}$
 - (d) $\text{Capital} = \text{Assets} - \text{Liabilities}$
5. Accounting equation is formed based on the accounting principle of
 - (a) Dual aspect
 - (b) Consistency
 - (c) Going concern
 - (d) Accrual



6. Real account deals with
 - (a) Individual persons
 - (b) Expenses and losses
 - (c) Assets
 - (d) Incomes and gains
7. Which one of the following is representative personal account?
 - (a) Building A/c
 - (b) Outstanding salary A/c
 - (c) Mahesh A/c
 - (d) Balan & Co
8. Prepaid rent is a
 - (a) Nominal A/c
 - (b) Personal A/c
 - (c) Real A/c
 - (d) Representative personal A/c
9. Withdrawal of cash from business by the proprietor should be credited to
 - (a) Drawings A/c
 - (b) Cash A/c
 - (c) Capital A/c
 - (d) Purchases A/c
10. In double entry system of book keeping, every business transaction affects
 - (a) Minimum of two accounts
 - (b) Same account on two different dates
 - (c) Two sides of the same account
 - (d) Minimum three accounts

Answers

1. (d)	2. (a)	3. (d)	4. (c)	5. (a)	6. (c)	7. (b)	8. (d)	9. (b)	10. (a)
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II Very short answer questions

1. What are source documents?
2. What is accounting equation?
3. Write any one transaction which
 - a) Decreases the assets and decreases the liabilities
 - b) Increases one asset and decreases another asset
4. What is meant by journalising?
5. What is real account?
6. How are personal accounts classified?
7. State the accounting rule for nominal account.
8. Give the golden rules of double entry accounting system.

III Short answer questions

1. Write a brief note on accounting equation approach of recording transactions.
2. What is an Account? Classify the accounts with suitable examples.
3. What are the three different types of personal accounts?
4. What is the accounting treatment for insurance premium paid on the life of the proprietor?
5. State the principles of double entry system of book keeping.
6. Briefly explain about steps in journalising.
7. What is double entry system? State its advantages.

IV Exercises

1. Complete the accounting equation
 - (a) Assets = Capital + Liabilities
₹ 1,00,000 = ₹ 80,000 + ?
 - (b) Assets = Capital + Liabilities
₹ 2,00,000 = ? + ₹ 40,000
 - (c) Assets = Capital + Creditors
? = ₹ 1, 60,000 + ₹ 80,000
2. For the following transactions, show the effect on accounting equation.
 - (a) Raj Started business with cash ₹ 40,000
 - (b) Opened bank account with a deposit of ₹ 30,000
 - (c) Bought goods from Hari on credit for ₹ 12,000
 - (d) Raj withdrew cash for personal use ₹ 1,000
 - (e) Bought furniture by using debit card for ₹ 10,000
 - (f) Sold goods to Murugan and cash received ₹ 6,000
 - (g) Money withdrawn from bank for office use ₹ 1,000
3. Prepare accounting equation for the following transactions.
 - (a) Murugan commenced business with cash ₹ 80,000
 - (b) Purchased goods for cash ₹ 30,000
 - (c) Paid salaries by cash ₹ 5,000
 - (d) Bought goods from Kumar for ₹ 5,000 and deposited the money in CDM.
 - (e) Introduced additional capital of ₹ 10,000
4. What will be the effect of the following on the accounting equation?
 - (a) Sunil started business with ₹ 1,40,000 cash and goods worth ₹ 60,000
 - (b) Purchased furniture worth ₹ 20,000 by cash
 - (c) Depreciation on furniture ₹ 800
 - (d) Deposited into bank ₹ 40,000
 - (e) Paid electricity charges through net banking ₹ 500
 - (f) Sold goods to Ravi costing ₹ 10,000 for ₹ 15,000
 - (g) Goods returned by Ravi ₹ 7,500 (costing ₹ 5,000)
5. Create an accounting equation on the basis of the following transactions:
 - (i) Rakesh started business with a capital of ₹ 1,50,000
 - (ii) Deposited money with the bank ₹ 80,000
 - (iii) Purchased goods from Mahesh and paid through debit card ₹ 25,000
 - (iv) Sold goods (costing ₹ 10,000) to Mohan for ₹ 14,000 who pays through debit card
 - (v) Commission received by cheque and deposited the same in the bank ₹ 2,000
 - (vi) Paid office rent through ECS ₹ 6,000
 - (vii) Sold goods to Raman for ₹ 15,000 of which ₹ 5,000 was received at once

6. Create an accounting equation on the basis of the following transactions:
- Started business with cash ₹ 80,000 and goods ₹ 75,000
 - Sold goods to Shanmugam on credit for ₹ 50,000
 - Received cash from Shanmugam in full settlement ₹ 49,000
 - Salary outstanding ₹ 3,000
 - Goods costing ₹ 1,000 given as charity
 - Insurance premium paid ₹ 3000
 - Out of insurance premium paid, prepaid is ₹ 500

7. Enter the following transactions in the journal of Manohar who is dealing in textiles:
2018

March	₹
1 Manohar started business with cash	60,000
2 Purchased furniture for cash	10,000
3 Bought goods for cash	25,000
6 Bought goods from Kamalesh on credit	15,000
8 Sold goods for cash	28,000
10 Sold goods to Hari on credit	10,000
14 Paid Kamalesh	12,000
18 Paid rent	500
25 Received from Hari	8,000
28 Withdrew cash for personal use	4,000

8. Pass journal entries in the books of Sasi Kumar who is dealing in automobiles.
2017

Oct	₹
1 Commenced business with goods	40,000
3 Cash introduced in the business	60,000
4 Purchased goods from Arul on credit	70,000
6 Returned goods to Arul	10,000
10 Paid cash to Arul on account	60,000
15 Sold goods to Chandar on credit	30,000
18 Chandar returned goods worth	6,000
20 Received cash from Chandar in full settlement	23,000
25 Paid salaries through ECS	2,000
30 Sasi Kumar took for personal use goods worth	10,000

9. Journalise the following transactions in the books of Ramesh who is dealing in computers:
2018

March	
1	Ramesh started business with cash ₹ 3,00,000, Goods ₹ 80,000 and Furniture ₹ 27,000.
2	Money deposited into bank ₹ 2,00,000
3	Bought furniture from M/s Jayalakshmi Furniture for ₹ 28,000 on credit.
4	Purchased goods from Asohan for ₹ 5,000 by paying through debit card.



- 5 Purchased goods from Guna and paid through net banking for cash ₹ 10,000
- 6 Purchased goods from Kannan and paid through credit card ₹ 20,000
- 7 Purchased goods from Shyam on credit for ₹ 50,000
- 8 Bill drawn by Shyam was accepted for ₹ 50,000
- 9 Paid half the amount owed to M/s Jayalakshmi Furniture by cheque
- 10 Shyam's bill was paid

10. Raja has a hotel. The following transactions took place in his business. Journalise them.

Jan.	₹
1 Started business with cash	3,00,000
2 Purchased goods from Rajiv on credit	1,00,000
3 Cash deposited with the bank	2,00,000
20 Borrowed loan from bank	1,00,000
22 Withdrew from bank for personal use	800
23 Amount paid to Rajiv in full settlement through NEFT	99,000
25 Paid club bill of the proprietor by cheque	200
26 Paid electricity bill of the proprietor's house through debit card	2,000
31 Lunch provided at free of cost to a charity	1,000
31 Bank levied charges for locker rent	1,000

11. From the following transactions of Shyam, a stationery dealer, pass journal entries for the month of August 2017.

Aug.

- 1 Commenced business with cash ₹ 4,00,000, Goods ₹ 5,00,000
- 2 Sold goods to A and money received through RTGS ₹ 2,50,000
- 3 Goods sold to Z on credit for ₹ 20,000
- 5 Bill drawn on Z and accepted by him ₹ 20,000
- 8 Bill received from Z is discounted with the bank for ₹ 19,000
- 10 Goods sold to M on credit ₹ 12,000
- 12 Goods distributed as free samples for ₹ 2,000
- 16 Goods taken for office use ₹ 5,000
- 17 M became insolvent and only 0.80 per rupee is received in final settlement
- 20 Bill of Z discounted with the bank is dishonoured

12. Mary is a rice dealer having business for more than 5 years. Pass journal entries in her books for the period of March, 2018.

March	₹
1 Ricebags bought on credit from Sibi	20,000
2 Electricity charges paid through net banking	500
3 Returned goods bought from Sibi	5,000
4 Ricebags taken for personal use	1,000
5 Advertisement expenses paid	2,000
6 Goods sold to Mano	20,000
7 Goods returned by Mano	5,000
8 Payment received from Mano through NEFT	





Student activity

Fill in the missing information in the following journal entries:

Date	Particulars	L.F.	Debit ₹	Credit ₹
	<div>.....A/c Dr.</div> <div>ToA/c</div> <div>(Goods purchased for cash ₹ 20,000)</div>		-----	-----
	<div>.....A/c Dr.</div> <div>.....A/c Dr.</div> <div>To Niha A/c</div> <div>(Received ₹ 18,800 from in full settlement of the due ₹ 19,000)</div>		-----	-----



Student activity

Write the narration with reference to the following journal entries.

In the books of Shyam

Journal entries

Date	Particulars	L.F.	Debit ₹	Credit ₹
2018	Cash A/c Dr.		3,00,000	
April 1	To Shyam's capital A/c			3,00,000
	(.....)			
2	Bank A/c Dr.		2,70,000	
	To Cash A/c			2,70,000
	(.....)			



CASE STUDY

Pearlita is a trader. She buys and sells electronic goods. She maintains double entry book-keeping. She purchases and sells goods both on cash and credit bases. If the purchased goods are not in good condition, she sends them back to her supplier. At the same time, she also accepts if her customers return the goods sold to them, when the goods are not in good condition. She maintains a bank account for her business. She receives and pays money through bank transactions.

Now, discuss on the following:

- Why does she maintain double entry book keeping?
- Do all the business units engage in credit transaction?
- Can you think of some business units that have only cash transactions?
- Is it necessary for Pearlita to maintain a separate bank account for business?
- What will happen if she uses her personal bank account for her business transactions?
- Identify the business documents involved in this case study.
- Can you think of some assets and liabilities for Pearlita's business?

To explore further

For small business entities generally full set of accounts may not be maintained. Is it possible to calculate profit or loss for such entities? How?

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