

# Recording of Transactions – I

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## Meaning and Types of Source Documents and Vouchers

### Objectives

After going through this lesson, you shall be able to understand the following concepts.

- Source Documents
- Vouchers meaning and their types

#### **Source Documents**

Document is a piece of paper which is used for recording any business transaction. This document is used as an evidence for recording a transaction. In fact, it is a written proof that a particular transaction actually took place. That is why these are termed as Source Documents.

A source document acts as a base for recording a particular transaction. This is because it contains information that tells which account is to be debited and which is to be credited along with the amount of transaction. Source document is prepared at the time when a transaction takes place. It contains details of such transaction.

Let's understand some of the source documents.

- (1) *Cash Memo*: Whenever goods are sold in cash, the seller prepares cash memo and records therein the details of goods sold. It includes quantity, rate and total amount of goods sold, along with the date of transaction.

<b>XYZ Pvt Ltd</b> <b>2612, Civil lines,</b> <b>Delhi - 110021</b> <b>Ph no. 9211420840</b> <u><b>CASH MEMO</b></u>			
S. No. _____		Date: _____	
Quantity	Description	Rate	Total
<b>Amount in words</b> _____ _____		<b>Total</b> _____ <b>Sign</b> _____	

- (2) *Invoice or Bill*: Whenever goods are sold on credit, seller prepares invoice or bill and records therein the details of goods sold. It includes details of party, quantity, rate and the total amount of goods sold, along with the date of transaction. The seller generally prepares two copies of the invoice or the bill, the first copy is kept with himself and the other copy is send to the purchaser. For a seller, this is an invoice and for the purchaser the same source document will be regarded as a bill.

XYZ Pvt. Ltd 2612, Civil lines, Delhi – 110021 Ph. No. -9211420840, Email ID: xyz@itel.com			Invoice/Bill Date: November 21,2012 Invoice No: INVO/192	
Bill To: Garg Traders Azadpur, Delhi				
Product ID	Description	Quantity	Unit Price	Total (₹ )
P 1107	Hyundai Santro Block -2013	1	4,05,000	4,05,000
	Accessories	1	30,000	30,000
Sub Total				4,35,000
Add VAT@ 12.5%				54,375
Total				4,89,375
Paid				—
Total due				4,89,375

- (3) *Receipt*: Whenever any amount of cash is received from the customers, a receipt is issued to them by the receiver (usually the seller of goods). This receipt acts as a proof in the hands of customer that he has made payment to the seller with the amount specified in the receipt. Receipt is prepared in two copies, first copy is handed over to the party making the payment and other copy is retained by the person accepting the payment for future reference. Receipt contains details regarding party's name, amount paid, date and nature of payment.

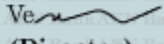
<b>Receipt</b>	
Date .....	No. ....
Received From .....	Amount ₹ <span style="border: 1px solid black; display: inline-block; width: 100px; height: 20px; vertical-align: middle;"></span>
Amount (in words) .....	
For payment of .....	
From ..... to .....	Paid by <input type="checkbox"/> Cash <input type="checkbox"/> Cheque No. .... <input type="checkbox"/> Money Order
Received by .....	
<div style="border: 1px dashed black; padding: 2px; display: inline-block;">             Account Amt. ....              This Payment .....              Balance due ₹ .....           </div>	

- (4) *Pay-in-Slip*: Whenever cash or any cheque is deposited into bank, the depositor has to fill pay-in-slips and submit it to the cashier along with cash or cheque. This pay-in-slip is a form that contains a counter foil which is returned back to the depositor by the cashier after signing it, as a receipt. Pay-in-slips basically contains details of date and amount relating to cash or cheque deposited.

<b>AKB BANK</b>		<b>DEPOSIT SLIP</b>		<small>use separate slips for Cash, Cheque on our branch/Other Local Branches/Each National Clearing Centre/Outstation Cheques</small>		DATE .....
BRANCH .....	NAME .....	Maker's Sign/Posted by	Seq. No./Q No. / LF	Checker's Sign/Passed by	Journal No.	
A/C WITH .....		BRANCH .....		A/C NO. ....		
<small>A/C TYPE - SB/CA/CC/OD/FD/DDP/RD/PN/FLEXI-FIX A/C NO.</small> <small>(Please tick on appropriate account type)</small>						
DRAWEE BANK BRANCH	CHEQUE NO.	Amount (₹)	P	CASH NOTES	₹	P
				× 1000/-		
				×		
				×		
				×		
				×		
	TOTAL			COIN/OTHERS		
RUPEES IN WORDS ..... only				TOTAL		
<small>PAN/GR NO. FOR ₹ 50000-&amp; ABOVE. IF NOT ALREADY FURNISHED CASHIER</small>				SIGNATURE OF DEPOSITOR ..... CONTACT NO. ....		

- (5) *Cheque*: It is a document drawn by a banker in writing, payable on demand. In the cheque, the name of the person to whom the payment is to be made is legibly written along with amount to be paid in words as well as in numerals. The name of the party

is written against the words "PAY". The cheque must be signed and dated by the issuer. Details of cheque should also be entered in the attached counterfoils for future reference.

<u>A/c Payee only</u>		<u>Non Negotiable</u>		DATE: 20/03/2013	
Pay		Ranjeet Singh			
Rupees		One thousand five hundred only			₹ 1,500/-
A/c No		LF		INTLS	
AKN Bank Gole Market Delhi - 110001			55980	110015034	ABC Pvt Ltd Ve.  (Director)

- (6) *Debit Note*: It is a source document that contains the name of the party whose account has been debited along with the amount and details of the bill in reference to which his account has been debited. Debit note results in reduced amount due to the supplier in case final payment to him has not yet been made. On the other hand, if the account of the supplier is settled in full then this debit note will enable the buyer to buy goods from the same supplier without making any payment for it. In case, goods are overvalued in a transaction between buyer and seller then buyer will make a debit note. On the other hand, in case goods are undervalued then seller will make a debit note.

<b>XYZ Pvt. Ltd.</b>	
2612, Civil Lines, Delhi - 110021	
Date: 25-02-2013	
No. 024	
<b>DEBIT NOTE</b>	
<b>Against:</b> ABC Pvt. Ltd.	<b>Amount (₹)</b>
Goods returned as per Delivery	10,000/-
Challan No. 184	
(Details of goods returned)	
(₹ Ten Thousand only ) .....	<b>Signature</b>
	_____ Manager

- (7) *Credit Note*: Credit note is generally issued in case of sales return by a customer or when the customer is allowed any further discount. Credit note results in reduced amount receivable from the customer in case final payment from him is not yet

received. On the other hand, if account of the customer is already settled in full then this credit note will enable the buyer to buy goods without making any payment for it.

<b>MKS Pvt. Ltd.</b> C-106, Hari Nagar, Delhi – 110021	
<b>Date:</b> 10-02-2013	
<b>No.</b> 026	
<b>CREDIT NOTE</b>	
<b>Against:</b> Anand Lal & Sons	<b>Amount (₹)</b>
Goods returned by the customer	5,000/-
Challan No. 082	
(Details of goods received)	
( ₹ Five Thousand only )	<b>Signature</b>
	_____ Manager

### **Vouchers- Meaning and Types**

A voucher is a written document that acts as an evidence of any business transaction. All source documents are vouchers. For examples, cash memos, invoice or bill, receipt and pay-in-slips, etc.

Vouchers are categorised into two types:

- (a) Source Vouchers
- (b) Accounting Vouchers

(a) *Source Vouchers*: It is a document in writing that contains complete details of a transaction. This document is used as an evidence for recording a business transaction. In fact, it is a written proof that a particular transaction actually took place. Examples- cash memos, invoice, receipt, etc.

(b) *Accounting Vouchers*: It is a written document prepared on the basis of source documents. It contains detailed analysis of transaction that is prepared by the accountant for the purpose of accounting. It is prepared and signed by the accountant and countersigned by the authorised signatory. Usually, source documents give an evidence of credit purchase/sale, cash sale, cash payments, etc. through bills, invoice, cash memos, etc. but do not tell anything regarding accounting of such transaction. So, for recording of transactions, an accountant analyses it in depth and decides the double effect of such transactions. This double effect is recorded in the voucher named as accounting voucher.

<b>XYZ Pvt. Ltd.</b> 2612, Civil lines, Delhi – 110021		
Voucher No.....		Dated ..... 20...
Received from _____ the sum of Rupees _____ on account of _____ By Cash/Cheque No. _____ Dated _____ ₹ _____	DEBIT _____ _____ _____	₹ _____ P. _____
TOTAL ₹		
CREDIT _____ _____ _____		
TOTAL ₹		
Receiver's Signature _____ <input type="checkbox"/>		Accountant/Manager _____ M.D

## Accounting Vouchers- Cash Vouchers and Non-Cash Vouchers

### Objectives

After going through this lesson, you shall be able to understand the following concepts.

- Types of Accounting Vouchers
- Cash Vouchers
- Non-Cash Vouchers
- How to prepare Vouchers

### Types of Accounting Vouchers

There are two types of Accounting Vouchers:

- Cash Vouchers
- Non-Cash Vouchers

### Cash Vouchers

It is the voucher prepared at the time of receiving or paying through cash or cheque. It is further classified into two parts:

- (a) Credit Vouchers
- (b) Debit Vouchers

- (a) *Credit Vouchers*: It is prepared at the time of receiving cash. Cash can be received on account of sale of goods, sale of investments, sale of fixed assets, recovery from the debtors, etc.

Credit Voucher		
<div style="writing-mode: vertical-rl; transform: rotate(180deg);">Received ₹</div> <div style="writing-mode: vertical-rl; transform: rotate(180deg);">Revenue Stamp</div>	ABC Pvt Ltd 82, Civil lines, Delhi -110021 GSTIN: 08BCPPT8975K1ZB Date: October 15, 2013	
	Voucher No. 047 <span style="float: right;">Amount ₹</span>	
	Credit: Sales A/c (Goods Sold for cash vide Bill No. 115)	20,000
	Total	20,000
	Sd/- Manager	Sd/- Accountant

- (b) *Debit Vouchers*: It is prepared at the time of making payment in cash. Cash is paid for the purchase of goods, purchase of fixed assets, payment to creditors, payment for an expense, drawings, etc.

Debit Voucher		
<div style="writing-mode: vertical-rl; transform: rotate(180deg);">Received ₹</div> <div style="writing-mode: vertical-rl; transform: rotate(180deg);">Revenue Stamp</div>	ABC Pvt Ltd 82, Civil lines, Delhi -110021 GSTIN: 08BCPPT8975K1ZB Date: September 09, 2013	
	Voucher No. 014 <span style="float: right;">Amount ₹</span>	
	Debit: Computer A/c (Computer purchased vide Cash Memo No. 827)	35,000
		35,000
	Sd/- Manager	Sd/- Accountant

### Non-Cash Vouchers or Transfer Vouchers

It is the voucher prepared in case of *non-cash* transactions. Non-Cash transactions are the transactions which do not involve cash flow such as credit sales, credit purchases, sales return, purchase return etc. *Examples* of non-cash vouchers are invoice, credit note, debit note, etc.

<b>Transfer Voucher</b>		
<div style="writing-mode: vertical-rl; transform: rotate(180deg);">Received ₹</div> <div style="border: 1px solid black; padding: 2px; margin-top: 10px; width: 50px;">Revenue Stamp</div>	ABC Pvt Ltd 82, Civil lines, Delhi - 110021 GSTIN: 08BCPPT8975K1ZB	
	Date: June 26, 2013	
	Voucher No. 225	Amount ₹
	Debit: Furniture A/c	10,000
		10,000
	Credit: Govind Wooden Stores (Furniture purchased for credit vide Bill No. 117)	10,000
	10,000	
Sd/- Manager	Sd/- Accountant	

### Compound Vouchers

These vouchers are made for those transactions that involve several debits/credits and one credit/debit. It can be a debit voucher or a credit voucher. If the voucher contains a transaction that involves more than one debit and a single credit it will be regarded as a debit voucher. On the other hand, if the voucher contains a transaction that involves a single debit but more than one credit then it will be termed as a credit voucher.

### How to prepare Vouchers

First, analyse the source document in detail, this will help in identifying the nature of transaction. It will also help in deciding which account is to be debited and which is to be credited.

Now, we will record this transaction on the Voucher.

Specimen of Voucher is given below:

<b>RECEIPTS</b> Received with thanks a sum of Rupees ----- <div style="border: 1px solid black; padding: 2px; width: fit-content;">Revenue Stamp</div>	<b>ABC Pvt Ltd</b> 82, Civil lines, Delhi - 110021 GSTIN: 08BCPPT8975K1ZB		Date: _____
	Voucher No. _____		Amount ₹
	Debit: Conveyance A/c (Conveyance charges paid to office boy)	300	
		300	
	Credit: Cash A/c	300	
		300	
Sd/- Authorised signatory	Sd/- Accountant		

Let's understand the concept with the help of an example.

Suppose Samrat sold goods for cash Rs 2,000 to Salman. At the time of sale, Cash Memo of Rs 2,000 is issued by Samrat to Salman. For preparing a voucher, firstly the cash memo is analysed in detail.

In this case the analysis shows: Cash is received on account of sales so Cash Account is debited by following the rule 'Debit what comes in'. On the other hand, Sales Account is credited by following the rule 'Credit all incomes or gains.' Now this transaction is recorded in the voucher as:

<b>RECEIPTS</b> Received with thanks a Sum of Rupees ----- <div style="border: 1px solid black; padding: 2px; width: fit-content;">Revenue Stamp</div>	<b>Samrat &amp; Co</b> 105, Kirti Nagar, Delhi - 110015 GSTIN: 08BCPPT8975K1ZB		Date: _____
	Voucher No. _____		Amount ₹
	Debit: Cash A/c (Goods sold for cash)	2,000	
		2,000	
	Credit: Sales A/c	2,000	
		2,000	
Sd/- Authorised signatory	Sd/- Accountant		

*Example:* On March 25, 2013 Rajesh & Sons purchased goods worth Rs 3,360 on credit from

M/s PQR. Here, bill of Rs 3,360 has been issued to Rajesh & Sons by M/s PQR. Bill will be like this:

<b>M/S PQR</b> <b>Chandni Chowk, Delhi-110006</b> <b>GSTIN: 08BCPPT8975L1ZB</b>				
<b>No. 1101</b>		<b>Date: 25.03.2013</b>		
<b>Quantity</b>	<b>Particulars</b>	<b>Rate ₹</b>	<b>Amount</b>	
			<b>Rs.</b>	<b>P.</b>
1	Goods	3,000	3,000	—
	<b>Add:</b> CGST@ 6% SGST@6%		3,000	—
			180	—
			180	—
			3,360	—
	<b>Total</b>		<b>3,360</b>	<b>—</b>
<b>Rupees three thousands three hundred and seventy five only</b> <b>E. &amp; OE.</b> <span style="float: right;"><b>Sales Manager</b></span>				

Here, the goods are purchased on credit, and the bill has been received by Rajesh & Sons. Now, they will analyse this bill in detail. Through analysis it is depicted that the Purchase Account will be debited based on the principal 'Debit what comes in' as goods are coming in. On the other hand, PQR will be credited based on the principal, 'Credit the giver'. As the transaction does not involve cash, so it will be shown in the non-cash accounting voucher as given below:

Transfer Voucher		
<div style="writing-mode: vertical-rl; transform: rotate(180deg);">Received ₹</div> <div style="border: 1px solid black; padding: 2px; margin-top: 10px;">Revenue Stamp</div>	<b>Rajesh &amp; Sons</b> GSTIN: 08BCPPT8975M1ZB	
	Date: March 03, 2013	
	Amount ₹	
	Voucher No. 884	
	Debit: Purchases A/c	3,375
		3,375
Credit: PQR (Goods purchased vide Bill No. 1101)		3,375
		3,375
Sd/- Manager		Sd/- Accountant

**Example 1** From the following transactions, Prepare Debit Voucher of M/s Vikrant Tyre Traders.

2013	Particulars	Amount (Rs)
Feb.05	Paid Salaries to employees vide Salary Sheet No.123	10,000
Feb.09	Purchased Car Tyres for Cash vide Cash Memo No.229	8,200
Feb.12	Purchased furniture for Cash vide Cash Memo No.187	4,800

Ans

(i)

<div style="writing-mode: vertical-rl; transform: rotate(180deg);">Received ₹</div> <div style="border: 1px solid black; padding: 2px; margin-top: 10px;">Revenue Stamp</div>	<b>M/s. Vikrant Tyre Trader</b> <b>GSTIN: 08BCPPT8975N1ZB</b> Date: February 05, 2013	
	Amount ₹	
	Voucher No. 1	
	Debit: Salaries A/c (Paid Salaries vide Salary Sheet No. 123)	10,000
		10,000
	Sd/- Manager	Sd/- Accountant

(ii)

<div style="writing-mode: vertical-rl; transform: rotate(180deg);">Received ₹</div> <div style="border: 1px solid black; padding: 2px; margin-top: 10px;">Revenue Stamp</div>	<b>M/s. Vikrant Tyre Trader</b> <b>GSTIN: 08BCPPT8975N1ZB</b> Date: February 9, 2013	
	Amount ₹	
	Voucher No. 2	
	Debit: Purchaser A/c (Purchase tyres vide Cash Memo No. 229)	8,200
		8,200
	Sd/- Manager	Sd/- Accountant

(iii)

<div style="writing-mode: vertical-rl; transform: rotate(180deg);">Received ₹</div> <div style="writing-mode: vertical-rl; transform: rotate(180deg);">Revenue Stamp</div>	<b>M/s. Vikrant Tyre Trader</b> <b>GSTIN: 08BCPPT8975N1ZB</b> Date: February 12, 2013	
	Voucher No. 3	
	Debit: Furniture A/c (Furniture purchased vide Cash Memo No. 187)	Amount ₹ 4,800
	Sd/- Manager	Sd/- Accountant

**Example 2** From the following transactions, Prepare Credit Voucher of M/s Sukesh Plastics.

2013	Particulars	Amount (Rs)
Jan.11	Sold old chairs for Cash vide Cash Memo No.82	2,800
Jan.15	Sold goods for Cash vide Cash Memo No.165	5,400
Jan.22	Received Cash from Amar vide Cash Receipt No.444	4,800
Jan 29	Withdrawn Cash from Bank vide Cheque no 22254	5,350

Ans  
(i)

<div style="writing-mode: vertical-rl; transform: rotate(180deg);">Received ₹</div> <div style="border: 1px solid black; padding: 2px; margin-top: 10px;">Revenue Stamp</div>	<b>M/s. Sukesh Plastics</b> <b>Address: _____</b> <b>GSTIN: 08BCPPT8975O1ZB</b>	
	Date: January 11, 2013	
	Voucher No.	Amount ₹
	Credit: Furniture A/c (Old Chairs sold vide cash Memo No. 82)	2,800
		2,800
	Sd/- Manager	Sd/- Accountant

(ii)

<div style="writing-mode: vertical-rl; transform: rotate(180deg);">Received ₹</div> <div style="border: 1px solid black; padding: 2px; margin-top: 10px;">Revenue Stamp</div>	<b>M/s. Sukesh Plastics</b> <b>Address: _____</b> <b>GSTIN: 08BCPPT8975O1ZB</b>	
	Date: January 15, 2013	
	Voucher No.	Amount ₹
	Debit: Sales A/c (Amount of Cash Sales vide Cash Memo No. 165)	5,400
		5,400
	Sd/- Manager	Sd/- Accountant

(iii)

Received ₹         Revenue Stamp	<b>M/s. Sukesh Plastics</b> <b>Address:</b> <b>GSTIN: 08BCPPT897501ZB</b>	
	Date: January 22, 2013	
	Voucher No.	Amount ₹
	Debit: Amar (Received cash on account from Amar vide Cash Receipt No. 444)	4,800
	Sd/- Manager	Sd/- Accountant

(iv)

Received ₹         Revenue Stamp	<b>M/s. Sukesh Plastics</b> <b>Address:</b> <b>GSTIN: 08BCPPT897501ZB</b>	
	Date: January 29, 2013	
	Voucher No.	Amount ₹
	Debit: Bank A/c (Withdrawn cash from the bank vide Cheque No. 22254)	5,350
	Sd/- Manager	Sd/- Accountant

**Example 3** From the following transactions, Prepare Transfer Voucher of M/s Kaushik & Sons.

2013	Particulars
Mar.11	Purchased Goods from M/s Sachin Bros vide bill no 776
Mar.18	Depreciation charged on Machinery @ 10% on Rs 1,50,000

Mar.20      Sold Goods to Rama vide Invoice No.189

Ans

(i)

<div style="writing-mode: vertical-rl; transform: rotate(180deg);">Received ₹</div> <div style="writing-mode: vertical-rl; transform: rotate(180deg);">Revenue Stamp</div>	<b>M/s. Kaushik &amp; Sons</b> <b>GSTIN: 08BCPPT8975P1ZB</b>	
	Date: March 11, 2013	
	Amount ₹	
	Voucher No.	
	Debit: Purchases A/c	10,800
		10,800
Credit: M/s. Sachin Bros (Goods purchased vide Bill No. 776)	10,800	
	10,800	
Sd/- Manager	Sd/- Accountant	

(ii)

<div style="writing-mode: vertical-rl; transform: rotate(180deg);">Received ₹</div> <div style="writing-mode: vertical-rl; transform: rotate(180deg);">Revenue Stamp</div>	<b>M/s. Kaushik &amp; Sons</b> <b>GSTIN: 08BCPPT8975P1ZB</b>	
	Date: March 18, 2013	
	Amount ₹	
	Voucher No.	
	Debit: Depreciation A/c	15,000
		15,000
Credit: Machinery A/c (Depreciation provided on Machinery @ 10% )	15,000	
	15,000	
Sd/- Manager	Sd/- Accountant	

<div style="display: flex; flex-direction: column; align-items: center;"> <div style="writing-mode: vertical-rl; transform: rotate(180deg);">Received ₹</div> <div style="border: 1px solid black; padding: 5px; margin-top: 20px;">Revenue Stamp</div> </div>	<b>M/s. Kaushik &amp; Sons</b> <b>GSTIN: 08BCPPT8975P1ZB</b>		Date: March 20, 2013
	Voucher No.		Amount ₹
	Debit: Rama		12,600
			12,600
	Credit: Sales A/c (Sold goods to Rama vide Invoice No. 189 )		12,600
			12,600
Sd/- Manager		Sd/- Accountant	

It is a mathematical equation which shows equality between *Resources obtained from funds and Sources of funds*. Here resources means assets (both tangible as well as intangible) such as Land, Building, Plant and Machinery, Cash, Bank, Patents, Trademarks etc. obtained by an enterprise from its funds. On the other hand, sources of funds refer to the sources from where an enterprise has obtained funds for buying their resources. It includes, *internal funds* (or internal equities or owner's equity) and *external funds* (or external equities or borrowed funds). Internal funds represent the amount invested by the owner in the business and external funds show the amount obtained from the outsiders creating financial obligation on an enterprise. Therefore, an accounting equation can be represented as:

Resources obtained from Funds = Sources of funds;  
or

$$\text{Total Assets} = \text{Internal Fund (or Internal Equities or Owner's Equity)} + \text{External Fund (or External Equities)};$$

or  
Simply as, **Assets = Capital + Liabilities**

External Parties (outsiders) have their claim in priority to Internal Party (owner) over the

assets of an enterprise. Therefore, internal fund balance (or capital) is a residual balance of total assets, left after paying off the external funds (or liabilities) *i.e.*  $\text{Capital} = \text{Assets} - \text{Liabilities}$ .

As each business transaction has two sided effect, therefore, both the sides of an accounting equation always stands equal. This is also based on the accounting principle of duality.

### Steps to prepare an accounting equation

- (1) Analyse transaction in detail and identify how assets, liabilities and capital balances are affected by it.
- (2) Effect in terms of increase or decrease in the balance of assets, liabilities or capital is identified.
- (3) If there is an increase then it is added to and if there is a decrease then it is subtracted from the respective asset, liability or capital account.
- (4) At last, ensure that *total of Left side* represented by Assets is always equal to *total of Right side* represented by the sum of Liabilities and Capital.

### Effect of Transaction on the Accounting Equation

As we consider all the transactions from the business point of view, so whenever we consider effects of any transaction on the assets, liabilities or capital, then we have to keep two things in mind.

- (i) Measure effect of a transaction in terms of increase or decrease in the balance of asset, liabilities or capital.
- (ii) Both sides of the equation should always be equal.

**Note-** If after taking any effect of a transaction, both sides of the equation mismatch or becomes unequal, then surely there is a mistake on your side in taking an effect of the transaction. In no case, both sides can get unequal because in accounts we record all the transactions on the principle of duality. As per this principle, every transaction has a dual effect of debit and credit with the same amount or simply, there is an increase and decrease with same amount. Therefore, both the sides *i.e.* Assets (Left side) and sum of Capital and Liabilities (Right side) always stands equal.

Now let's consider different related transactions one by one and effect of each transaction on the accounting equation.

- (a) Balbir started business with cash of Rs 35,000.

In the given transaction, cash is brought by Balbir to start the business. Asset in the form of cash is increasing on the Left hand side and as capital is introduced, therefore, capital

is increasing on the Right hand side. Hence, both the sides of an accounting equation will stand equal.

Particulars	Assets	=	Liabilities		Capital
	Cash (Rs)			+	(Rs)
a. Started business with cash	35,000	=			35,000
<b>Balance</b>	<b>35,000</b>	<b>=</b>			<b>35,000</b>

(b) Purchased goods from Vishal on credit for Rs 22,000.

In the given transaction, goods are purchased from Vishal on credit. It implies, increase of asset in the form of stock on the left hand side and as goods are purchased on credit therefore, creditors are also increasing.

Particulars	Assets			=	Liabilities		Capital
	Cash (Rs)	+	Stock (Rs)		(Rs)Creditors (Rs)	+	(Rs)
Old Balance	35,000			=			35,000
Current transaction			+22,000		+22,000		
<b>New Balance</b>	<b>35,000</b>	<b>+</b>	<b>22,000</b>	<b>=</b>	<b>22,000</b>	<b>+</b>	<b>35,000</b>

(c) Goods sold to Vinayak in cash Rs 10,000.

In the given transaction, goods are sold to Vinayak in cash. By this, asset in the form of cash is increasing on the Left hand side and on the other hand, again asset in the form of stock is decreasing on the Left Hand side. As asset is increasing and decreasing simultaneously on the same side, therefore both the sides of the equation stand equal.

Particulars	Assets			=	Liabilities		Capital
	Cash (Rs)	+	Stock (Rs)		Creditors (Rs)	+	(Rs)
Old Balance	35,000	+	22,000	=	22,000		35,000
Current transaction	+10,000	+	-10,000				
<b>New Balance</b>	<b>45,000</b>	<b>+</b>	<b>12,000</b>	<b>=</b>	<b>22,000</b>	<b>+</b>	<b>35,000</b>

(d) Goods sold to Vinod for Rs 10,000 (costing Rs 8,000).

In the given transaction, goods are sold to Vinod on credit. By this, asset in the form of Debtors (Vinod) is increasing with the sale price of Rs 10,000. On the other hand, asset

in the form of Stock is decreasing with the cost price of Rs 8,000. The difference between the Selling Price and the Cost Price of Rs 2,000 (10,000 – 8,000) is termed as *profit* and it will be added to the Capital balance on the Right Hand side. On the Left Hand Side, there is an increase by Rs 10,000 and decrease by Rs 8,000; thus there is an overall net increase of Rs 2,000, whereas on the Right hand side, there is an increase of Capital with an amount of Rs 2,000 (profit). Hence, both the sides of the equation stand equal.

Particulars	Assets					=	Liabilities		Capital
	Cash (Rs)	+	Stock (Rs)	+	Debtors (Rs)		Creditors (Rs)	+	(Rs)
Old Balance	45,000	+	12,000			=	22,000		35,000
Current transaction			-8,000	+	+10,000				2,000
<b>New Balance</b>	<b>45,000</b>	<b>+</b>	<b>4,000</b>	<b>+</b>	<b>10,000</b>	<b>=</b>	<b>22,000</b>	<b>+</b>	<b>37,000</b>

(e) Purchased furniture for Rs 12,000.

In the given transaction, asset in the form of furniture is increased by Rs 12,000 and on the same side another asset in the form of cash is decreased by Rs 12,000. As asset is increasing and decreasing simultaneously on the same side, therefore both the sides of the equation stand equal.

Particulars	Assets							=	Liabilities		Capital
	Cash (Rs)	+	Stock (Rs)	+	Debtors (Rs)	+	Furniture (Rs)		Creditors (Rs)	+	(Rs)
Old Balance	45,000	+	4,000		10,000			=	22,000		37,000
Current transaction	- 12,000						+12,000				
<b>New Balance</b>	<b>33,000</b>	<b>+</b>	<b>4,000</b>	<b>+</b>	<b>10,000</b>	<b>+</b>	<b>12,000</b>	<b>=</b>	<b>22,000</b>	<b>+</b>	<b>37,000</b>

(f) Paid rent of Rs 3,500 and salary of Rs 4,500.

In the given transaction, Capital is decreasing due to expenses (or losses) incurred in the form of rent and salary with Rs 8,000 (i.e. 3,500 + 4,500). On the left hand side, asset in the form of cash is reducing due to expenses of Rs 8,000. As there is a simultaneous decrease on the Left Hand Side and Right Hand Side with Rs 8,000, therefore both the sides of the equation stand equal.

Particulars	Assets							=	Liabilities		Capital
	Cash	+	Stock	+	Debtors	+	Furniture		Creditors	+	



**Example 1** Adil Traders started business with cash of Rs 35,000. For his business, following transactions are to be recorded.

- (i) Purchased goods of Rs 30,000 on credit.
- (ii) Paid rent of Rs 8,000.
- (iii) Withdrawn Rs 5,000 for paying his son's school fees.
- (iv) Purchased chairs for office use Rs 3,000.
- (v) Sold goods costing Rs 1,750 for Rs 2,250.
- (vi) Interest on drawings charged @ 10%

Prepare Accounting Equation.

*Solution*

S.No.	Transactions	Assets			=	Liabilities	+	Capital	
		Cash (Rs)	+	Stock (Rs)	+	Furniture (Rs)	=	Creditors (Rs)	(Rs)
(i)	Started business with cash	35,000					=		35,000
	Purchased goods on credit	35,000					=		35,000
(ii)	Paid rent		+	30,000			=	30,000	
		35,000	+	30,000			=	30,000	+
(iii)	Withdrawn cash for paying son's school fees	-8,000					=		-8,000 (rent)
		27,000	+	30,000			=	30,000	+
(iv)	Purchase chairs for office use	-5,000							-5,000
		22,000	+	30,000			=	30,000	+
(v)	Sold goods costing Rs 1,750 for Rs 2,250	-3,000			+	3,000	=		
		19,000	+	30,000	+	3,000	=	30,000	+
(vi)	Interest on drawings @ 10%	2,250	+	-1,750					500 (profit)
		21,250	+	28,250	+	3,000	=	30,000	+
									22,500 -500 (Expense for Proprietor) +500

									(Gain for Business)	
		21,250	+	28,250	+	3,000	=	30,000	+	22,500

Total Assets	=	Liabilities	+	Capital
Cash + Stock + Furniture	=	Creditors	+	Capital
21,250+28,250+3,000	=	30,000	+	22,500
52,500	=	30,000	+	22,500

**Example 2** Randeep started business with cash of Rs 60,000. Following transactions occurred during the year.

- (i) Purchased goods of Rs 20,000 from Vikrant in cash.
- (ii) Sold goods to Kapil costing Rs 4,200 at a loss of Rs 600 in cash.
- (iii) Sold goods on credit (costing Rs 3,000) at a profit of 20% on cost.
- (iv) Deposited into Bank Rs 10,000.
- (v) Commission Received of Rs 2,500.
- (vi) Stationery purchased for Rs 350.

Prepare Accounting Equation.

*Solution*

S.No.	Transactions	Assets				=	Liabilities	+	Capital
		Cash (Rs)	+	Stock (Rs)	+	Debtors (Rs)	+	Bank (Rs)	= (Rs)
	Started business with cash	60,000							= 60,000
(i)	Purchased goods for cash	60,000							= 60,000
		-	+	20,000					=
		20,000							
		40,000	+	20,000					= 60,000

(ii)	Sold goods to Kapil costing Rs 4,200 at a loss of Rs 600 in cash.	3,600 + -4,200	=	-600 (loss)
(iii)	Sold goods on credit (costing Rs 3,000) at a profit of 20% on cost.	43,600 + 15,800 + -3,000 + 3,600	=	59,400 +600 (profit)
(iv)	Deposited Cash into the bank	43,600 + 12,800 + 3,600 - 10,000	= + 10,000 =	60,000
(v)	Commission Received	33,600 + 12,800 + 3,600 + 10,000 2,500	=	60,000 2,500 (income)
(vi)	Stationery purchased	36,100 + 12,800 + 3,600 + 10,000 -350	=	62,500 -350 (Expenses)
		35,750 + 12,800 + 3,600 + 10,000	=	62,150

Total Assets	=	Liabilities	+	Capital
Cash + Stock + Debtors + Bank	=		+	Capital
35,750 + 12,800 + 3,600 + 10,000	=	0	+	62,150
62,150	=	0	+	62,150

**Example 3** From the following particulars of Laxman Sharma, Prepare accounting equation.

(i) Started business with Cash Rs 50,000, Building Rs 2,50,000 and Furniture Rs 15,000.

(ii) Took a bank loan of Rs 30,000.

(iii) Purchased goods of Rs 20,000 in cash and Rs 15,000 on credit.

(iv) Goods costing Rs 3,000 sold at 20% profit on cost.

(v) Sold 30% of goods at a profit of 25%.

(vi) Sold 20% of the remaining goods at a profit of 10%.

(vii) Introduced additional capital of Rs 20,000.

(viii) Commission of Rs 3,200 received in advance.

(ix) Received securities deposit of Rs 20,000 from tenants.

(x) Paid Life Insurance Premium of Rs 11,000.

*Solution*

S. N o.	Tran sacti ons	Assets						=	Liabilities						+	Capital	
		Cash (Rs)	+	Build ing (Rs)	+	Furnit ure (Rs)	+	Stoc k (Rs)	=	Ban k Loa n (Rs)	+	Credi tors (Rs)	+	Commis sion Receiv ed in Advance (Rs)	+	Secur ity Depo sits (Rs)	(Rs)
(i )	Starte d busin ess with cash, buildi ng and furnit ure	50,000	+	2,50,0 00	+	15,000			=								3,15,00 0
		50,000	+	2,50,0 00	+	15,000			=								3,15,00 0
(i i)	Took a bank loan of Rs 30,00 0.	30,000							=	30,0 00							
		80,000	+	2,50,0 00	+	15,000			=	30,0 00	+						3,15,00 0
(i ii )	Purch ased goods of Rs	-20,000	+				+	35,0 00	=		+	15,00 0					

	20,000 in cash and Rs 15,000 in credit .															
		60,000	+	2,50,000	+	15,000	+	35,000	=	30,000	+	15,000	+			3,15,000
(iv)	Sold goods (costing Rs 3,000) at a profit of 20% on cost.	3,600	+				+	- 3,000	=							+600 (profit)
		63,600	+	2,50,000	+	15,000		32,000	=	30,000	+	15,000	+			3,15,600
(v)	Sold 30% of goods at a profit of 25%. (9,600 × 1.25)	+12,000					+	- 9,600	=				+			2,400 (profit)
		75,600	+	2,50,000	+	15,000	+	22,400	=	30,000	+	15,000				3,18,000
(vi)	Sold 20% of the remaining goods at a profit	4,928					+	- 4,480	=				+			448 (profit)

[illegible]

	ance Premi um of Rs 11,00 0																	
		1,12,728	+	2,50,0 00	+	15,000	+	17,9 20	=	30,0 00	+	15,00 0	+	3,200	+	20,00 0	+	3,27,44 8

Total Assets	=	Liabilities	+	Capital
Cash + Building + Furniture + Stock	=	Bank Loan + Creditors + Commission Received in Advance + Security Deposits	+	Capital
1,12,728 + 2,50,000 + 15,000 + 17,920	=	30,000 + 15,000 + 3,200 + 20,000	+	3,27,448
3,95,648	=	68,200	+	3,27,448
3,95,648	=	3,95,648		

**Total Stock of Goods: 20,000 + 15,000 = 35,000**

**Sales:**  
*Sold on Credit:* 3,000  
 30% *Sold at profit of 25%:* 30% of 32,000 (35,000 – 3,000) = 9,600  
 20% *of remaining sold at profit of 10%:*20% of 22,400 (35,000 – 3,000 – 9,600) = 4,480

**Comprehensive Examples of Accounting Equation**

Practical problems based on accounting equations.

***Example 1*** Fill in the blanks.

Case	Total Assets (Rs)	Equities		
		Internal (Rs)	External (Rs)	Total (Rs)
a	40,000	?	15,000	?
b	?	-	-	50,000
c	60,000	36,000	?	?
d	?	?	25,000	45,000

*Solution*

We know that, Assets = Capital + Liabilities.

Or Assets = Internal Equities + External Equities.

Case	Total Assets (Rs)	Equities		
		Internal (Rs)	External (Rs)	Total (Rs)
a	40,000	25,000	15,000	40,000
b	50,000	-	-	50,000
c	60,000	36,000	24,000	60,000
d	45,000	20,000	25,000	45,000

**Example 2** Calculate the following.

- (i) Capital of business is Rs 40,000 and Outsiders liabilities are Rs 22,000. Calculate total assets of the business.
- (ii) Total Assets of business are Rs 2,50,000. Calculate creditors, if net worth is Rs 1,85,000.
- (iii) Calculate owner's equity at the end of the period and also total equity from the given data.

Particulars	Amount (Rs)
Owner Equity in the beginning of the period	50,000
Creditor's Equity at the end of the period	45,000
Revenue during the period	25,000
Expenses during the period	10,000

*Solution*

- (i) Total Assets = Capital + Outside Liabilities

$$\text{Total Assets} = 40,000 + 22,000$$

$$= 62,000$$

- (ii) Total Assets = Capital + Outside Liabilities

or Total Assets = Net Worth + Creditors

$$2,50,000 = 1,85,000 + \text{Creditors}$$

$$\text{Creditors} = 65,000$$

(iii) Owner's Equity at the end of the period = Opening Owner's Equity + Revenue earned during the period – Expenses incurred during the period

$$\text{Owner's Equity at the end of the period} = 50,000 + 25,000 - 10,000 = 65,000.$$

$$\text{Total Equity} = \text{Owner's Equity} + \text{Creditor's Equity}$$

$$\text{Total Equity} = 65,000 + 45,000$$

$$= 1,10,000$$

**Example 3** With the help of accounting equation and the data given below, describe the possible transactions for the items (a) to (e).

S.No.	Cash	+	Stock	+	Fixed Assets	=	Capital	+	Liabilities
b/f	40,000	+	10,000	+	18,000	=	60,000	+	8,000
(a)	-	+	(+) 6,000		-	=	-	+	(+) 6,000
(b)	(-) 8,000	+	-	+	(+) 12,000	=	-	+	(+) 4,000
(c)	(+) 5,000		-	+	(-) 6,000	=	(-) 1,000	+	-
(d)	(+) 8,000	+	(-) 4,000	+	-	=	(+) 4,000	+	-
(e)	(-) 2,000	+	(+) 7,000	+	-	=	-	+	(+) 5,000

*Solution:*

In the above accounting equation, Cash Balance of Rs 40,000, Stock of Goods worth Rs 10,000, Fixed Assets of Rs 18,000, Capital of Rs 60,000 and Liabilities amounting to Rs 8,000 have been brought forward from previous year.

The transactions on the basis of accounting equation (Total Assets = Capital + Outside Liabilities) are as follows:

(a) Since stock is increasing by Rs 6,000, this means that goods have been purchased i.e. either on cash or on credit. At the same time as liabilities are increasing with the same amount i.e. Rs 6,000, it means these have been purchased on credit. So, the above transaction is for recording **“Goods purchased on credit worth Rs 6,000”**.

(b) Here, fixed assets are increasing by Rs 12,000 with a simultaneous decrease in cash by Rs 8,000 and increase in liabilities by Rs 4,000. This means, fixed assets have been

purchased with part payment of Rs 8,000 in cash and balance Rs 4,000 is our liability. Thus, **“Fixed Assets worth Rs 12,000 purchased, out of which Rs 8,000 is paid in cash”**.

- (c) In this transaction, cash of Rs 5,000 is being received with a reduction in fixed assets worth Rs 6,000. And at the same time, Rs 1,000 is being deducted from Capital. This means that Fixed Assets worth Rs 6,000 have been sold at a loss of Rs 1,000 i.e. for Rs 5,000. So, the transaction is, **“Fixed Assets worth Rs 6,000 sold for Rs 5,000”**.
- (d) The given accounting equation shows that cash is increasing by Rs 8,000 while stock is reduced by Rs 4,000 only. Also, capital is increasing by Rs 4,000. This means, Goods worth Rs 4,000 are being sold for Rs 8,000 i.e. at a profit of Rs 4,000 which is added to the capital. So, the transaction recorded above is, **“Goods of Rs 4,000 sold for Rs 8,000”**.
- (e) Here in the above equation, cash is decreasing by Rs 2,000, Stock is increasing by Rs 7,000 and at the same time Liabilities are increasing by Rs 5,000. This means that goods worth Rs 7,000 are being purchased and out of the sum due Rs 2,000 are paid in cash and Rs 5,000 are still payable. This means the transaction is, **“Goods worth Rs 2,000 are purchased in cash and Rs 5,000 on credit”**.

**Example 4** Prove that the accounting equation is satisfied in all the following transactions of Amit.

- (a) Commenced business with cash Rs 9,00,000.
- (b) Rent paid in advance Rs 8,000
- (c) Purchased goods for cash Rs 4,00,000 and for credit Rs 1,00,000.
- (d) Sold goods costing Rs 3,00,000, for cash Rs 3,50,000.
- (e) Paid Salaries Rs 8000 and Salaries outstanding Rs 2,000.
- (f) Bought Car for personal use Rs 1,40,000.

*Solution:*

Particulars	Assets					=	Liabilities			+	Capital (Rs)
	Cash (Rs)	+	Stock (Rs)	+	Rent paid in Advance (Rs)		Creditors (Rs)	+	Salaries O/S (Rs)		

(a) Commenced business with Cash	9,00,000					=					9,00,000
(b) Rent paid in Advance Rs 8,000	(-)8,000	+	-	+	(+)8,000	=					-
<b>New Balance</b>	<b>8,92,000</b>	+		+	<b>8,000</b>	=				+	<b>9,00,000</b>
(c) Purchased goods for cash Rs 4,00,000 and on credit Rs 1,00,000	(-) 4,00,000	+	5,00,000	+	-	=	(+) 1,00,000	+	-	+	-
<b>New Balance</b>	<b>4,92,000</b>	+	<b>5,00,000</b>	+	<b>8,000</b>	=	<b>1,00,000</b>	+	-	+	<b>9,00,000</b>
(d) Sold goods costing Rs 3,00,000 for Rs 3,50,000	(+) 3,50,000	+	(-) 3,00,000	+	-	=	-	+	-	+	(+) 50,000
<b>New Balance</b>	<b>8,42,000</b>	+	<b>2,00,000</b>	+	<b>8,000</b>	=	<b>1,00,000</b>	+	-	+	<b>9,50,000</b>
(e) Paid Salaries Rs 8,000 and Salaries outstanding Rs 2,000	(-) 8,000	+	-	+	-	=	-	+	(+) 2,000	+	(-) 10,000
<b>New Balance</b>	<b>8,34,000</b>	+	<b>2,00,000</b>	+	<b>8,000</b>	=	<b>1,00,000</b>	+	<b>2,000</b>	+	<b>9,40,000</b>
(f) Purchased Car for personal use Rs 1,40,000	(-) 1,40,000	+	-	+	-	=	-	+	-	+	(-) 1,40,000
<b>New Balance</b>	<b>6,94,000</b>	+	<b>2,00,000</b>	+	<b>8,000</b>	=	<b>1,00,000</b>	+	<b>2,000</b>	+	<b>8,00,000</b>

Here

Total Assets	=	Liabilities	+	Capital
Cash + Stock + Rent paid in Advance	=	Creditors + Salaries outstanding	+	Capital
6,94,000 + 2,00,000 + 8,000	=	1,00,000 + 2,000	+	8,00,000
9,02,000	=	1,02,000	+	8,00,000
9,02,000	=	9,02,000		

So, Total Assets = Capital + Outside Liabilities

Hence, accounting equation is satisfied.

**Example 5** Find the missing figures from the entries given below on the basis of accounting equation.

- (a) Cash Rs 28,000, Loan from Ajit Rs 12,000, Machinery Rs 40,000, Goodwill Rs 5,000 and Capital Rs ?
- (b) Capital Rs 90,000, Loan to Mr. PQR Rs 8,000, Bank O/D Rs 5,000, Machinery Rs 60,000, Debtors Rs 7,000 and Cash Rs ?
- (c) Trade Creditors Rs 22,000, Advances given Rs 5,000, Prepaid Expenses Rs 2,000, Investment Rs 15,000, Reserves Rs 10,000, Cash Rs 21,000, Fixed Assets Rs 40,000 and Capital Rs ?
- (d) Sundry Debtors Rs 19,000, Closing Stock Rs 10,000, Trademarks Rs 8,000, Outstanding expenses Rs 4,000, Loan Rs 10,000, Cash Rs 22,000 and Capital Rs ?

*Solution:*

We know that Accounting Equation is

**Assets = Liabilities + Capital**

Now, considering the above four cases one by one,

(a) Assets = Cash + Machinery + Goodwill

$$= 28,000 + 40,000 + 5,000$$

$$= 73,000$$

Liabilities = Loan from Ajit = Rs 12,000

And, As Assets = Liabilities + Capital

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

$$\text{i.e. Capital} = 73,000 - 12,000$$

$$= \mathbf{61,000}$$

**So, Capital is Rs 61,000**

(b) Assets = Loan to Mr. PQR + Machinery + Debtors + Cash

$$= 8,000 + 60,000 + 7,000 + \text{Cash}$$

$$= 75,000 + \text{Cash}$$

Liabilities = Bank O/D = Rs 5,000

Capital = Rs 90,000

Now, Assets = Liabilities + Capital

$$75,000 + \text{Cash} = 5,000 + 90,000$$

$$\text{Cash} = (95,000 - 75,000)$$

**Cash = Rs 20,000**

(c) Assets = Advance given + Prepaid Expenses + Investments + Cash + Fixed Assets

$$\begin{aligned} &= 5,000 + 2,000 + 15,000 + 21,000 + 40,000 \\ &= 83,000 \end{aligned}$$

$$\begin{aligned} \text{Liabilities} &= \text{Reserves} + \text{Trade creditors} \\ &= 10,000 + 22,000 \\ &= 32,000 \end{aligned}$$

Now, Assets = Liabilities + Capital

$$\begin{aligned} \text{Capital} &= \text{Assets} - \text{Liabilities} \\ &= 83,000 - 32,000 \\ &= 51,000 \end{aligned}$$

**So, Capital is Rs 51,000**

(d) Assets = Sundry Debtors + Closing Stock + Trademarks + Cash

$$\begin{aligned} &= 19,000 + 10,000 + 8,000 + 22,000 \\ &= 59,000 \end{aligned}$$

$$\begin{aligned} \text{Liabilities} &= \text{Outstanding expenses} + \text{Loan} \\ &= 4,000 + 10,000 \\ &= 14,000 \end{aligned}$$

$$\begin{aligned} \text{Capital} &= \text{Assets} - \text{Liabilities} \\ &= 59,000 - 14,000 \\ &= 45,000 \end{aligned}$$

**So, Capital is Rs 45,000**

**Example 6** Show the effect of the following transactions on the accounting equations.

(a) MN Ltd. started business with

- i) Cash Rs 3,40,000
- ii) Goods Rs 1,50,000
- iii) Building Rs 3,00,000

(b) They Purchased goods for cash Rs 80,000

(c) Sold goods (costing Rs 56,000) for Rs 75,000.

(d) Sold goods to Manoj (Costing Rs 18,000) for Rs 25,000

(e) Purchased goods from Sohan Rs 35,000

(f) Paid cash to Sohan in full settlement Rs 33,000

(g) Rent Outstanding Rs 8,000

(h) Depreciation charged on Building Rs 7,500

- (i) Fresh capital Invested Rs 40,000  
(j) Prepaid Insurance Rs 2,500

*Solution:*

Particulars	Assets									=	Liabilities			+	Capital (Rs)
	Cash (Rs)	+	Stock (Rs)	+	Building (Rs)	+	Debtors (Rs)	+	Prepaid Expenses (Rs)		Creditors (Rs)	+	Outstanding Expenses (Rs)		
(a) Commenced businesses	3,40,000	+	1,50,000	+	3,00,000					=	-	+	-	+	7,90,000
(b) Goods Purchased for cash	(-) 80,000	+	(+) 80,000							=					-
<b>New Balance</b>	<b>2,60,000</b>	+	<b>2,30,000</b>	+	<b>3,00,000</b>	+	-	+	-	=	-	+	-	+	<b>7,90,000</b>
(c) Sold goods costing 56,000 for 75,000	(+) 75,000	+	(-) 56,000	+	-	+	-	+	-	=	-	+	-	+	(+) 19,000
<b>New Balance</b>	<b>3,35,000</b>	+	<b>1,74,000</b>	+	<b>3,00,000</b>	+	-	+	-	=	-	+	-	+	<b>8,09,000</b>
(d) Sold Goods to Manoj (costing Rs		+	(-) 18,000	+		+	25,000	+		=		+		+	(+) 7,000

18,000) for Rs 25,000															
<b>New Balanc e</b> (e) Purchas ed goods from Sohan	<b>3,35,000</b>	+	<b>1,56,000</b>	+	<b>3,00,000</b>	+	<b>25,000</b>	+	-	=	-	+	-	+	<b>8,16,000</b>
		+	(+) 35,000	+		+		+		=	(+) 35,000	+		+	
<b>New Balanc e</b> (f) Paid Cash to Sohan in full settlem ent Rs 33,000	<b>3,35,000</b>	+	<b>1,91,000</b>	+	<b>3,00,000</b>	+	<b>25,000</b>	+	-	=	<b>35,000</b>	+	-	+	<b>8,16,000</b>
	(-) 33,000	+								=	(-) 35,000	+	-	+	(+) 2,000
<b>New Balanc e</b> (g) Rent Outstan ding Rs 8,000	<b>3,02,000</b>	+	<b>1,91,000</b>	+	<b>3,00,000</b>	+	<b>25,000</b>	+	-	=	<b>0</b>	+	-	+	<b>8,18,000</b>
		+		+		+		+		=		+	(+) 8,000	+	(-) 8,000
<b>New Balanc e</b> (h) Depreci ation charged on building Rs 7,500	<b>3,02,000</b>	+	<b>1,91,000</b>	+	<b>3,00,000</b>	+	<b>25,000</b>	+	-	=	<b>0</b>	+	<b>8,000</b>	+	<b>8,10,000</b>
		+		+	(-) 7,500	+		+		=		+		+	(-) 7,500

<b>New Balance</b>	<b>3,02,000</b>	+	<b>1,91,000</b>	+	<b>2,92,500</b>	+	<b>25,000</b>	+	-	=	<b>0</b>	+	<b>8,000</b>	+	<b>8,02,500</b>
(i) Fresh Capital invested Rs 40,000	(+) 40,000	+		+		+		+		=		+		+	(+) 40,000
<b>New Balance</b>	<b>3,42,000</b>	+	<b>1,91,000</b>	+	<b>2,92,500</b>	+	<b>25,000</b>	+	-	=	<b>0</b>	+	<b>8,000</b>	+	<b>8,42,500</b>
(j) Prepaid Insurance Rs 2,500	(-) 2,500	+		+		+		+	(+) 2,500	=		+		+	
<b>New Balance</b>	<b>3,39,500</b>	+	<b>1,91,000</b>	+	<b>2,92,500</b>	+	<b>25,000</b>	+	<b>2,500</b>	=	<b>0</b>	+	<b>8,000</b>	+	<b>8,42,500</b>

In the above Equation,

<b>Total Assets</b>	<b>=</b>	<b>Liabilities</b>	<b>+</b>	<b>Capital</b>
Cash + Stock + Building + Debtors + Prepaid expenses	=	Creditors + Outstanding Expenses	+	Capital
3,39,500+1,91,000+2,92,500+25,000+2,500	=	0 + 8,000	+	8,42,500
8,50,500	=	8,000	+	8,42,500
8,50,500	=	8,50,500		

So, Assets = Liabilities + Capital, i.e. Accounting Equation is satisfied.

## Meaning of Debit and Credit and Classification of Accounts

### Objectives

After going through this lesson, you shall be able to understand the following concepts.

- Meaning of Account
- Classification of Accounts
- Meaning of Debit and Credit
- Rules of Debit and Credit

## Introduction

In this lesson, we will discuss about accounts, which are medium for recording transactions in the books of accounts on the basis of the rules of debit and credit. Basically, we record a business transaction in the books on the basis of evidences or source documents. These transactions are first recorded in the books of original entry such as Sales Book, Purchase Book, Journal, etc. After recording them in Special Purpose Book, these are posted into the ledgers or the individual accounts maintained for this purpose. So it's important to discuss meaning of "Account" and how it is related with debit and credit.

## Meaning of Account

An account is a summarised form of all the transactions relating to a particular head at one place in chronological order. An account not only records the amount of the transaction but also its effect and direction.

## Classification of Accounts

Accounts are classified on two basis:

- (i) Traditional Classification of Accounts
- (ii) Modern Classification of Accounts

**(i) Traditional Classification of Accounts:** This is an old method of classifying accounts. Under this method accounts are classified into three types. These are

- (a) Personal Accounts
- (b) Real Accounts
- (c) Nominal Accounts

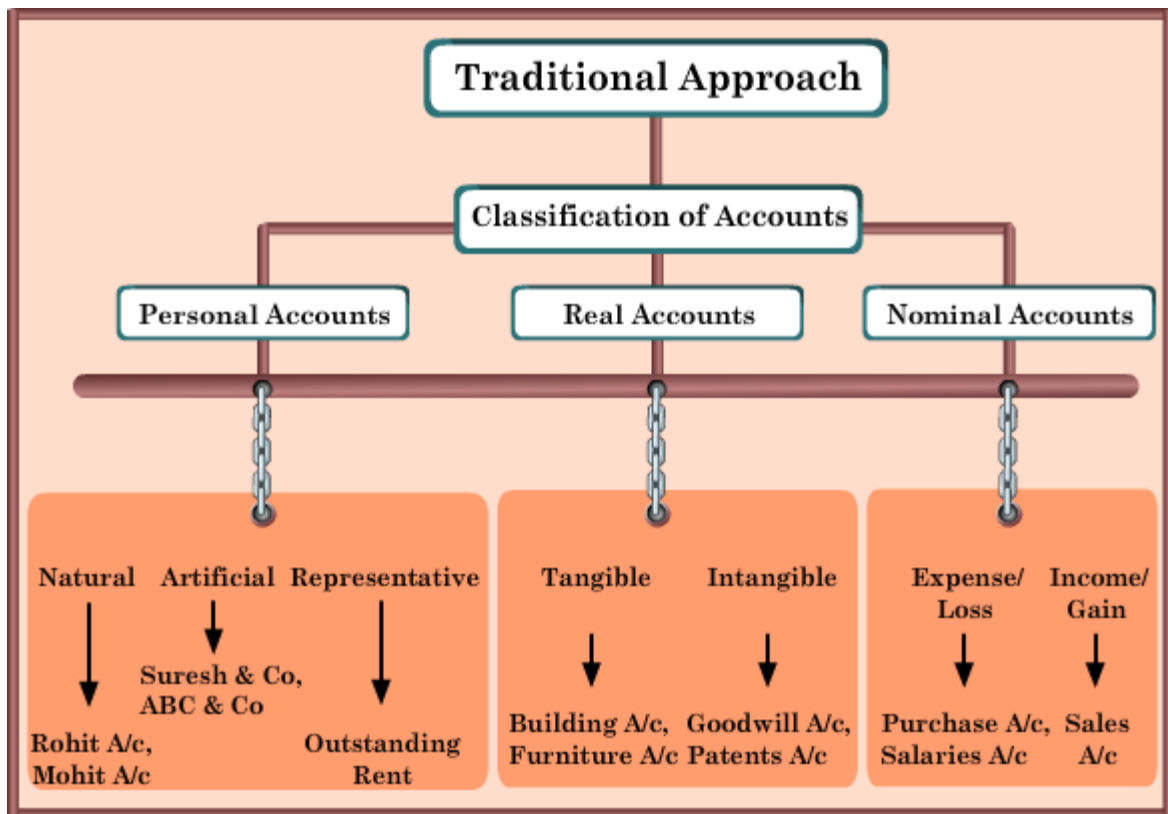
**(a) Personal Accounts** are those accounts that relate to persons such as individuals (like Ram, Mohan, Sohan, etc), firms (like XYZ & Co., Ajit Ram and Brothers, etc), companies (like XYZ Ltd, ABC Ltd, etc), debtors (name of debtors), creditors (name of creditors), capital account of proprietor or drawings account of proprietor, etc. Personal Accounts are broadly classified into three categories.

(i) *Natural Person Account*- It refers to accounts of living human beings such as Rohit's Account, Lata's Account, etc.

(ii) *Artificial Person Account*- It refers to accounts of companies or firms that act as a person in the business transactions. For example, ABC Ltd Account, XYZ Ltd Account.

(iii) *Representative Personal Account*: It refers to account that acts as a representative of certain person. For example, Salary Outstanding Account represents salary payable to employees and Rent Outstanding Account represents rent payable to landlord.

- (b) **Real Accounts** are those accounts that relate to tangible or intangible real assets. Tangible assets are the assets which have physical existence or in simple words assets which can be seen and touched, such as Land, Building, Machinery, Furniture, etc. On the other hand, intangible assets are the assets which do not have any physical existence such as Patents, Copyright, Goodwill, etc.
- (c) **Nominal Accounts** are the accounts that are related to expenses (such as purchases, interest paid, salaries, etc), incomes (such as interest received, commission received, etc), losses (loss by fire, loss by theft) or gains (gain on sale of assets), etc.



**Example 1** Classify the following items in Personal, Real and Nominal Accounts.

(i) Cash A/c	(vi) Sales A/c	(xi) Capital A/c
(ii) Bank A/c	(vii) Bad Debts A/c	(xii) Discount Received A/c
(iii) Goodwill A/c	(viii) Interest Paid A/c	(xiii) Outstanding Rent A/c
(iv) Bank Overdraft A/c	(ix) Discount Allowed A/c	
(v) Drawings A/c	(x) Prepaid Insurance A/c	

		(xiv) Bad Debt Recovered A/c  (xv) Carriage Outward A/c
--	--	---

**Solution**

Personal Accounts	Real Accounts	Nominal Accounts
(ii) Bank A/c	(i) Cash A/c	(vi) Sales A/c
(iv) Bank Overdraft A/c	(iii) Goodwill A/c	(vii) Bad Debts A/c
(v) Drawings A/c		(viii) Interest Paid A/c
(x) Prepaid Insurance A/c		(ix) Discount Allowed A/c
(xi) Capital A/c		(xii) Discount Received A/c
(xiii) Outstanding Rent A/c		(xiv) Bad Debt Recovered A/c
		(xv) Carriage Outward A/c

**Example 2** Classify the following items in Personal, Real and Nominal Accounts.

(i) Sales A/c	(vi) Commission Received A/c	(xi) Furniture A/c
(ii) Livestock A/c	(vii) Freehold Property A/c	(xiii) Interest Received in Advance A/c
(iii) Copyright A/c		

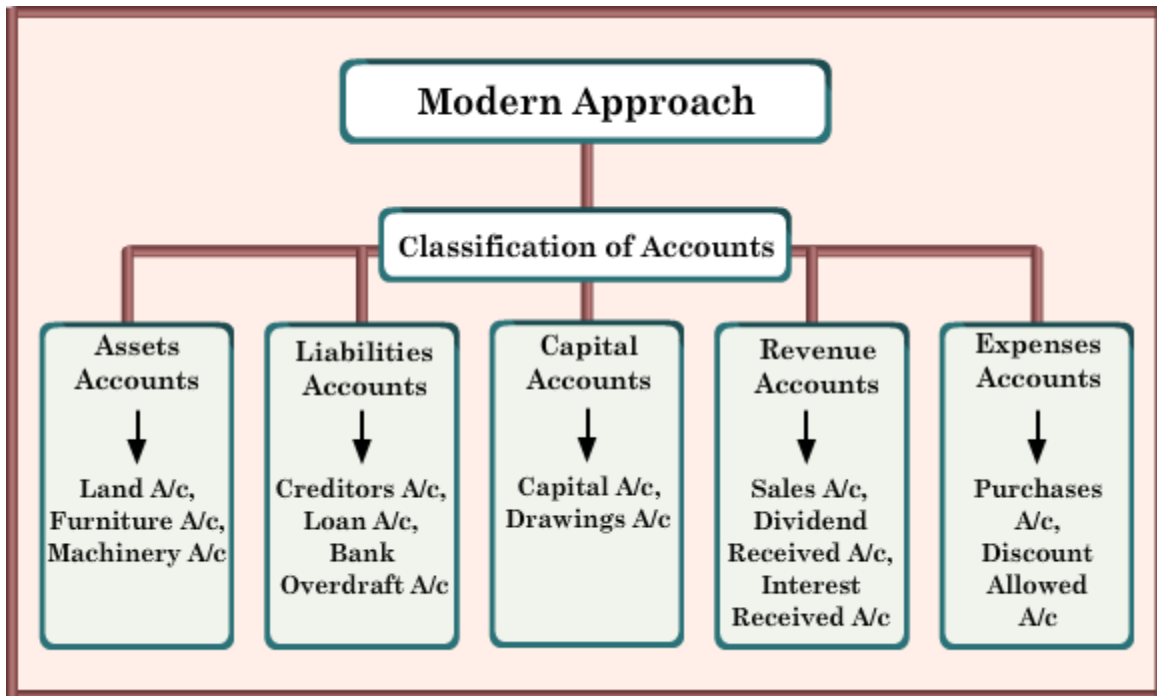
(iv) Suresh's A/c	(viii) Interest Received A/c	(xii) Outstanding Rent A/c
(v) Interest Accrued A/c	(ix) Light, Power and Electricity A/c	(xiv) Stationery A/c
	(x) Carriage Inward A/c	(xv) Investments A/c

### **Solution**

<b>Personal Accounts</b>	<b>Real Accounts</b>	<b>Nominal Accounts</b>
(iv) Suresh's A/c	(ii) Livestock A/c	(i) Sales A/c
(v) Interest Accrued A/c	(iii) Copyright A/c	(vi) Commission Received A/c
(xii) Outstanding Rent A/c	(vii) Freehold Property A/c	(viii) Interest Received A/c
(xiii) Interest Received in Advance A/c	(xi) Furniture A/c	(ix) Light, Power and Electricity
	(xv) Investments A/c	(x) Carriage Inward A/c
		(xiv) Stationery A/c

**(ii) Modern Classification of Accounts:** Under modern classification, accounts are classified into five main categories. These are:

- (a) Assets Accounts
- (b) Liabilities Accounts
- (c) Capital Accounts
- (d) Revenue Accounts
- (e) Expenses Accounts



- (a) *Assets Accounts*: These accounts relate to tangible and intangible real assets. Its examples are Land A/c, Machinery A/c, Furniture A/c, Cash A/c, Patents A/c, etc.
- (b) *Liabilities Accounts*: These accounts are related to financial obligations of an enterprise towards outsiders. Its examples are Creditors, Loan, Bank Overdraft, etc
- (c) *Capital Accounts*: These accounts include accounts of the proprietor of an organisation such as Capital A/c, Drawings A/c, etc. These are related to owners of an enterprise.
- (d) *Revenue Accounts*: These accounts include accounts related to amount received or receivable on goods sold, services rendered or other incomes such as Interest received A/c, Commission received A/c, Royalty received A/c, Dividend received A/c, etc.
- (e) *Expenses Accounts*: These accounts include accounts related to amount incurred or lost in the process of earning revenue. Its examples are Purchases A/c, Discount Allowed A/c, Salaries A/c, Interest paid A/c, etc.

**Example 3** Classify the following accounts, according to the modern approach.

(i) Cash A/c	(ix) Rent Received A/c
--------------	------------------------

(ii) Bank A/c	(x) Conveyance Expenses A/c
(iii) Sales A/c	(xi) Bank Loan A/c
(iv) Purchases A/c	(xii) Drawings A/c
(v) Bank Overdraft A/c	(xiii) Commission Paid A/c
(vi) Travelling Expenses A/c	(xiv) Trademark A/c
(vii) Repairs A/c	(xv) Furniture A/c
(viii) Bad Debts A/c	(xvi) Supplier's A/c

**Solution**

Items	Nature of Accounts
-------	--------------------

(i) Cash A/c	Assets
(ii) Bank A/c	Assets
(iii) Sales A/c	Revenue
(iv) Purchases A/c	Expenses
(v) Bank Overdraft A/c	Liabilities
(vi) Travelling Expenses A/c	Expenses
(vii) Repairs A/c	Expenses
(viii) Bad Debts A/c	Expenses
(ix) Rent Received A/c	Revenue
(x) Conveyance Expenses A/c	Expenses
(xi) Bank Loan A/c	Liabilities
(xii) Drawings A/c	Capital
(xiii) Commission Paid A/c	Expenses
(xiv) Trademark A/c	Assets
(xv) Furniture A/c	Assets
(xvi) Supplier's A/c	Liabilities

**Example 4:** Classify the following accounts according to Traditional as well as Modern Classification of Accounts.

1. Capital brought in	2. Furniture A/c	3. Purchases A/c
-----------------------	------------------	------------------

4. Drawings A/c	5. Buildings A/c	6. Sales A/c
7. Discount Allowed	8. Carriage Inwards A/c	9. Commission Paid A/c
10. Interest Received	11. Fuel and Power	12. Subscriptions Received
13. Prepaid Rent	14. Discount Received	15. Bank A/c
16. Cash Paid	17. Repairs	18. Bad Debts Written Off
19. Travelling Expenses	20. Conveyance Charges	21. Bank Overdraft
22. Wages and Salaries	23. Sales Returns	24. Printing and Stationery
25. Advertisement Expenses		

### **Solution**

#### **A) According to Traditional Approach**

	<b>Personal Accounts</b>		<b>Real Accounts</b>		<b>Nominal Accounts</b>
1. Capital brought in		2. Furniture A/c		3. Purchases A/c	
4. Drawings A/c		5. Buildings A/c		6. Sales A/c	
13. Prepaid Rent		16. Cash Paid		7. Discount Allowed	
15. Bank A/c				8. Carriage Inwards A/c	

21.	Bank Overdraft			9.	Commission Paid A/c
				10.	Interest Received
				11.	Fuel and Power
				12.	Subscriptions Received
				14.	Discount Received
				17.	Repairs
				18.	Bad Debts Written Off
				19.	Travelling Expenses
				20.	Conveyance Charges
				22.	Wages and Salaries
				23.	Sales Returns
				24.	Printing and Stationery
				25.	Advertisement Expenses

**B) According to Modern Approach**

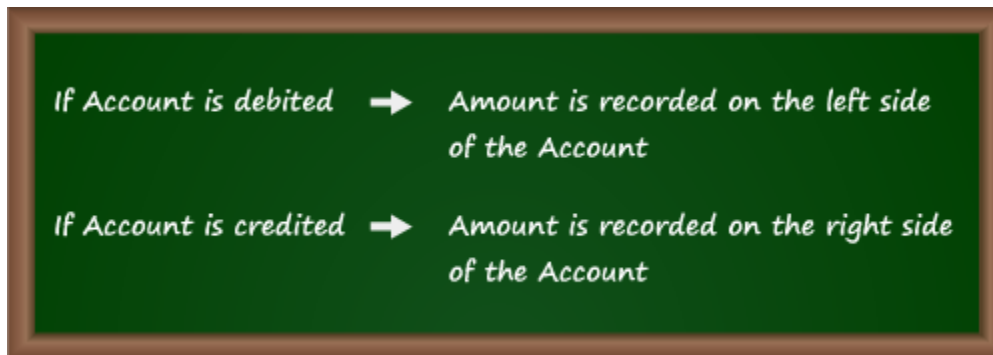
	Assets		Liabilities		Capital		Revenue		Expenses
--	--------	--	-------------	--	---------	--	---------	--	----------

2. Furniture A/c	21. Bank Overdraft	1. Capital brought in	6. Sales A/c	3. Purchases A/c
5. Buildings A/c		4. Drawings A/c	10. Interest Received	7. Discount Allowed
13. Prepaid Rent			12. Subscriptions Received	8. Carriage Inwards A/c
15. Bank A/c			14. Discount Received	9. Commission Paid A/c
16. Cash Paid			23. Sales Returns	11. Fuel and Power
				17. Repairs
				18. Bad Debts Written Off
				19. Travelling Expenses
				20. Conveyance Charges
				22. Wages and Salaries
				24. Printing and Stationery
				25. Advertisement Expenses

### Meaning of Debit and Credit

Under Double Entry System of accounting, each business transaction is recorded with dual aspect that means debit and credit aspect. Both debit and credit originate from the latin words. In latin language, Debit means "*Debere*" and Credit means "*Credere*". Therefore, Dr.

is used as a short form of the word "*Debere*" and Cr. is used as a short form of word "*Credere*". Every business transaction involves at least two accounts for the purpose of recording, in which one account is debited and other is credited. When we say an account is debited this means we will write an amount on the *left side* of this account, on the other hand, when we say an account is credited it means, we will write an amount on the *right side* of this account. Debit or credit also implies increase or decrease in an account, depending on their nature (*i.e.* Personal, Real or Nominal).



## Rules of Debit and Credit

The rules for debit and credit depend upon the classification of accounts. These are mentioned below.

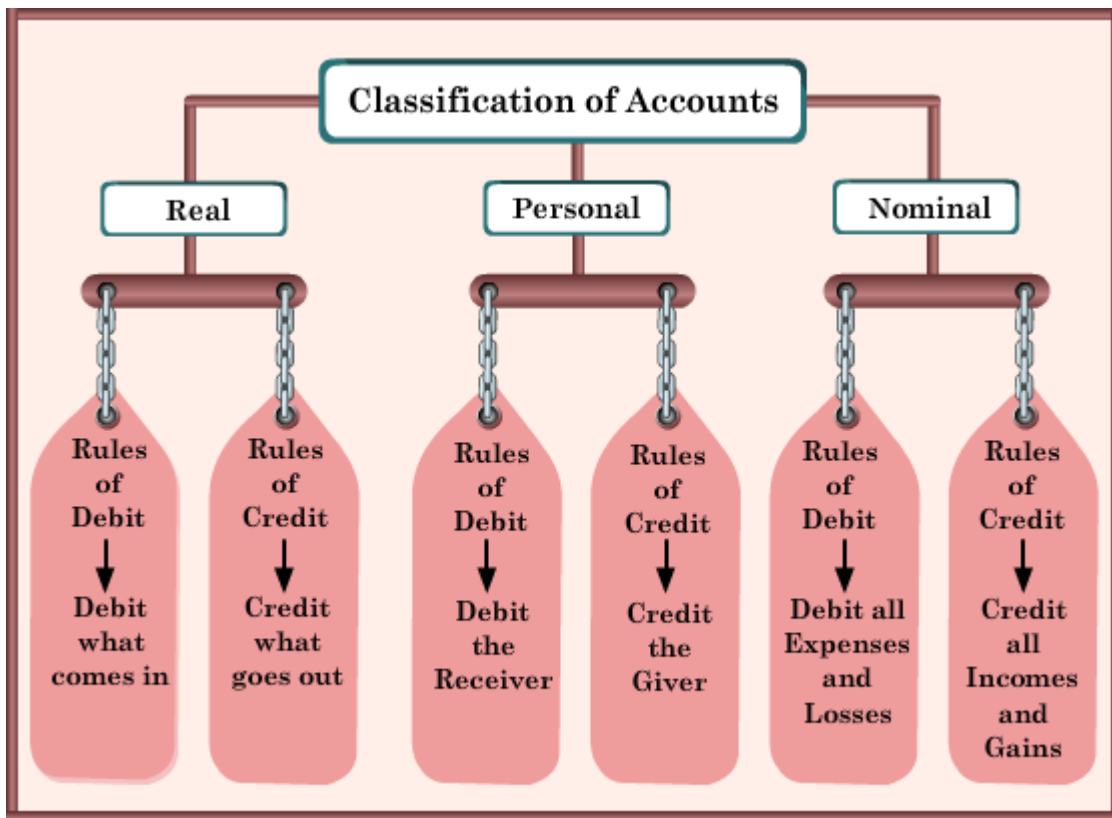
### 1) When accounts are classified on Traditional basis

When accounts are classified into personal, real and nominal accounts then the following three rules of accountancy are followed:

Personal Accounts- "Debit the Receiver, Credit the Giver"

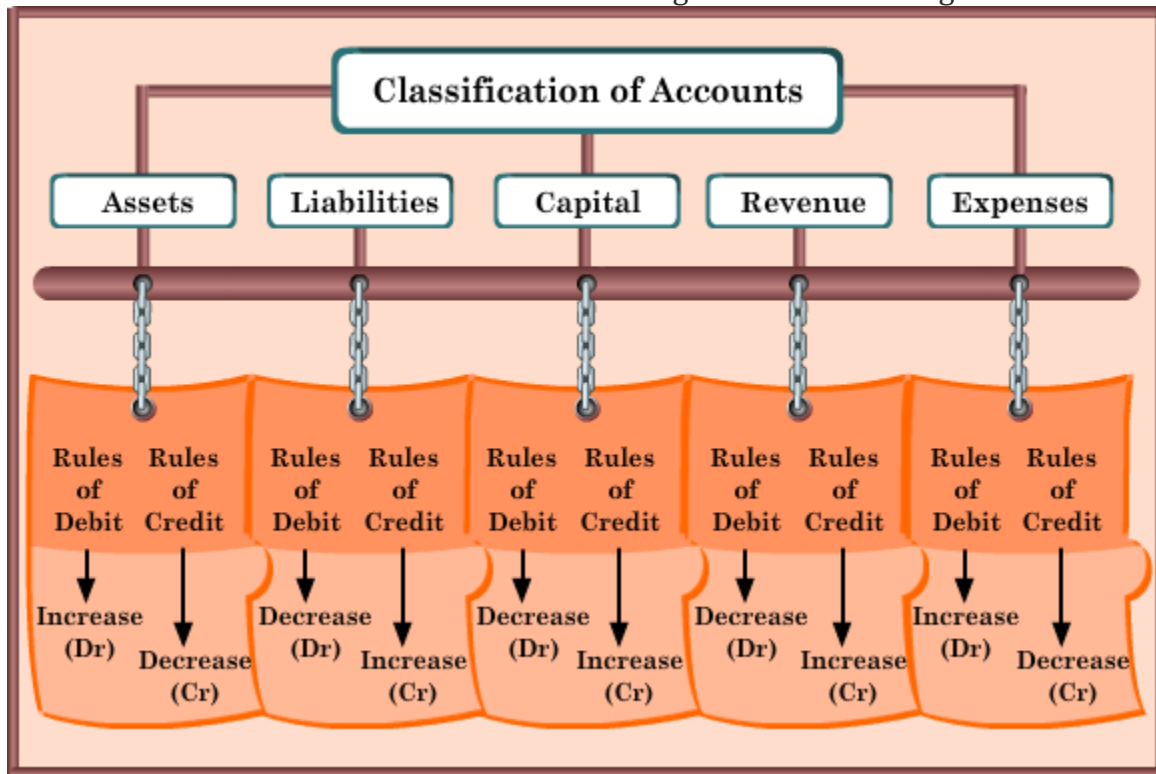
Real Accounts- "Debit what Comes in, Credit what Goes out"

Nominal Accounts- "Debit All Expenses and Losses, Credit all Incomes and Gains"



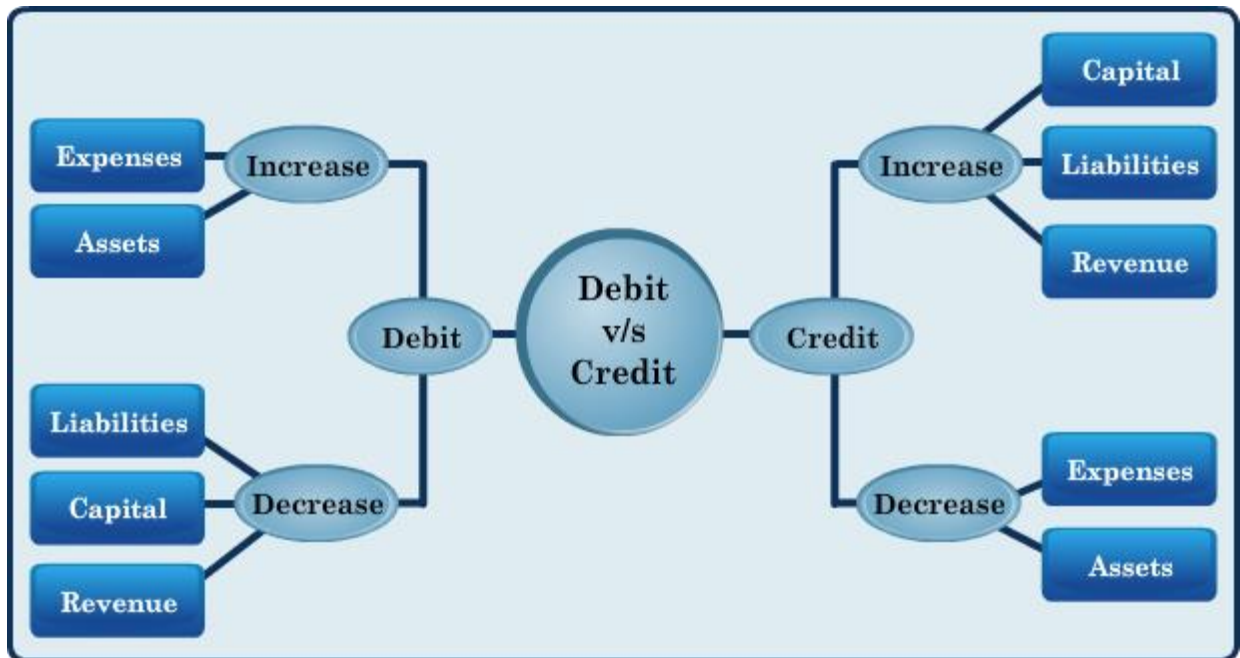
2) When accounts are classified on Modern basis

Under Modern classification of accounts following rules of accounting are used:



- Assets Accounts-** The increase in assets is debited to the respective asset account while decrease in asset is credited to the respective asset account. Suppose, a machinery is purchased for Rs 5,00,000 in cash. Here, as machinery is being purchased for cash, machinery is increasing while cash is decreasing. So, increase in machinery will be debited to Machinery Account and the decrease of cash will be credited to Cash Account.
- Liabilities Accounts-** The decrease in amount of liabilities is debited, while increase is credited. For example, purchased goods from XYZ Ltd. on credit for Rs 20,000. Here, liability is arising as payment is to be made and accordingly XYZ Ltd. will be credited by Rs 20,000.
- Capital Accounts-** When capital is brought in or introduced by the owner or partner of the firm, Capital Account will be credited and for withdrawing from business it will be debited. In simple terms, decrease in Capital is debited and increase in the same is credited.
- Revenue Accounts-** When any amount is received or receivable, the respective income account will be credited. It means for increase in income the respective income account will be credited and for decrease, the respective income account will be debited. For example, sale of goods for cash of Rs 10,000. In this case, Sales Account will be credited by Rs 10,000 and Cash Account will be debited by an equal amount as increase in asset is debited.

- **Expenses Accounts-** Expenses are the costs of running a business. The increase in expenses is debited, whereas, decrease is credited. In case salaries of Rs 5,000 are paid to staff, here Salary Account will be debited as salary being expenditure is increasing and Cash Account will be credited by Rs 5,000.



**Example 5** Analyse the transactions given below as per the modern approach and also state accounts that are to be debited or credited.

- (i) Suresh started business with cash.
- (ii) Purchased goods from Manjeet Singh.
- (iii) Sold goods for cash.
- (iv) Paid Rent
- (v) Cash deposited in the bank
- (vi) Cash withdrawn from bank for personal purpose
- (vii) Paid interest on loan
- (viii) Paid instalment of loan

**Solution**

#### Analysis of Transactions

Transactions	Accounts Involved	Nature of Accounts	Effect	Debited or Credited
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(i)	Cash A/c	Asset	Increased	Debit
	Capital A/c	Capital	Increased	Credit
(ii)	Purchases A/c	Expense	Increased	Debit
	Manjeet Singh's A/c	Liability	Increased	Credit
(iii)	Cash A/c	Asset	Increased	Debit
	Sales A/c	Revenue	Increased	Credit
(iv)	Rent A/c	Expense	Increased	Debit
	Cash A/c	Asset	Decreased	Credit
(v)	Cash A/c	Asset	Decreased	Credit
	Bank A/c	Asset	Increased	Debit
(vi)	Drawings A/c	Capital	Decreased	Debit
	Bank A/c	Asset	Decreased	Credit
(vii)	Interest on Loan A/c	Expense	Increased	Debit
	Cash A/c	Asset	Decreased	Credit
(viii)	Loan A/c	Liability	Decreased	Debit
	Cash A/c	Asset	Decreased	Credit

**Example 6** Analyse the transactions given below as per the modern approach and also state accounts that are to be debited or credited.

- (i) Purchased goods for cash.
- (ii) Sold goods to Keshav.
- (iii) Interest received.
- (iv) Loan borrowed from Bhupinder.
- (v) Bad debts recovered.
- (vi) Cash deposited in the bank.
- (vii) Paid advances to Suppliers.
- (viii) Received from Vinod (debtor) by cheque.

**Solution**

**Analysis of Transactions**

Transactions	Accounts Involved	Nature of Accounts	Effect	Debited or Credited
(i)	Purchases A/c	Expense	Increased	Debit
	Cash A/c	Asset	Decreased	Credit
(ii)	Keshav's A/c	Asset	Increased	Debit
	Sales A/c	Revenue	Increased	Credit
(iii)	Cash A/c	Asset	Increased	Debit
	Interest Received A/c	Revenue	Increased	Credit
(iv)	Cash A/c	Asset	Increased	Debit
	Loan A/c	Liability	Increased	Credit
(v)	Cash A/c	Asset	Increased	Debit
	Bad debt recovered A/c	Revenue	Increased	Credit

(vi)	Bank A/c	Asset	Increased	Debit
	Cash A/c	Asset	Decreased	Credit
(vii)	Advance to Suppliers A/c	Asset	Increased	Debit
	Cash A/c	Asset	Decreased	Credit
(viii)	Bank A/c	Asset	Increased	Debit
	Vinod	Asset	Decreased	Credit

**Example 7** Analyse the transactions given below as per the traditional approach and also state accounts that are to be debited or credited.

- (i) Business started with cash
- (ii) Purchased goods for cash
- (iii) Salaries Paid
- (iv) Sold goods for cash
- (v) Deposited Rs 500 in bank
- (vi) Purchased furniture from JP Furnishers on credit
- (vii) Sold goods to Nikhil
- (viii) Proprietor's house rent paid

**Solution**

**Analysis of Transactions**

Transactions	Accounts Involved	Nature of Accounts	Effect	Debited or Credited
(i)	Cash A/c	Real	Comes in	Debit
	Capital A/c	Representative Personal	Giver	Credit
(ii)	Purchases A/c	Nominal	Expenses and Losses	Debit
	Cash A/c	Real	Goes out	Credit

(iii)	Salaries A/c	Nominal	Expenses and Losses	Debit
	Cash A/c	Real	Goes out	Credit
(iv)	Cash A/c	Real	Comes in	Debit
	Sales A/c	Nominal	Incomes and Gains	Credit
(v)	Bank A/c	Personal	Receiver	Debit
	Cash A/c	Real	Goes out	Credit
(vi)	Furniture A/c	Real	Comes in	Debit
	JP Furnishers A/c	Personal	Giver	Credit
(vii)	Nikhil A/c	Natural Personal	Receiver	Debit
	Sales A/c	Nominal	Incomes and Gains	Credit
(viii)	Drawings A/c	Representative Personal	Receiver	Debit
	Cash A/c	Real	Goes out	Credit

## Journal- Meaning, Format, Procedure for Recording Transactions

### Objectives

After going through this lesson, you shall able to understand the following concepts.

- Meaning of Journal
- Format of Journal
- Features of Journal
- Steps of Journalising

- Advantages of Journal
- Limitations of Journal

### Meaning of Journal

Journal is derived from the French word *Jour*, which means daily records. All the business transactions are first recorded in the Journal, therefore, it is also known as the “Book of Original Entry or Book of Prime Entry”. In this book, we record the business transactions in a chronological order that means in the order (or date) of their occurrence. In the Journal, business transactions are recorded in the form of an entry (having effects on two sides).

This entry is popularly referred to as Journal Entry.

In this book, transactions are recorded in the order of their occurrence, i.e., in chronological order from the source document. It is also termed as the book of original entry and each transaction is termed as Journal entry.

### Format of Journal

#### Performa of Journal In the books of.....

Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)

Date– Date of transaction (in order of occurrence)

Particulars– Details of business transactions like, name of the parties involved and the name of related accounts, are recorded

L.F.– Page number of ledger book on which relevant account appears

Debit Amount– Amount against the account to be debited

Credit Amount– Amount against the account to be credited

### Terminology for Journal

**1) Book of Original Entry:** Journal is the first book where the transactions are recorded directly from the source documents of a transaction like vouchers, etc. for the very first time. Hence, the name book of original entry.

**2) Entry:** It is a record of the financial transaction in the Journal hence the name Journal entry.

**3) Journalising:** The process of recording the transactions in the Journal is called Journalising.

**4) Posting:** The entries from the Journal are recorded in a book called ledger which classifies the items of a transaction into their respective accounts. This process of transferring from the Journal to the ledger accounts is called Posting.

## **Features of Journal**

- 1) Journal is the book of original entry as transactions are recorded first in Journal as and when they take place.
- 2) This is also referred to as book of prime entry as the transactions recorded in Journal are subsequently transferred to Ledger accounts.
- 3) The transactions are recorded in chronological order i.e. in date-wise order.
- 4) Recording of transactions is done on the basis of Double Entry System of Book-Keeping i.e. it records both the debit and credit aspects of a transaction.
- 5) Journal shows complete details of a transaction in one entry with a brief explanation called 'Narration'.
- 6) The recording of transactions is done in the form of Journal entries and this method is called 'Journalising'.

## **Steps of Journalising**

Following are the steps involved in recording a business transaction.

- (1) Identify the accounts involved in the transaction.
- (2) Analyse the nature of accounts identified in Step 1.
- (3) Identify which rule of accounting is applicable.
- (4) With the help of above rule, identify which account is to be debited and which to be credited.
- (5) Ascertain the amount by which the accounts are to be debited or credited.
- (6) Under the date column of Journal, record the date of transaction.
- (7) In the Particulars Column, on the extreme left hand corner write the 'Name of Account' that is to be debited. In the same line, write abbreviation Dr. (debit) on the extreme right hand corner under the same head. In the debit amount column, we write the amount to be debited against the Name of Account.
- (8) Again in the Particulars Column, in the next line little indented towards right we write the 'Name of Account' to be credited, preceded by word "To". In the credit amount column, we write the amount to be credited against the 'Name of Account'.

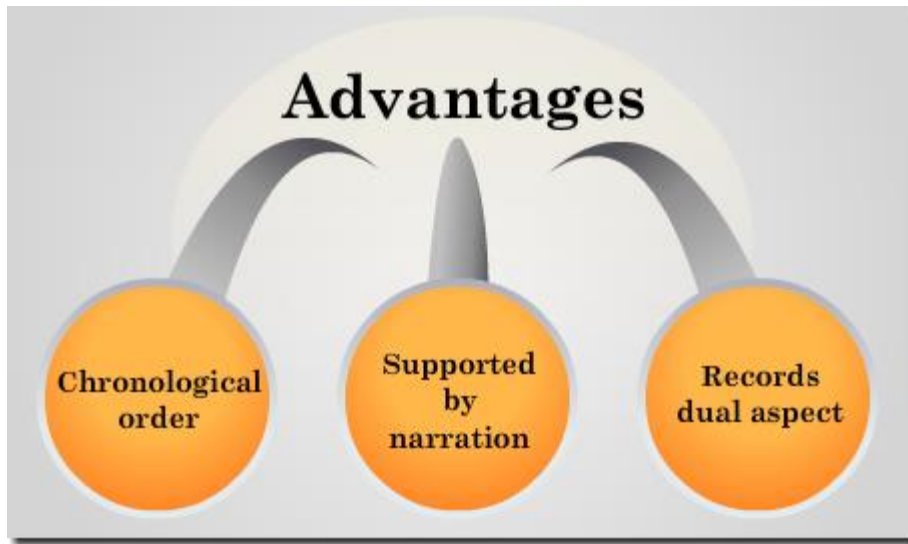
- (9) In the next line, under “Particulars Column” we write narration in brackets.  
Narration is simply the summary of business transaction recorded.

1	Identify Accounts	Identify the accounts involved in the transaction
2	Analyse nature of Accounts	Analyse nature of accounts involved in the transaction
3	Rule of Accounting	Identify the rule of accounting applicable in accounts involved
4	Accounts to be debited or credited	Based on rule, identify the accounts to be Debited or Credited.
5	Amount to be debited or credited	Ascertain the amount by which the accounts are to be debited or credited
6	Record date of transaction	In the date column, record the date of transaction
7	Record name of account to be debited	Write name of account to be debited under Particulars column Write amount to be debited in debit amount column
8	Record name of account to be credited	In the next line under Particulars column write name of account to be credited Write amount to be credited in credit amount column
9	Write narration	In the next line under Particulars column write brief explanation of the transaction

### Advantages of Journal

- (1) In Journal, transactions are recorded in the **chronological order** i.e. transactions are recorded in the order of their occurrence.
- (2) Every Journal entry is **supported by a narration** which acts as a small explanation of the transaction.
- (3) It records both the aspects or **dual aspect** of a transaction i.e. debit and credit. As amount is recorded in both debit column and credit column, therefore, possibility of

any mistake or errors is minimum. Moreover, if there is any error then it will be easily detected.



### Limitations of Journal

Following are the limitations of Journal.

- (1) Recording of all transactions in Journal is a ***time consuming process*** and it also involves cost in terms of money.
- (2) As recording of transaction takes time, therefore, this system causes ***delay in providing information***.
- (3) As journal is prepared by a single person, so there is no one to check his work. This shows ***lack of internal check system***.
- (4) Due to recording of large number of transactions, Journal becomes very ***bulky or voluminous book***.



## Recording of Transactions in Journal

## Objectives

After going through this lesson, you shall be able to understand the following concepts.

- Recording of a business transaction in Journal
- Compound Journal Entry
- Opening Entry

### Recording of a business transaction in Journal

Under this, we analyse each individual business transaction in detail. Through analysis we will be able to identify the accounts involved in the transaction. Further by applying rules of accounting, we record the transaction in the books through a Journal entry. Let's take a few transactions in order to understand how to record them in the books.

Dissection					Journal				
Transactions	Accounts	Nature of Accounts	Effect	Rule of Accounting	Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)

Shiv started business with cash of Rs 50,000 on April 01, 2013	Cash A/c	Asset	↑	Dr. as Asset is ↑ing	Apr. 01	Cash A/c	Dr .	50,000	
	Capital A/c	Capital	↑	Cr. as Capital is ↑ing	2013	To Capital A/c			50,000
						(Started business with cash)			
On April 10, 2013 Purchase goods of Rs 12,500 in cash	Purchases A/c	Expenses	↑	Dr. as expenses are ↑ing	Apr. 10	Purchases A/c	Dr .	12,500	
	Cash A/c	Assets	↓	Cr. as Asset is ↓ing	2013	To Cash A/c			12,500
						(Purchased goods for cash)			
On April 15, 2013 sold goods for cash Rs 35,000	Cash A/c	Assets	↑	Dr. as Asset is ↑ing	Apr. 15	Cash A/c	Dr .	35,000	
	Sales A/c	Revenue	↑	Cr. as Revenue is ↑ing	2013	To Sales A/c			35,000
						(Goods sold for cash)			
On May 05, 2013 purchased goods from Vinod Rs 22,500	Purchases A/c	Expenses	↑	Dr. as expense is ↑ing	May 05	Purchases A/c	Dr .	22,500	
	Vinod's A/c (Creditor)	Liability	↑	Cr. as liability is ↑ing	2013	To Vinod			22,500
						(Goods purchased from Vinod on credit)			
On May 12, 2013 goods of Rs 4,500 were returned back to Vinod	Vinod's A/c (Creditor)	Liability	↓	Dr. as liability is ↓ing	May 12	Vinod	Dr .	4,500	
	Purchase Return A/c	Expenses	↓	Cr. as expense is ↓ing	2013	To Purchases Return A/c			4,500
						(Goods of Rs 4,500 were returned back to Vinod)			
On June 07, 2013 goods sold to Vansh	Vansh's A/c (Debtor)	Assets	↑	Dr. as Asset is ↑ing	June 07	Vansh	Dr .	36,000	

for Rs 36,000 on credit	Sales A/c	Revenue	↑	Cr. as Revenue is ↑ing	2013	To Sales A/c			36,000
						(Goods sold to Vansh for Rs 36,000)			
On June 15, 2013 goods of Rs 8,000 were returned by Vansh	Sales Return A/c	Revenue	↓	Dr. as Revenue is ↓ing	June 15	Sales Return A/c	Dr .	8,000	
	Vansh's A/c (Debtor)	Asset	↓	Cr. as Asset is ↓ing	2013	To Vansh			8,000
						(Goods of Rs 8,000 were returned by Vansh)			
On Aug.05, 2013 goods withdrawn for personal purpose(Cost Rs 500, Sale Price Rs 850)	Drawings A/c	Capital	↓	Dr. as Capital is ↓ing	Aug.05	Drawings A/c	Dr .	500	
	Purchases A/c	Expenses	↓	Cr.as expense is ↓ing	2013	To Purchases A/c			500
						(Goods withdrawn for the personal purpose)			
On Aug 12, 2013 Cash of Rs 6,000 withdrawn from the bank	Cash A/c	Asset	↑	Dr. as Asset is ↑ing	Aug.12	Cash A/c	Dr .	6,000	
	Bank A/c	Asset	↓	Cr. as Asset is ↓ing		To Bank A/c			6,000
						(Cash withdrawn from the bank)			
On Aug.21, 2013 goods of Rs 9,500 were given as charity	Charity A/c	Expense	↑	Dr. as Expense is ↑ing	Aug.21	Charity A/c	Dr .	9,500	
	Purchases A/c	Expense	↓	Cr. as Expense is ↓ing		To Purchases A/c			9,500
						(Goods distributed as charity)			
On Aug 27, 2013 goods of Rs 2,500 were destroyed by fire.	Loss by Fire A/c	Expense	↑	Dr. as Expense is ↑ing	Aug.27	Loss by Fire A/c	Dr .	2,500	
	Purchases A/c	Expense	↓	Cr. as Expense is ↓ing		To Purchases A/c			2,500

						(Goods destroyed by fire)			
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### Banking Transactions

Banking transactions are those transactions in which Bank Account is involved. Some of the cases that come under banking transactions are explained below.

*Case 1: Deposited Cash of Rs 12,000 into Bank.*

Accounts	Nature of Accounts	Effect	Rule of Accounting		Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)
Bank A/c	Asset	↑	Dr. as Asset is ↑ing			Bank A/c Dr.		12,000	
Cash A/c	Asset	↓	Cr. as Asset is ↓ing			To Cash A/c (Cash deposited in bank)			12,000

*Case 2: Withdrew Cash of Rs 8,000 from Bank.*

Accounts	Nature of Accounts	Effect	Rule of Accounting		Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)
Cash A/c	Asset	↑	Dr. as Asset is ↑ing			Cash A/c Dr.		8,000	
Bank A/c	Asset	↓	Cr. as Asset is ↓ing			To Bank A/c (Cash withdrawn from bank)			8,000

*Case 3: On April 25, 2013 received cheque from Dinkar of Rs 25,000 and cheque was deposited in the bank on the same date.*

Accounts	Nature of Accounts	Effect	Rule of Accounting		Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)
Bank A/c	Asset	↑	Dr. as Asset is ↑ing			Bank A/c Dr.		25,000	
Dinkar (Debtor)	Asset	↓	Cr. as Asset is ↓ing			To Dinkar (Cheque received from Dinkar was deposited into)			25,000

					the bank on the same day)			
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*Note:* Cheque of Rs 18,800 received from Prakash on May 15, 2013.

In this case, only date of receipt of cheque is given but not of depositing it, so we will assume that the cheque is deposited in the bank on the same day. Therefore, it is treated as cheque received and deposited in the bank on the same day. It is illustrated as:

Accounts	Nature of Accounts	Effect	Rule of Accounting		Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)
Bank A/c	Asset	↑	Dr. as Asset is ↑ing		May 15 2013	Bank Dr. A/c		18,800	
Prakash (Debtor)	Asset	↓	Cr. as Asset is ↓ing			To Prakash  (Cheque received from Prakash and deposited in the bank on the same day)			18,800

*Case 4:* On May 10, 2013 received cheque from Priyanka of Rs 14,000 and this cheque was deposited in the bank on May 12, 2013.

In this case, cheque of Rs 14,000 received from Priyanka (debtor) on May 10, 2013 was deposited in the bank on May 12, 2013. Always remember, whenever a cheque is not deposited in the bank on the same day, then this receipt of cheque is recorded as 'Cheque-in-hand' and is treated as an asset. In the books, it will be debited as a new asset is being created. Thereafter, when this cheque is deposited in the bank then we will debit Bank Account (*as asset is increasing*) and credit Cheque-in-hand (*as asset is decreasing*). It is illustrated as:

Accounts	Nature of Accounts	Effect	Rule of Accounting		Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)
<b><i>Cheque is received from Priyanka on May 10, 2013</i></b>									
Cheque-in-hand A/c	Asset	↑	Dr. as Asset is ↑ing		May 10 2013	Cheque-in-hand Dr. A/c		14,000	
Priyanka (Debtor)	Asset	↓	Cr. as Asset is ↓ing			To Priyanka  (Cheque in hand received from Priyanka )			14,000

***Cheque received from Priyanka was deposited into the bank on May 12, 2013***

Bank A/c	Asset	↑	Dr. as Asset is ↑ing	May 12 2013	Bank A/c Dr.		14,000	
Cheque-in-hand A/c	Asset	↓	Cr. as Asset is ↓ing		To Cheque-in-hand A/c (Cheque in hand was deposited into the bank)			14,000

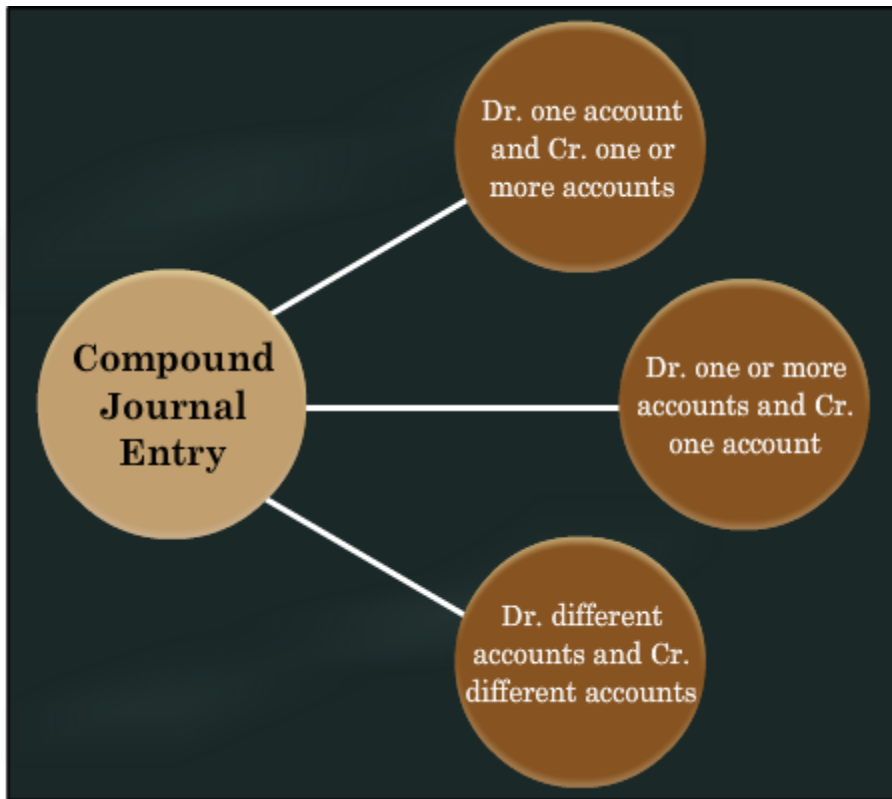
*Case 5:* Cheque of Rs 18,800 received from Prakash on May 15, 2013 dishonoured on May 17, 2013.

In this case, cheque received from Prakash is not cashed due to insufficient funds in Prakash's Bank Account. Therefore, Prakash again becomes the Debtor of the business and the increased Bank has to be reduced by the same amount. It is illustrated as:

Accounts	Nature of Accounts	Effect	Rule of Accounting	Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)
<b><i>Dishonour of cheque on May 17, 2013</i></b>								
Prakash (Debtor)	Asset	↑	Dr. as Asset is ↑ing	May 17 2013	Prakash Dr.		18,800	
Bank A/c	Asset	↓	Cr. as Asset is ↓ing		To Bank A/c  (Cheque received from Prakash was dishonoured)			18,800

### **Compound Journal Entry**

In case there are more than two accounts in a transaction, then sometimes instead of passing a number of Journal entries for a single transaction we prefer to pass a single journal entry. This single journal entry is termed as compound journal entry which involves more than two accounts in a transaction.



**Example 1** Paid Rs 850 to Vikas in full settlement of his debt of Rs 1,000.

Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)
	Vikas Dr. To Cash A/c To Discount Received A/c (Paid to Vikas in full settlement of his debt)		1,000	850 150

**Example 2** Received Rs 1,320 from Rahul in full settlement of his dues of Rs 1,500.

Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)
	Cash A/c Dr. Discount Allowed A/c Dr. To Rahul (Received from Rahul in full settlement of his dues)		1,320 180	1,500

**Example 3** Salaries of Rs 2,500 and office expenses of Rs 3,100 are due for payment as on 31<sup>st</sup> Dec, 2013

Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)
2013 31 Dec	Salaries A/c Dr. Office Expenses A/c Dr.  To Expenses Payable (Salaries and office expenses payable)		2,500 3,100	5,600

**Example 4** On Sept. 18, 2013 Rajesh who owed Rs 20,000, become insolvent and 60 paise in rupee was realised from his estate.

Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)
2013 Sept.18	Cash A/c Dr. Bad Debts A/c Dr. To Rajesh (Rajesh who owed Rs 20,000, become insolvent and 60 paise in a rupee was realized from his estates)		12,000 8,000	20,000

### Opening Entry

It is an entry passed in Journal for bringing forward all previous year ledger balances of the assets, liabilities and capital in the books of current year. In this entry, we debit all the Assets Account individually and credit all the Liabilities Accounts individually. Difference in total of assets (Dr. Balances) and total of liabilities (Cr. Balances) is transferred as balancing figure to Capital Account. This Capital Account is credited in the opening entry. The opening entry can be passed as:

Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)
	All Assets A/c (individually) Dr. To All Liabilities A/c (individually) To Capital A/c ( <i>Balancing Figure</i> ) (Balances brought forwarded from last year)			

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**Example** Pass the opening entry in the Journal of Satish on April 01, 2013.

Cash in hand Rs 12,600, Cash at bank Rs 15,500, Stock Rs 13,600, Machinery Rs 32,500, Furniture Rs 10,500, Prepaid Rent Rs 4,500, Salary Outstanding Rs 5,800, Loan from Vinit Rs 26,000, Interest Received in advance Rs 1,850, Owed to Rao Rs 8,500, Owed from Xavier Rs 7,200.

### **Solution**

Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)
April 01 2013	Cash-in-hand A/c Dr.		12,600	
	Cash-at-bank A/c Dr.		15,500	
	Stock A/c Dr.		13,600	
	Machinery A/c Dr.		32,500	
	Furniture A/c Dr.		10,500	
	Prepaid Rent A/c Dr.		4,500	
	Xavier Dr.		7,200	
	To Salary Outstanding A/c			5,800
	To Loan from Vinit A/c			26,000
	To Interest received in advance A/c			1,850
	To Rao			8,500
	To Capital A/c ( <i>Balancing Figure</i> ) (Balances brought forwarded from last year)			54,250

## **Trade Discount and Cash Discount**

### **Trade Discount**

It is a discount or reduction in the price of goods charged by the supplier from his customers. This discount is generally allowed by the supplier to his customers when they make bulk purchases. Trade discount is charged on the list price of the goods. *For example*, Rajesh sold goods of quantity 3,000 at the list price of Rs 10 each, allowing trade discount of 5%. In this case, trade discount is calculated as:

Particulars	Amount (Rs)
List Price (10 × 3,000)	30,000
Less: Trade Discount (5% × 30,000)	(1,500)
Invoice Price	28,500

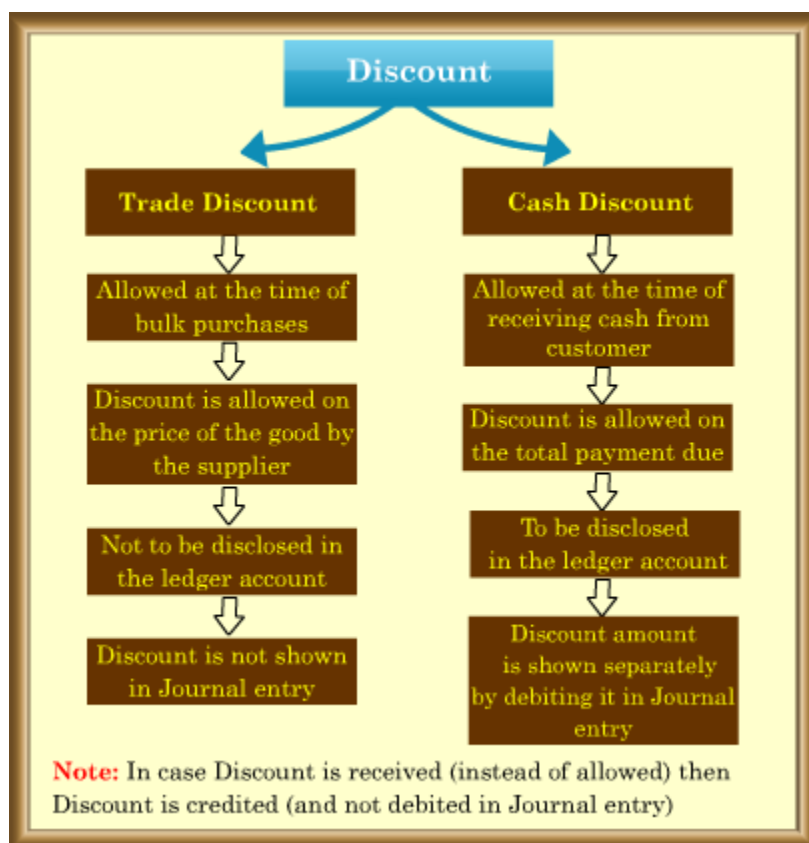
### Cash Discount

It is a discount allowed by the supplier (or creditor) of the goods to his customers for making immediate payment or for making payment within the credit period (*in days/weeks/months*) allowed by the supplier. *For example*, Rajesh sold goods to a customer for Rs 30,000 on credit. Terms of the credit were 5%, 25 days, this means, if payment is made within 25 days by the customer then he can avail cash discount of 5%. Therefore, cash discount is calculated as:

Particulars	Amount (Rs)
Amount payable as per Invoice	30,000
Less: Cash Discount (5% × 30,000)	(1,500)
Cash paid	28,500

### Trade Discount *versus* Cash Discount

	Basis of Difference	Trade Discount	Cash Discount
(1)	Meaning	It is a discount or reduction in the price of goods charged by the supplier from his customers.	It is a discount allowed by the supplier (or creditor) of the goods to his customers for making immediate payment or for making payment within the credit period allowed by the supplier.
(2)	Objective	For promoting higher sales.	For encouraging earlier or prompt payments.
(3)	Allowed	At the time of purchase of goods.	At the time of making payment (either immediately or within the credit period).
(4)	Disclosed in Invoice	Disclosed in invoice, as deduction from the purchase price.	Not disclosed in invoice.
(5)	Account	It is never opened as an account in the ledgers.	It is opened as an account in the ledgers.
(6)	Changes	It can be changed depending upon the quantity of goods purchased.	It can be changed within the credit period in which payment is to be made.



**Example** Sold goods to Rocky at a list price of Rs 1,00,000 less trade discount at the rate of 25% and 2% cash discount and the payment was received next day.

**Solution**

Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)
(i)	Rocky Dr. To Sales A/c (1,00,000-25% of 1,00,000) (Goods sold to Rocky at a trade discount of 25%)		75,000	75,000
(ii)	Cash A/c Dr. Discount Allowed A/c Dr. To Rocky (Amount received from Rocky) (75,000-1,500)		73,500 1,500	75,000

**Specific Entries**

## Objectives

After going through this lesson, you shall be able to understand the concept related to '*Entries for some specific transactions*'.

### Some Specific Entries

**Bad Debts:** If any amount that was recoverable is not realised or is partially realised, then the amount not realised is a loss to the business and is regarded as Bad Debts. It is recorded as follows.

(1) When the full amount is not recovered

Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)
	Bad Debts A/c Dr. To Debtor's A/c (Amount not recovered written off as bad debts)		xxx	xxx

(2) When part of debt is not recovered

Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)
	Cash A/c Dr. Bad Debts Dr. A/c To Debtor's A/c (Amount recovered and balance written off as bad debts)		xxx xxx	xxx

Example : Amit who owed us Rs 10,000 has become insolvent. He pays a compensation of 70 paisa in a rupee.

### Solution

Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)
	Cash A/c Dr.		7,000	

	Bad Debts A/c To Amit's A/c (Amount recovered and balance written off as bad debts)		3,000	10,000
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**Bad Debts Recovered:** Sometimes, bad debts previously written off are subsequently recovered. In such cases, the amount so received is a gain to the business as it was written off as loss earlier. The entry for this is:

Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)
	Cash or Bank A/c Dr. To Bad Debts Recovered A/c (Amount recovered previously written off as bad debts)		xxx	xxx

Example : Received cash against bad debts written off last year Rs 8,000.

**Solution**

Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)
	Cash A/c Dr. To Bad Debts Recovered A/c (Amount recovered previously written off as bad debts)		8,000	8,000

**Outstanding expenses:** The expenses which should have been paid during the current year but have not been paid due to some reasons are termed as outstanding expenses. For example, if an employee is paid salary at the rate of Rs 1,000 per month and during the year payment for only 11 months has been done then the salary for remaining one month will be termed as outstanding salary and it will be recorded as follows.

Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)
	Salaries A/c Dr. To Outstanding Salaries A/c		1,000	1,000

	(Salaries remained unpaid)			
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In the above entry, Outstanding Salaries Account is a liability. And since they are increasing, they have been credited. Salaries Account is an expense for the current period. It is immaterial whether it has been paid or not and as it is increasing, it will be debited.

**Prepaid expenses:** These expenses are related to the next year but have been paid during the current year in advance. The benefit of these expenses will be received during the next accounting period.

*For example,* insurance premium amounting to Rs 6,000 has been paid on July 01, 2013 for one year and the books are closed on Dec. 31 every year. This means premium for six months relates to next accounting period or insurance premium for 6 months is prepaid i.e. Rs 3,000. The entry for recording such expense is:

Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)
	Prepaid Insurance A/c Dr. To Insurance A/c (Insurance paid in advance)		3,000	3,000

In the above entry, insurance premium relating to next year has been paid in advance in the current year the benefits of which will be received in the next year. So, it is an asset for the firm. As increase in the assets is debited, Prepaid Insurance Account has been debited with the respective amount. On the other hand, insurance being an expense for the firm if separated from prepaid insurance will decrease and as decrease in expenses is credited, Insurance Account will be credited.

**Accrued Income or Income Earned but not Received:** Income which is earned but not received is called accrued income. It is different from outstanding income.

*For example,* Mr. A receives his salary after every two months. This means if he works for two months say, November and December, then he will receive salary of these two months on 1<sup>st</sup> January. So, in this case salary for the month of November is regarded as accrued income on December 01. It is because although it has been earned but it is still not due for payment. It is recorded with the help of following Journal Entry.

Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)
	Accrued Income A/c Dr. To Income A/c (Income earned but not yet due)			

**Income Received in Advance or Unearned Income:** Income received but not earned during the accounting period is called income received in advance or unearned income. *For example:* If we recover Rs 2,50,000 on account of rent against a let out building with rent of Rs 20,000 per month, then Rs 10,000 (i.e. 2,50,000 – 2,40,000) is income received in advance. It is recorded with the help of following Journal Entry.

Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)
	Income A/c Dr. To Income Received in Advance A/c (Income earned but not yet due)			

**Interest on Capital:** Interest on capital is an expense for the business, so it is charged from the profits of the firm. The balance profits are the real profits of the firm and represent the true efficiency of the business. And according to the rules of accounting, interest being an expense for the business will be debited (increase in the expenses) while it is a gain for the proprietor in the form of increased capital. As we know, decrease in capital is debited and increase is credited, so the increase in capital will be credited. It is recorded as follows.

Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)
	Interest on Capital A/c Dr. To Capital A/c (Interest on capital provided)		xxx	xxx

**Interest on Drawings:** Business not only allows interest on capital but also charges for the drawings made by the proprietor. Such an interest is an income for the business and loss for the proprietor. It is recorded as follows.

Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)
	Drawings A/c Dr. To Interest on Drawings A/c (Interest on drawings charged)		xxx	xxx

In the above entry, interest on drawings being income for the business is credited as increase in income and gains is credited while Drawings Account being representative

account of capital account is debited as capital is decreasing by the amount of interest being charged. Here, drawings account has been used instead capital account just to make accounts more comprehensible and specific even though use of capital account is not wrong.

**Loss by Theft or Fire:** The business may incur losses due to theft or fire at its place of business. In both the cases, the real outcome will be loss to the business.

Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)
	Loss by Theft or Fire A/c Dr. To Purchases A/c (Loss of goods by theft or fire)		xxx	xxx

In the above entry, Loss by Theft or Fire Account is debited as loss is an expense which is increasing and accordingly it is debited. And Purchases Account will be credited because stock decreases with the value of loss of goods.

The actual amount of loss and its treatment varies with the situation and is as follows.

### 1) When goods are fully insured, loss is borne by the insurance company

In case the goods are insured, then loss by theft or fire is made good by the insurance company. In such cases, insurance company or insurance claim becomes the asset for the firm and will make payment in future. Now, till the time amount is received it is shown as an asset in the Balance Sheet. Due to such loss, stock of goods gets reduced so it is credited and Insurance Claim Account or Insurance Company Account, being increase in asset, is debited. The entry for this is as follows.

Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)
	Insurance Co. or Insurance Claim A/c Dr. To Loss by Theft or Fire A/c (Loss of goods by theft or fire)		xxx	xxx

### 2) When goods are not insured

In case the goods are not insured, then whole of the loss is transferred to Profit & Loss Account as it is borne by the firm itself. It is recorded with help of following Journal Entry.

Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)
	Profit & Loss A/c Dr. To Loss by Theft or Fire A/c (Loss transferred to P & L A/c)		xxx	xxx

### 3) When goods are partly insured

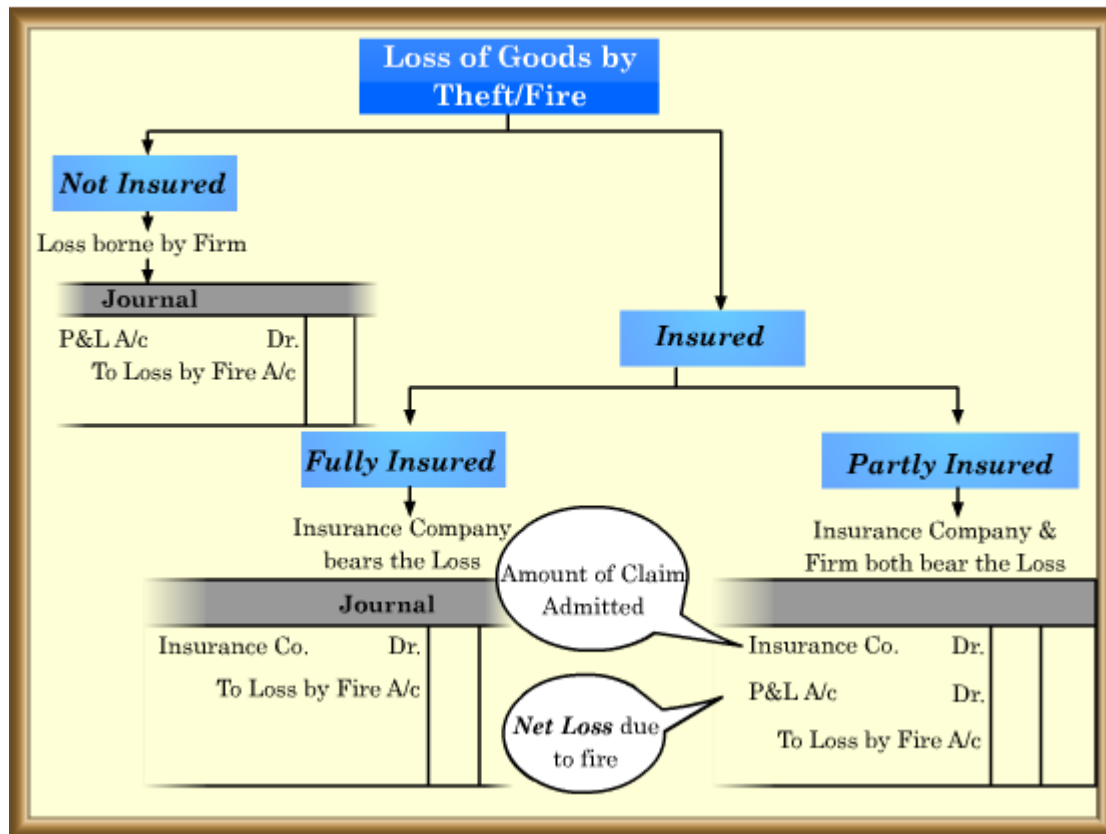
In case the goods are partly insured, then the treatment would be a combination of treatments as if they are insured and if they are uninsured. This will be recorded as follows.

Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)
	Insurance Co. or Insurance Claim A/c Dr. Profit & Loss A/c Dr. To Loss by Theft or Fire A/c (Claim received for Loss of goods by theft or fire and remaining loss transferred to P & L A/c)		xxx xxx	xxx

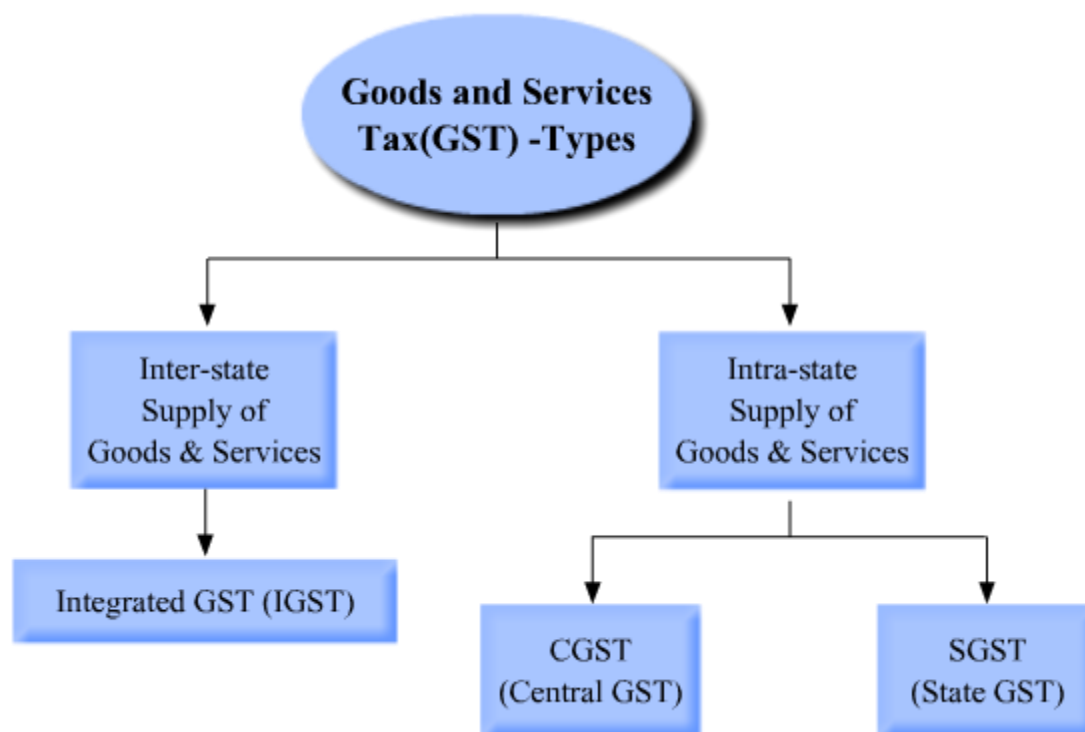
In the above entry, the share of loss borne by the insurance company is debited to Insurance Company Account with the amount due to be received from insurance company and the remaining loss borne by the firm is debited to the Profit and Loss Account.

**Note:** In the above cases, when the amount due from the insurance company, in respect of insurance claim, is received, it is journalised as follows.

Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)
	Bank A/c Dr. To Insurance Co. or Insurance Claim A/c (Insurance Claim received)		xxx	xxx



**Goods and Services Tax (GST):** It is an indirect tax which has integrated various taxes like Sales tax, excise tax, VAT, etc., into one single tax for the entire nation. By replacing the various archaic tax structures, GST is levied at every stage of the supply chain of the goods or services from production to the last retail level. GST has been discussed in detail in previous chapter. The accounting treatment of GST in the books of accounts is as follows:



#### Journal Entries for the accounting of GST Paid or Collected

Date	Particulars	L.F.	Dr. Amount (₹)	Cr. Amount (₹)
1.	<b>Purchase of Fixed Assets</b>			
	Fixed Assets A/c Dr.			
	Input CGST A/c Dr.			
	Input SGST A/c Dr.			
	Input IGST A/c Dr.			
	To Vendor's A/c			
	(Being fixed asset purchased and input CGST, input SGST and input IGST claimed)			
2.	<b>Purchase of Goods</b>			
	Purchases A/c Dr.			

	Input CGST A/c	Dr.			
	Input SGST A/c	Dr.			
	Input IGST A/c	Dr.			
	To Creditor's A/c				
	(Being goods purchased plus input CGST, SGST and IGST)				
3.	<b>Sale of Goods</b>				
	Debtor's A/c	Dr.			
	To Sales A/c				
	To Output CGST A/c				
	To Output SGST A/c				
	To Output IGST A/c				
	(Being goods sold plus output CGST, output SGST and output IGST)				
4.	<b>Return of goods purchased</b>				
	Creditor's A/c	Dr.			
	To Purchases Return A/c				
	To Input CGST A/c				
	To Input SGST A/c				
	To Input IGST A/c				
	(Being goods purchased returned and input GST reversed.)				
5.	<b>Return of goods sold</b>				
	Sales Return A/c	Dr.			
	Output CGST A/c	Dr.			

	Output SGST A/c	Dr.			
	Output IGST A/c	Dr.			
	To Debtor's A/c				
	(Being goods sold returned and output GST reversed.)				
6.	<b>Journal entry for expenses</b>				
	Printing and Stationery Expenses A/c	Dr.			
	Telephone Expenses A/c				
	Input CGST A/c	Dr.			
	Input SGST A/c	Dr.			
	To Cash/ Bank A/c				
	(Being stationery purchased and telephone bill for the __ month paid and input CGST and SGST claimed)				
7.	<b>Journal entry for Drawings of goods by proprietor, goods distributed as free samples, goods destroyed by fire, goods stolen etc.</b>				
	Drawings A/c	Dr.			
	Advertisement A/c	Dr.			
	Loss by fire A/c	Dr.			
	Loss by Theft A/c	Dr.			
	To Purchases A/c				
	To Input CGST A/c				
	To Input SGST A/c				
	To Input IGST A/c				

	(Being goods withdrawn for personal use, destroyed, lost by fire and Input GST reversed)			
8.	<b>Setting off input CGST against Output CGST</b> Output CGST A/c Dr.  To Input CGST A/c  (Being the Input CGST set off against Output CGST)			
9.	<b>Setting off input CGST against Output IGST</b> Output IGST A/c Dr.  To Input CGST A/c  (Being the Input CGST set off against Output IGST)			
10.	<b>Setting off input SGST against Output SGST</b> Output SGST A/c Dr.  To Input SGST A/c  (Being the Input SGST set off against Output SGST)			
11.	<b>Setting off input SGST against Output IGST</b> Output IGST A/c Dr.  To Input SGST A/c  (Being the Input SGST set off against Output IGST)			
12.	<b>Setting off input IGST against Output IGST</b> Output IGST A/c Dr.  To Input IGST A/c  (Being the Input IGST set off against Output IGST)			

13.	<b>Setting off Debit balance in input CGST, input SGST against credit balance in Output IGST</b> Output IGST A/c Dr.  To Input CGST A/c  To Input SGST A/c  (Being the Input CGST and input SGST set off against Output IGST)			
14.	<b>Payment of GST into Government Account</b> Output CGST A/c Dr.  Output SGST A/c Dr.  Output IGST A/c  To Bank A/c or Electronic Cash Ledger A/c (Being GST payable deposited into Government Account)			

**Income Tax:** The profits of business in case of sole proprietorship and partnership firm are subject to income tax which is to be paid by the proprietor. So, the payment of income tax is recorded by debiting the Capital Account. The Journal Entry for the same is:

Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)
	Capital A/c Dr. To Cash/Bank A/c (Income tax paid)			

And in case refund is received due to excess tax paid to income tax department, this increases the cash balance and the capital balance simultaneously. So, this will be recorded as follows:

Date	Particulars	L.F.	Debit	Credit
------	-------------	------	-------	--------

			Amount (Rs)	Amount (Rs)
	Cash A/c To Capital A/c (Refund of Income tax)	Dr.		

**Note:** The same will be the treatment in case any interest is received on advance payment of income tax as it will increase the cash as well as capital balance.

**Treatment of Value Paid Parcel (VPP):** VPP is same as purchase of goods, difference lies in the method of sale. Seller sends the goods through Post Office. Buyer pays the value of goods to the Post Office and gets the delivery of goods. In this case too, Purchases Account will be debited as we do in case of purchase of goods. Suppose, MN Ltd. received a VPP for goods worth Rs 570 and sent an employee with Rs 600 for the collection of goods. The employee paid Rs 15 for the conveyance and returned the balance.

**Solution:**

Receiving VPP means purchasing goods, so Purchases A/c will be debited for the purchases. Conveyance charges, being a part of cartage, are expenses so it will be debited.

Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)
	Purchases A/c Cartage A/c To Cash/Bank A/c (VPP collected)	Dr. Dr.	570 15	585

**Some Miscellaneous Transactions**

**Depreciation:** It is permanent and continuing decrease in the value of an asset on account of wear and tear and passage of time. It is a loss for the business and we know that increase in expenses and losses are debited, so Depreciation Account will be debited while the asset being depreciated gets reduced, so it will be credited (decrease in assets is credited).

*For Example,* Provide 10% depreciation on furniture costing Rs 30,000. It will be recorded as follows.

Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)
	Depreciation A/c To Furniture A/c	Dr.	3,000	3,000

	(Depreciation provided on furniture)			
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Here, depreciation being loss for business is increasing, so is debited while furniture being asset for the business is decreasing and accordingly it is credited (decrease in assets is credited)

***Distribution of goods as free samples:*** Goods may be distributed as free samples as a tool for advertising just to increase the sales. Samples Account is of the same nature as that of Advertisement Account. And it is recorded by passing the following Journal Entry.

Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)
	Advertisement A/c or Samples A/c Dr. To Purchases A/c (Goods distributed as free samples)		xxx	xxx

Here, distribution of goods for free is an expense for the business and as the expenses are increasing, this account will be debited and on the other side distribution of goods reduces our stock. So, it will be proper to credit Purchases Account.

***Goods used to make an Asset:*** When goods are used to make/construct an asset, value of the asset increases. Therefore, Asset Account is debited. The entry for this is:

Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)
	Asset A/c Dr. To Purchases A/c (Goods used to make an asset)		xxx	xxx

***Treatment of Goods withdrawn for personal use:*** We already know that the entity of a business is separate from its owners so any goods withdrawn by the owner for his/her personal use is debited to an account by the name of drawings. If need be, the businesses providing interest on capital may as well charge interest on drawings which constitutes an income for the business. For e.g.: Ramesh owns Elegant enterprises which purchases clothes for sale so if he withdraws clothes for his family then it will be considered as drawings by him. The accounting treatment for drawings is as follows.

Date	Particulars		L.F.	Debit Amount (Rs.)	Credit Amount (Rs.)
	Drawings A/c To Purchases A/c  (Being goods withdrawn for personal use)	Dr.			

***Expenditure on the Installation of Machinery and on the Construction of***

***Building:*** Machinery and Building are the fixed assets of a business. Any expenditure incurred on the carriage and installation of machinery like freight, wages etc. is treated as 'Capital Expenditure' and therefore, increases the cost of the asset and is debited to the Particular Asset Account and not to the Particular Expense Account. Like, expenditure incurred for the construction of building such as purchase of building material and payment of wages are also capital expenditures and debited to Building Account. The entry for recording these expenses is:

Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)
	Related Asset A/c To Cash / Bank A/c (Expenses incurred on related asset)	Dr.	xxx	xxx

**Comprehensive Examples-I**

**Practical Illustrations**

Example 1: Record the following transactions in the Journal of Raghu.

2013	Transactions	Amount (Rs)
Nov.01	Commenced business with cash	4,00,000
Nov.04	Goods purchased from Ram for cash	80,000
Nov.07	Goods purchased from Mohit	25,000
Nov.08	Goods returned to Mohit	5,000
Nov.08	Sold goods to Ramesh	20,000
Nov.10	Sold goods to Raj for Cash	7,000
Nov.12	Paid Commission	1,000

**Solution:**

Date 2013	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)
Nov.01	Cash A/c To Capital A/c (Commenced business with cash)	Dr.	4,00,000	4,00,000
Nov.04	Purchases A/c To Cash A/c (Goods purchased from Ram for cash)	Dr.	80,000	80,000
Nov.07	Purchases A/c To Mohit (Goods purchased from Mohit)	Dr.	25,000	25,000
Nov.08	Mohit To Purchases Return A/c (Goods returned to Mohit)	Dr.	5,000	5,000
Nov.08	Ramesh To Sales A/c (Goods sold to Ramesh)	Dr.	20,000	20,000
Nov.10	Cash A/c To Sales (Goods sold to Raj for Cash)	Dr.	7,000	7,000
Nov.12	Commission A/c To Cash A/c ( Commission paid)	Dr.	1,000	1,000

Example 2: Journalise the following transactions in the books of Rajesh.

2013	Transactions	Amount (Rs)
Dec.01	Started business with cash	2,50,000
Dec.04	Cash Purchases	52,000
Dec.08	Sold goods to Amit	20,000
Dec.13	Amit returned defective goods	1,500
Dec.17	Cash received from Amit in full settlement	17,800
Dec.20	Paid Insurance Premium	2,500
Dec.24	Paid Life Insurance Premium of Rajesh	1,700

Dec.27	Bought goods from Ramesh, list price of Rs 12,000 less 20% trade discount	-
Dec.28	Paid to Ramesh	5,000
Dec.31	Paid salaries Rs 8,000, travelling expenses Rs.1,800 and Rent Rs 5,400	-

**Solution:**

Date 2013	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)
Dec.01	Cash A/c Dr. To Capital A/c (Commenced business with cash)		2,50,000	2,50,000
Dec.04	Purchases A/c Dr. To Cash A/c (Goods purchased for cash)		52,000	52,000
Dec.08	Amit Dr. To Sales A/c (Goods sold to Amit)		20,000	20,000
Dec.13	Sales Return A/c Dr. To Amit (Goods returned by Amit)		1,500	1,500
Dec.17	Cash A/c Dr. Discount Allowed A/c Dr. To Amit (Cash received from Amit)		17,800 700	18,500*
Dec.20	Insurance Premium A/c Dr. To Cash A/c (Insurance premium paid)		7,000	7,000
Dec.24	Drawings A/c Dr. To Cash A/c ( Life Insurance premium paid)		1,700	1,700
Dec.27	Purchases A/c Dr. To Ramesh (Goods purchased less trade discount)		9,600	9,600**

Dec.28	Ramesh To Cash A/c (Amount paid to Ramesh)	Dr.	5,000	5,000
Dec.31	Salaries A/c Travelling Expenses A/c Rent A/c To Cash A/c (Expenses paid)	Dr. Dr. Dr.	8,000 1,800 5,400	15,200

\*Total sales to Amit : 20,000  
Less: Sales return : (1,500)  
Net Sales : 18,500

Out of this, Rs 17,800 is received in full settlement means Rs 700 (i.e. 18,500 – 17,800) is the discount allowed to him.

\*\* Purchases from Ramesh Rs 12,000 at a trade discount of 20%. So, the net amount will be recorded in the books as the amount of trade discount is not shown in the books of accounts.

Example 3: The following balance appeared in the books of M/S Meghnath on 1<sup>st</sup> January, 2014.

**Assets:-** Cash Rs 25,000; Bank Rs 15,000; Stock Rs 70,000; Furniture Rs 7,800; Debtors Rs 35,000 (Shankar: Rs 7,000; Raj: Rs 10,000; Ram: Rs 18,000)

**Liabilities:-** Loan Rs 15,000; Creditors Rs 17,000 (Mohan: Rs 9,000; Roy: Rs 8,000)

The following transactions took place during January in year, 2014.

2014	Transactions
Jan.03	Bought goods from Monika for Rs 19,000 at a trade discount of 10% and cash discount of 2%. Paid 50% of amount immediately
Jan.05	Sold goods to Raj for 5,000
Jan.07	Received Rs 14,500 from Raj in full settlement of his account
Jan.09	Cash deposited into his bank Rs 15,000
Jan.15	Cheque received from Shankar in full settlement of his account for Rs 6,950 and immediately deposited into bank
Jan.17	Cheque received from Ram Rs 7,000

Jan.19	Cheque received from Ram deposited into bank
Jan.22	Cheque received from Shankar dishonoured
Jan.25	Ram became insolvent and 70 paise in a rupee could be received from his estate
Jan.31	Proprietor withdrew for private use Rs 3,000 from office and Rs 2,000 from bank

Solution:

Date 2014	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)
Jan.01	Cash A/c Dr. Bank A/c Dr. Stock A/c Dr. Furniture A/c Dr. Shankar Dr. Raj Dr. Ram Dr. To Loan A/c To Mohan To Roy To Capital A/c ( <i>balancing figure</i> ) (Assets and liabilities brought forward)		25,000 15,000 70,000 7,800 7,000 10,000 18,000	15,000 9,000 8,000 1,20,800
Jan.03	Purchases A/c Dr. To Cash A/c* To Discount Received A/c To Monika (Goods purchased and discount received)		17,100	8,379 171 8,550
Jan.05	Raj Dr. To Sales A/c (Goods sold to Raj)		5,000	5,000
Jan.07	Cash A/c Dr. Discount Allowed A/c Dr. To Raj (Amount received from Raj )		14,500 500	15,000
Jan.09	Bank A/c Dr. To Cash A/c (Cash deposited into bank)		15,000	15,000

Jan.15	Bank A/c Discount Allowed A/c To Shankar (Cheque received and deposited in bank)	Dr. Dr.	6,950 50	7,000
Jan.17	Cheques-in-hand A/c To Ram (Cheque received)	Dr.	7,000	7,000
Jan.19	Bank A/c To Cheques-in-hand (Cheque deposited into bank)	Dr.	7,000	7,000
Jan.22	Shankar To Bank A/c To Discount Allowed A/c (Cheque dishonoured and discount written off)	Dr.	7,000	6,950 50
Jan.25	Cash A/c Bad debts A/c To Ram A/c (18,000 – 7,000) (Cash received and bad debts written off)	Dr. Dr.	7,700 3,300	11,000
Jan.31	Drawings A/c To Cash A/c To Bank A/c (Proprietor withdrew cash from business and from Bank account for personal use)	Dr.	5,000	3,000 2,000

\*Total Purchases from                      Rs    19,000  
Monika:  
    Less: Trade discount:                      Rs     1,900  
*Net Amount of Purchases:*                Rs    17,100

Out of this 50% of amount is paid immediately with a cash discount of 2% i.e. 8,550 minus 2% of 8,550= 8,379

Note: Cash discount is applied only on the cash payment, it will not be availed on credit purchases or credit sales.

Example 4: Pass Journal entries for the following.

(i) Provide 10% depreciation on furniture costing Rs 70,000

(ii) Interest on capital is to be provided at the rate of 10% of the capital amounting Rs 10,00,000

(iii) Received Rs 18,000 from Sohan which were earlier written off as bad debts

(iv) Bricks Rs 5,00,000; Timber Rs 2,00,000; Cement Rs 75,000 purchased for the construction of building. The payment was made by cheque.

(v) Proprietor withdrew for his personal use cash Rs 25,000 and goods worth Rs 15,000

(vi) Goods worth Rs 2,00,000 were destroyed by fire. Insurance Company admitted and paid a claim for 60% amount.

(vii) Purchased a 'horse' for business for Rs 7,000

(viii) Paid landlord Rs 15,000 for rent. One third of the building is occupied by proprietor for residential use.

**Solution:**

Date 2014	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)
(i)	Depreciation A/c To Furniture A/c (Depreciation provided on furniture)	Dr.	7,000	7,000
(ii)	Interest on Capital A/c To Capital A/c (Interest provided on capital)	Dr.	1,00,000	1,00,000
(iii)	Cash A/c To Bad debts recovered A/c (Cash received from Sohan previously written off as bad debts)	Dr.	18,000	18,000
(iv)	Building A/c* To Bank A/c (Bricks, Timber, Cement purchased for building)	Dr.	7,75,000	7,75,000
(v)	Drawings A/c To Cash A/c To Bank A/c (Cash and Goods drawn for personal use)	Dr.	40,000	25,000 15,000

(vi)	Loss By Fire A/c	Dr.	2,00,000	
	To Purchases A/c			2,00,000
	(Goods destroyed by fire)			
	Insurance Company	Dr.	2,00,000	
	To Loss By Fire A/c			2,00,000
	(Insurance claim lodged)			
	Bank A/c	Dr.	1,20,000	
	Profit & Loss A/c	Dr.	80,000	
	To Insurance Company ( Amount received from Insurance company)			2,00,000
(vii)	Livestock A/c	Dr.	7,000	
	To Cash A/c (A horse purchased for business)			7,000
(viii)	Rent A/c (2/3 <sup>rd</sup> of 15,000)	Dr.	10,000	
	Drawings A/c	Dr.	5,000	
	To Cash A/c (Rent paid to landlord, 1/3 <sup>rd</sup> being occupied for residential purposes )			15,000

*\*Expenditure on bricks, cement, etc for the construction of building will be debited to building account as they are capital expenditure.*

Example 5 Journalise the following transactions in the books of Karan.

- (1) Bought goods for Rs 22,000.
- (2) Purchased goods from Rahul of the list price Rs 32,000 with a trade discount of 10%.
- (3) Bought goods of the list price of Rs 60,000 from Jagat less 25 % trade discount and 5% cash discount and paid 40% by the cheque.
- (4) Sold goods to Vansh costing Rs 20,000 at a profit of 30% on sales, less 20% trade discount and charged CGST and SGST @ 6% each; also paid cartage of Rs 150(payable by customer)
- (5) Sold goods to Sandeep for Rs 32,000 against a current dated cheque.
- (6) Rejected 10% of the goods supplied by Rahul.
- (7) Paid Jagat Rs 25,500 on account in full settlement.

(8) Vansh got bankrupt, only 40 paisa in rupee was recovered from his official receiver.

**Solution**

**Books of Karan  
Journal**

Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)
(1)	Purchase A/c Dr. To Cash A/c (Purchase goods with cash)		22,000	22,000
(2)	Purchases A/c Dr. To Rahul (Goods purchased on credit at List price less Trade Discount)		28,800	28,800
(3)	Purchases A/c Dr. To Jagat (Goods purchased on credit)		45,000	45,000
	Jagat Dr. To Bank A/c To Discount Received A/c (Cash paid to Jagat and the discount received)		18,000	17,100 900
(4)	Vansh Dr. To Sales A/c To Output CGST A/c To Output SGST A/c (Goods sold to Vansh on credit)		23,464	20,950 1,257 1,257
(5)	Bank A/c Dr. To Sales A/c (Sold goods against a current dated cheque)		32,000	32,000
(6)	Rahul Dr. To Purchase Return A/c (10% of the goods supplied by Rahul were returned)		2,880	2,880
(7)	Jagat Dr. To Bank A/c		27,000	25,500

	To Discount Received A/c (Paid to Jagat as full and final settlement)			1,500
(8)	Cash A/c Bad Debts A/c To Vansh (Cash withdrawn from the bank)	Dr. Dr.	10,044 15,066	25,110

**Example 6** Journalise the following transactions in the books of Rohtash.

- (1) Purchased Machinery from Ravi of Rs 10,000 and paid him by a bank draft obtained from a bank of Rs 10,080
- (2) Purchased 200 bonds @ Rs 90 each and paid through cheque.
- (3) Received Rs 4,000 for a Bill of exchange from Harish and deposited into the bank.
- (4) Purchased a typewriter for Rs 3,000 and spent Rs 250 on its repair.
- (5) Sunil owes Rs 1,000, his Account was settled by a cheque and Rs 200 were charged as interest.
- (6) Received money order of Rs 125 from Ravinder.
- (7) Paid fire insurance of office building in advance Rs 1,200.
- (8) Provide Interest on Capital (Rs 1,00,000) at 12% p.a. for 6 months.

**Solution**

**Books of Rohtash  
Journal**

Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)
(1)	Machinery A/c Dr. Bank Charges A/c Dr. To Bank A/c (Machinery purchased and paid through a bank draft)		10,000 80	10,080
(2)	Investment in Bonds A/c Dr. To Bank A/c		18,000	18,000

	(Investments were made in the 200 bonds @ Rs 90 each)			
(3)	Cash A/c Dr. To Bills Receivable A/c (Cash received from Harish against the bill)		4,000	4,000
	Bank A/c Dr. To Cash A/c (Cash was deposited into the bank)		4,000	4,000
(4)	Typewriter A/c Dr. To Cash A/c (Purchased a typewriter for Rs 3,000 and Rs 250 were spend on its repair)		3,250	3,250
(5)	Bank A/c Dr. To Sunil To Interest A/c (Sunil's account was settled and Rs 200 was charged as interest)		1,200	1,000 200
(6)	Cash A/c Dr. To Ravinder (Money order received from Ravinder)		125	125
(7)	Fire Insurance A/c Dr. To Cash A/c (Fire Insurance was paid in advance)		1,200	1,200
(8)	Interest on Capital A/c Dr. To Capital A/c (Interest charged on the capital)		6,000	6,000

Example 7 Journalise the following transactions in the books of Narang.

- (1) Brought forwarded balances of Cash Rs 25,000, Stock Rs 20,000 and Bank Rs 18,000 from the last year.
- (2) Received rent of Rs 1,800 from subletting.
- (3) Purchased an old car of Rs 80,000 for his daughter.

(4) Rent of Rs 3,000 was due to landlord.

(5) Received from Mahesh Rs 500, his account was written off as bad during the last year.

(6) Cash of Rs 1,250 was embezzled by a worker.

(7) Received a V.P.P. for Rs 990, sent a peon to take delivery and he was paid cartage of Rs 10.

(8) Goods of Rs 850 were given as charity during the year.

**Solution**

**Books of Narang  
Journal**

Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)
(1)	Cash A/c Dr. Bank A/c Dr. Stock A/c Dr. To Capital A/c (Brought forwarded balances of Cash, Stock and Bank from the last year)		25,000 18,000 20,000	63,000
(2)	Cash A/c Dr. To Rent Received A/c (Rent received from the sub tenant)		1,800	1,800
(3)	Drawings A/c Dr. To Cash A/c (Purchased an old car for his daughter)		80,000	80,000
(4)	Rent A/c Dr. To Rent Outstanding A/c (Rent due to landlord)		3,000	3,000
(5)	Cash A/c Dr. To Bad debt recovered A/c (Bad debt written off last year now recovered)		500	500
(6)	Loss by Embezzlement A/c Dr. To Cash A/c		1,250	1,250

	(Cash embezzled by worker)			
(7)	Purchases A/c	Dr.	990	
	Cartage A/c	Dr.	10	
	To Cash A/c			1,000
	(Goods purchased and the cartage was paid)			
(8)	Charity A/c	Dr.	850	
	To Purchases A/c			850
	(Goods were given as charity during the year)			

Example 8 Journalise the following transactions in the books of Amanjeet.

Date	Particulars
2013 April 01	Brought forwarded balance of the last year: Assets: Cash Rs 10,000, Bank Rs 15,000 and Stock Rs 5,000 Liabilities: Loan Rs 8,000
April 12	Paid into bank Rs 5,000
April 15	Purchased Machinery and gave payment through cheque of Rs 20,000
April 19	Insurance paid Rs 10,000, out of which Rs 5,000 relates to the next year
April 22	Bank loan of Rs 8,000 was repaid by issuing 8% Debentures
April 25	Sold goods to Manjeet for Rs 15,000 and collected CGST and SGST @ 9% each on it.
April 28	Paid Income tax of Rs 2,000.
April 30	Purchased a Motor Bike of Rs 12,000 for the personal use

Solution

### Books of Amanjeet Journal

Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)
2013 April 01	Cash A/c	Dr.	10,000	
	Bank A/c	Dr.	15,000	
	Stock A/c	Dr.	5,000	
	To Loan A/c			8,000
	To Capital A/c			22,000

	(Brought forwarded balances of Cash, Stock, Bank and Loan from the last year)			
April 12	Bank A/c To Cash A/c (Cash deposited into bank)	Dr.	5,000	5,000
April 15	Machinery A/c To Bank A/c (Purchased machinery by cheque)	Dr.	20,000	20,000
April 19	Insurance A/c To Cash A/c (Being payment made on account of insurance)	Dr.	10,000	10,000
April 19	Prepaid Insurance A/c To Insurance A/c (Being insurance premium for next year paid in advance)	Dr	5,000	5,000
April 22	Bank Loan A/c To 8% Debentures A/c (Bank loan repaid by issuing debentures)	Dr.	8,000	8,000
April 25	Manjeet To Sales A/c To Output CGST A/c To Output SGST A/c (Sold goods to Manjeet and collected VAT)	Dr.	17,700	15,000 1,350 1,350
April 28	Drawings A/c To Bank A/c  (Income Tax paid by a cheque)	Dr.	2,000	2,000
April 30	Drawings A/c To Cash A/c (Purchased Motor Bike for the personal use)	Dr.	12,000	12,000

Example 9 Journalise the following transactions in the books of Vani.

- (1) Received an order from Kuldeep of Rs 50,000 for supplying goods and received Rs 30,000 as advance along with the order.
- (2) Goods of Rs 50,000 were supplied to Kuldeep against the order.
- (3) Received a V.P.P. from Tusshar for Rs 2,225, sent a peon to take delivery and he was paid cartage of Rs 25.
- (4) Purchased goods from Suresh for Rs 65,000 and supplied it to Satish for Rs 85,000.
- (5) Satish returned the goods of Rs 17,000 which in turn returned back to Suresh on the same day itself.
- (6) Purchased a horse for Rs 5,000 and paid carriage of Rs 3,000 for the same.
- (7) Cash of Rs 12,000 received from Rishi on behalf of Chetan.
- (8) Goods of Rs 5,000 were distributed as free samples.

**Solution**

**Books of Vani  
Journal**

Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)
(1)	Cash A/c Dr. To Advance from Kuldeep (Advance against an order received from Kuldeep)		30,000	30,000
(2)	Advance from Kuldeep A/c Dr. Kuldeep Dr. To Sales A/c (Goods supplied to Kuldeep against his order)		30,000 20,000	50,000
(3)	Purchases A/c Dr. Cartage A/c Dr. To Tusshar (VPP purchased and the cartage was paid)		2,225 25	2,250
(4)	Purchases A/c Dr. To Suresh (Goods purchased from Suresh)		65,000	65,000

	Satish To Sales A/c (Goods sold to Satish)	Dr.	85,000	85,000
(5)	Sales Return A/c To Satish (Goods returned by Satish)	Dr.	17,000	17,000
	Suresh* To Purchase Return A/c (Goods returned to Suresh)	Dr.	13,000	13,000
(6)	Livestock A/c To Cash A/c (Purchased horse and paid carriage on it for business use)	Dr.	8,000	8,000
(7)	Cash A/c To Chetan (Cash received from Rishi on behalf of Chetan)	Dr.	12,000	12,000
(8)	Free Samples A/c To Purchases A/c (Goods distributed as free samples)	Dr.	5,000	5,000

Note\*Goods of invoice price of Rs 17,000 were returned by Satish.

% of goods returned = Rs 17,000/Rs 85,000 = 20%

Therefore, cost of goods returned = 20% of goods purchased = 20% × Rs 65,000 = Rs 13,000

## Comprehensive Examples-II

### Comprehensive Questions

*Example 1:* Journalise the following transactions in the books of a trader.

On 1<sup>st</sup> April, 2013,

Debit balances: Cash Rs 25,000; Bank Rs 32,000; Stock Rs 45,000; Debtors- Meenu Rs 4,000, Jagat Rs 8,500; Building: Rs 7,00,000 and Furniture Rs 75,000

Credit Balances: Bank Loan Rs 1,00,000; Creditors- Ajit Rs 4,500 Vikramajit Rs 9,800

2013	Transactions
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April 02	Bought a horse for Rs 10,000 and a carriage for Rs 2,000 for delivering goods to customers
April 05	Received order for supply of goods valued Rs 20,000
April 07	Amount received from sale of old newspapers, magazines and scraps Rs 330
April 10	Goods worth Rs 1,800 destroyed in transit and claim for the same was filed with Transport company
April 13	Cash paid to Ajit Rs 4,388 in full settlement of his account
April 15	Received cash from transport company in full settlement of claim
April 18	The horse bought above died , its carcase was sold for Rs 2,500
April 25	Sold goods worth Rs 10,000 at a trade discount of 10%
April 28	Received from travelling salesman Rs 4,600 for goods sold by him after deducting his travelling expenses of Rs 400
April 30	Purchased 100 shares of MN Ltd. at Rs 100 per share and the payment was made by cheque, brokerage paid Rs 300

**Solution:**

Date 2013	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)
April 01	Cash A/c Dr.		25,000	
	Bank A/c Dr.		32,000	
	Stock A/c Dr.		45,000	
	Meenu Dr.		4,000	
	Jagat Dr.		8,500	
	Building A/c Dr.		7,00,000	
	Furniture A/c Dr.		75,000	
	To Bank Loan A/c			1,00,000
	To Ajit			4,500
	To Vikramajit			9,800
	To Capital A/c ( <i>Balancing figure</i> )			7,75,200
	( Balance brought forward)			
April 02	Livestock A/c Dr.		10,000	
	Carriage A/c Dr.		2,000	
	To Cash A/c			12,000

	(Horse and carriage purchased)			
April 05	No Entry			
April 07	Cash A/c	Dr.	330	
	To Miscellaneous Receipts A/c (Amount received from sale of newspapers, magazines etc.)			330
April 10	Transport Claim A/c	Dr.	1,800	
	To Purchases A/c (Claim lodged with Transport company)			1,800
April 13	Ajit A/c	Dr.	4,500	
	To Cash A/c			4,388
	To Discount Received A/c (Cash paid to Ajit)			112
April 15	Cash A/c	Dr.	1,800	
	To Transport Claim A/c (Cash received against the claim)			1,800
April 18	Cash A/c	Dr.	2,500	
	Profit & Loss A/c	Dr.	7,500	
	To Livestock A/c (Horse died and carcase sold)			10,000
April 25	Cash A/c	Dr.	9,000	
	To Sales A/c (Sale of goods at a trade discount)			9,000
April 28	Cash A/c	Dr.	4,600	
	Travelling Expenses A/c	Dr.	400	
	To Sales A/c (Cash received from salesman)			5,000

April 30	Investment in Shares A/c	Dr.	10,300	
	To Bank A/c (Purchase of shares and brokerage paid)			10,300

Example 2 Journalise the following transactions in the books of Prakash.

Date	Particulars
2013 June 01	Opened a Current Account with Rs 80,000
June 04	Additional capital of Rs 20,000 was introduced through a cheque.
June 12	Deepak who owed Rs 10,000 got bankrupt, only 30 paise in rupee was recovered from his official receiver.
June 18	Received interest on loan of Rs 3,000 from the debtor
June 20	Received Commission of Rs 800, half of which is in advance.
June 24	Brokerage of Rs 500 due to us.
June 25	Issued a cheque of Rs 5,000 in favour of Madhubala a landlady as a rent.
June 30	Salary amounting Rs 6,000 paid to Rana an employee.
June 30	Depreciation of Rs 500 charged on the Machinery

### Solution

#### Books of Prakash Journal

Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)
2013 June 01	Bank A/c	Dr.	80,000	
	To Cash A/c (Opened a current account)			80,000

June 04	Bank A/c	Dr.	20,000	
	To Capital A/c (Additional capital introduced through cheque)			20,000
June 12	Cash A/c	Dr.	3,000	
	Bad Debts A/c	Dr.	7,000	
	To Deepak (Deepak got bankrupt and only 30 paisa in a rupee was recovered)			10,000
June 18	Cash A/c	Dr.	3,000	
	To Interest Received on Loan A/c (Interest received on loan)			3,000
June 20	Cash A/c	Dr.	800	
	To Commission Received A/c			400
	To Commission Received in Advance A/c (Commission received, of which Rs 400 is advance)			400
June 24	Accrued Brokerage A/c	Dr.	500	
	To Brokerage A/c (Brokerage due)			500
June 25	Rent A/c	Dr.	5,000	
	To Bank A/c (Paid rent)			5,000
June 30	Salary A/c	Dr.	6,000	
	To Cash A/c (Salary paid to Rana an employee in cash)			6,000
June 30	Depreciation A/c	Dr.	500	
	To Machinery A/c			500

	(Depreciation charged on the machinery)			
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**Example 3:** Journalise the below mentioned transactions.

- (i) Sold goods to Bengal traders for Rs 25,000 and charged CGST and SGST @6% each.
- (ii) Discounted a bill of exchange for Rs 10,000 at 1% through bank
- (iii) Received payment of a loan Rs 5,000 and deposited Rs 3,000 out of it into the bank
- (iv) Received order for supply of goods from Raj valued Rs 40,000 and received Rs 15,000 as an advance together with order.
- (v) Goods worth Rs 40,000 supplied against order and advance received previously.
- (vi) Charge interest on loan to Sharad (Rs 5,00,000) at 15% for two months.
- (vii) Provide interest on loan from Shahid (Rs 5,00,000) at 15% for two months.
- (viii) Placed on Fixed Deposit Account at bank by transfer from Current Account Rs 10,000.

**Solution:**

Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)
(i)	Bengal Traders A/c Dr. To Sales A/c To Output CGST A/c To Output SGST A/c (Goods sold and sales Tax charged)		28,000	25,000 1,500 1,500
(ii)	Bank A/c Dr. Discount on B/R A/c Dr. To Bill Receivable A/c (Bill of Exchange discounted at 1%)		9,900 100	10,000
(iii)	Cash A/c Dr. To Loan A/c (Payment of Loan received)		5,000	5,000

	Bank A/c To Cash A/c (cash deposited into bank)	Dr.	3,000	3,000
(iv)	Cash A/c To Advance from Raj A/c (Advance received from Raj)	Dr.	15,000	15,000
(v)	Raj Advance from Raj A/c To Sales A/c (Goods sold to Raj against advance received previously)	Dr. Dr.	25,000 15,000	40,000
(vi)	Accrued Interest on Loan to Sharad A/c To Interest on Loan to Sharad A/c (Interest on loan charged @ 15% p.a. for 2 months)	Dr.	12,500	12,500
(vii)	Interest on Loan from Shahid A/c To Outstanding Interest on Loan from Shahid A/c (Interest on loan provided )	Dr.	12,500	12,500
(viii)	Fixed Deposits A/c To Bank A/c (Transfer from current to Fixed deposit account)	Dr.	10,000	10,000

Example 4: Journalise the following transactions.

- 1) Goods worth Rs 50,000 sold to Mohan for Rs 80,000
- 2) Purchased goods from PQR Ltd. for Rs 20,000 plus CGST and SGST @6%
- 3) Sold goods costing Rs 5,000 for 7,000 and charged CGST and SGST @6%
- 4) Sold the balance goods to Jagat for 20,000 and charged CGST and SGST @6%
- 5) Deposited GST into Government's Account through cheque
- 6) Paid Cash to Mr. Mukherjee on behalf of Mr. Pandey Rs 5,000

7) Sold goods costing Rs 40,000 to Pankaj for Cash at a profit of 25% on cost less 20% trade discount and charged @6% each as CSGT and SGST paid cartage (Not to be charged from customer)

8) Paid fire insurance premium of a building half of which was used by proprietor for residential purpose in advance Rs 1,000.

**Solution:**

Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)
(1)	Mohan To Sales A/c (Goods sold to Mohan at Profit)	Dr.	80,000	80,000
(2)	Purchases A/c Input CGST A/c Input SGST A/c To PQR Ltd. (Goods purchased and GST paid)	Dr. Dr. Dr.	20,000 1,200 1,200	22,400
(3)	Bank A/c To Sales A/c To Output CGST A/c To Output SGST A/c (Goods sold and GST charged)	Dr.	7,840	7,000 420 420
(4)	Jagat A/c To Sales A/c To Output CGST A/c To Output SGST A/c (Goods sold and GST charged)	Dr.	22,400	20,000 1,200 1,200
(5)	Output CGST A/c To Input CGST A/c (CGST charged set off against CGST paid)	Dr.	1,200	1,200
	Output SGST A/c To Input CGST A/c (SGST charged set off against SGST paid)	Dr.	1,200	1,200
	Output CGST A/c Output SGST A/c To Bank A/c (GST paid deposited into Government's Account)	Dr. Dr.	420 420	840

(6)	Mr. Pandey A/c To Cash A/c (Amount paid to Mr. Pandey on behalf of Mr. Mukherjee)	Dr.	5,000	5,000
(7)	Cash A/c To Sales A/c To Output CGST A/c To Output SGST A/c (Goods sold for cash)	Dr.	44,800*	40,000 2,400 2,400
(8)	Fire Insurance Premium A/c To Cash A/c (Fire Insurance Premium paid)	Dr.	1,000	1,000
	Drawings A/c Prepaid Fire Insurance Premium A/c To Fire Insurance Premium A/c (Fire Insurance premium for half of building charged to proprietor and remaining paid in advance)	Dr. Dr.	500 500	1,000

Cost of Goods Sold

Add: Profit 25% on cost

List Price of Goods

Less: Trade discount @ 20%

Invoice Price of Sales

Example 5 Journalise the following transactions in the books of Shashank.

(1) Goods of Rs 10,000 were stolen in transit

(2) Goods used in making furniture (Cost Rs 15,000 and Sales Price Rs 18,000)

(3) Goods stolen by an employee (Cost Rs 8,560 and Sales Price Rs 12,500)

(4) Paid into the Bank Rs 12,000 for opening a Current Account.

(5) Placed on the Fixed Deposits A/c at bank by the transfer from the Current A/c Rs 15,000

(6) Received a crossed cheque from Suraj to whom goods were sold for Rs 12,000 last year. Allowed him discount of 2%

(7) Bank Charges for the half year Rs 250

(8) Suraj's cheque was dishonoured and bank charged Rs 50.

**Solution**

**Books of Shashank  
Journal**

Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)
(1)	Loss in Transit A/c Dr. To Purchases A/c (Goods stolen in transit)		10,000	10,000
(2)	Furniture A/c Dr. To Purchases A/c (Goods used in making furniture)		15,000	15,000
(3)	Loss by theft A/c Dr. To Purchases A/c (Goods stolen by an employee)		8,560	8,560
(4)	Bank A/c Dr. To Cash A/c (Paid into bank for opening a Current Account)		12,000	12,000
(5)	Fixed Deposits A/c Dr. To Bank A/c (Transferred from the Current Account to Fixed Deposits)		15,000	15,000
(6)	Bank A/c Dr. Discount Allowed A/c Dr. To Suraj (Cheque received from Suraj and discount allowed to him)		11,760 240	12,000
(7)	Bank Charges A/c Dr. To Bank A/c (Bank charges were charged by the bank)		250	250
(8)	Suraj Dr. To Bank A/c To Discount Allowed A/c		12,050	11,810 240

(Cash withdrawn from the bank)			
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## Ledger- Meaning, Posting and Balancing of Ledger Accounts

### Objectives

After going through this lesson, you shall be able to understand the following concepts.

- Meaning of Ledger
- Difference between Journal and Ledger
- Format of Ledger
- Steps to Prepare Ledgers
- Posting in Ledgers and Balancing

### Introduction

Ledger is the next stage after Journal. After recording all the entries in the Journal, next step is the posting of the transaction in the respective accounts. These accounts are collectively known as Ledgers.

### Meaning of Ledger

A ledger is a collection of different accounts of assets, liabilities, capital, revenue and expenses. After recording transaction in the Journal (book of original entry), these are transferred to their respective ledger accounts. Ledgers are the final place of all the transactions; therefore, they are also known as “Books of Final Entry”.

### Uses/Utility of Ledger

- 1) One stop destination for all the information of an account:** All the transactions pertaining to a particular account are recorded in its respective ledger account. Hence, a complete picture of the account can be drawn by looking at one place in the ledger.
- 2) Revenue Stream and Expenses Incurred:** Since a separate account is maintained for every revenue and expense item, therefore a firm can track them during the year to check for its total income and expenses. For example: Sales account, rent account, etc.
- 3) Helps in Preparing Trial Balance:** A trial balance is a statement wherein all the debit and credit balances from the ledger accounts are recorded. It must balance i.e. the total of debit and credit balances must match for ensuring the arithmetic accuracy of the accounts. Hence, ledger accounts provide the required information for its preparation.
- 4) Preparation of Final Accounts:** Once the trial balance has been prepared, final accounts are drawn in the books to know about the financial position and profitability of the business. They form a part of the annual report of the firm and communicate vital information about the performance of the firm to the stakeholders.

### Advantages of Ledger

Ledgers have the following advantages.

- (1) Detailed information of all accounts is maintained in a single book.
- (2) Any type of information related to business can be obtained from the Ledger, such as amount owed by customers, amount owed by the firm to its creditors, amount of purchases or sales by the firm.
- (3) It helps in identifying the main items of revenue.
- (4) The items of expenses can be identified from the ledgers.
- (5) It helps in identifying assets & liabilities and their value.
- (6) Ledger balances help in preparation of Trial Balance which helps in ascertaining the arithmetical accuracy of accounts.
- (7) It enables preparation of Final Accounts.

### Difference between Journal and Ledger

Following are the main differences between a Journal and a Ledger.

Basis		Journal	Ledger
(1)	Type of book	Book of Original Entry	Book of Final Entry
(2)	Prepared	It is prepared from the source documents	It is prepared from the Journal
(3)	Objective	Recording all the transactions at one place in chronological order	After recording, all the transactions are posted to their respective accounts.
(4)	Stage	It is the first stage of recording a transaction.	It is the second stage that comes after recording in Journal
(5)	Narration	Narration is a part of each entry	No narration is written
(6)	Balancing	Balancing is not done in Journal	Ledgers accounts are balanced
(7)	Preparation of Final Accounts	Final Accounts cannot be prepared on the basis of Journal	Final Accounts are prepared on the basis of Ledgers.
(8)	Test of Accuracy	Accuracy of Journal cannot be tested	Its accuracy can be tested by preparation of Trial Balance
(9)	J.F/L.F.	Page Number of Ledger i.e. Ledger Folio (L.F.) is written in this book	Page Number of Journal or Subsidiary books i.e. Journal Folio (J.F.) is written in Ledger

### Format of Ledger

**Name of the Account**

Dr.				Cr.			
Date	Particulars	J.F.	Amount (Rs)	Date	Particulars	J.F.	Amount (Rs)

Each ledger account is divided into two parts, the left hand side is called Debit side and the right hand side is the Credit side. There are four columns on each side of an account:-

- (1) **Date:** The date on which the transaction took place.
- (2) **Particulars:** As books are maintained on Double Entry System, each transaction affects two accounts. The name of the other account affected is written in this column.
- (3) **Journal Folio (J.F.):** The page number of the Journal or the Subsidiary Book from which the particular entry is transferred is written in this.
- (4) **Amount:** The amount pertaining to this account is entered in this column.

### Posting of a transaction

Posting of a transaction is done by transferring the recorded transaction (*from journal*) to the concerned accounts. These accounts are collectively known as ledgers, therefore, posting of a transaction in their respective accounts is also termed as ledger posting. By posting all the transactions in their respective ledger accounts, we will be able to know the position of a particular account during the period as a result of *net effect* of various transactions.

### Steps involved in posting the transaction from Journal to Ledgers

Every ledger account has two sides *i.e. Debit side on the Left Hand and Credit side on the Right Hand*. Following are the steps involved in posting a transaction from Journal to Ledger.

- (1) First identify the account which is debited in the transaction (*in journal*). Now, ***all the details are recorded on the debit side (or left side) of this account.***
- (2) Write the date of transaction under the date column (*on the debit side of the account*).
- (3) Write the name of account which is credited in the Journal {as ..... (Name of account)} under the Particulars column (*on the debit side*).
- (4) Write the page number of Journal in the folio column (*on the debit side*).

- (5) Record the amount in the amount column which is standing against the account credited in the Journal.
- (6) Now, proceed to the account that is credited in the transaction (*in journal*). Now, ***all the details are recorded on the credit side (or right side) of this account***
- (7) Write the date of transaction under the date column (*on the credit side of the account*).
- (8) Write the name of account which is debited in the Journal{ as ..... (Name of account) Dr.} under the Particulars column (*on the credit side*).
- (9) Write the page number of Journal in the folio column (*on the credit side*)
- (10) Record the amount in the amount column which is standing against the account debited in the Journal.

STEPS INVOLVED IN POSTING FROM JOURNAL TO LEDGERS	
POSTING OF ACCOUNT DEBITED IN TRANSACTION	POSTING OF ACCOUNT CREDITED IN TRANSACTION
➡ Open the concerned Account	➡ Open the concerned Account
➡ Write the date of transaction, in the date column on the <b>debit side</b> of the Account	➡ Enter the date of transaction, in the date column on the <b>credit side</b> of Account
➡ Write name of the Account which has been credited in the Journal in the particulars column on the <b>debit side</b>	➡ Write name of the Account which has been debited in the Journal in the particulars column on the <b>credit side</b>
➡ Write the page number of Journal in the Journal Folio column on the <b>debit side</b>	➡ Write the page number of Journal in the Journal Folio column on the <b>credit side</b>
➡ Record the amount in the amount column on the <b>debit side</b>	➡ Record the amount in the amount column on the <b>credit side</b>

**Example** Post the following transaction in their respective ledgers.

**Journal Pg no. 07**

Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)
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2013 April 15	Rajesh	Dr.	05	10,000	
	To Sales A/c (Goods sold to Rajesh on credit)				10,000

**Step 1:** Account debited in the above transaction is Rajesh's Account. So, first we prepare Rajesh's Account and since it is debited, therefore, on its debit side we record all the details of the transaction.

#### Rajesh Account

Dr.

Cr.

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

**Step 2:** Write the date of transaction on the debit side (or the left side) in the date column.

#### Rajesh Account

Dr.

Cr.

Date	Particulars	J.F.	Amount (Rs)	Date	Particulars	J.F.	Amount (Rs)
2013 April 15							

**Step 3:** Write the name of the account which is credited in the Journal (*i.e. Sales A/c*) under the Particulars column (*on the debit side*).

#### Rajesh Account

Dr.

Cr.

Date	Particulars	J.F.	Amount (Rs)	Date	Particulars	J.F.	Amount (Rs)
2013 April 15	Sales A/c						

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**Step 4:** Write the page number of Journal *i.e.* 07 in the J.F. column (*on the debit side*).

**Rajesh Account**

**Dr.**

**Cr.**

Date	Particulars	J.F.	Amount (Rs)	Date	Particulars	J.F.	Amount (Rs)
2013 April 15	Sales A/c	07					

**Step 5:** Record the amount (*Rs 10,000*) in the amount column which is standing against the account credited (*i.e.* Sales A/c) in the Journal.

**Rajesh Account**

**Dr.**

**Cr.**

Date	Particulars	J.F.	Amount (Rs)	Date	Particulars	J.F.	Amount (Rs)
2013 April 15	Sales A/c	07	10,000				

**Step 6:** Now, take up the account which is credited in the transaction.

**Sales Account**

**Dr.**

**Cr.**

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

**Step 7:** Write the date of transaction on its credit side (or right side) in the date column.

**Sales Account**

**Dr.**

**Cr.**

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Date	Particulars	J.F.	Amount (Rs)	Date	Particulars	J.F.	Amount (Rs)
				2013 April 15			

**Step 8:** Write the name of the account which is debited in the Journal (*i.e.* Rajesh) on the credit side of Sales Account.

**Sales Account**

Dr.

Cr.

Date	Particulars	J.F.	Amount (Rs)	Date	Particulars	J.F.	Amount (Rs)
				2013 April 15	Rajesh		

**Step 9:** Write page number (*i.e.* 07) of Journal in the J.F. column (*on the credit side*).

**Sales Account**

Dr.

Cr.

Date	Particulars	J.F.	Amount (Rs)	Date	Particulars	J.F.	Amount (Rs)
				2013 April 15	Rajesh	07	

**Step 10:** Record the amount (*Rs 10,000*) in the amount column which is standing against the account debited (*i.e.* Rajesh) in the Journal.

**Sales Account**

Dr.

Cr.

Date	Particulars	J.F.	Amount (Rs)	Date	Particulars	J.F.	Amount (Rs)
				2013 April 15	Rajesh	07	10,000

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### Posting of Opening Entry

We know that each year the firm closes its books of accounts and the balances are carried forward to the next year. The balances that are brought forward are recorded by opening the respective accounts. As assets show a debit balance, so the relevant amount will be posted on the debit side as '*Balance b/d*' and the accounts of liabilities showing credit balances are posted on the credit side as '*Balance b/d*'.

For example, The balance in the books of Mr. Rajat were as follows, Pass the Opening Entry in his books:

Cash Rs 25,000; Sundry Debtors Rs 70,000; Stock Rs 35,000; Plant Rs 80,000; Land & Building Rs 1,50,000; Sundry Creditors Rs 1,00,000

### JOURNAL

Date 2013	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)
April 01	Cash A/c Dr.		25,000	
	Sundry Debtors' A/c Dr.		70,000	
	Stock A/c Dr.		35,000	
	Plant A/c Dr.		80,000	
	Land & Building Dr.		1,50,000	
	To Sundry Creditors'			1,00,000
	To Capital A/c ( <i>Balancing figure</i> )			2,60,000
	( Balance brought forward)			

### Cash Account

Dr.				Cr.			
Date	Particulars	J.F.	Amount (Rs)	Date	Particulars	J.F.	Amount (Rs)
2013 April 1	Balance b/d		25,000				

### Sundry Debtors Account

Dr.				Cr.			
Date	Particulars	J.F.	Amount (Rs)	Date	Particulars	J.F.	Amount (Rs)
2013							

April 1	Balance b/d		70,000				
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### Stock Account

Dr.

Cr.

Date	Particulars	J.F.	Amount (Rs)	Date	Particulars	J.F.	Amount (Rs)
2013 April 1	Balance b/d		35,000				

### Plant Account

Dr.

Cr.

Date	Particulars	J.F.	Amount (Rs)	Date	Particulars	J.F.	Amount (Rs)
2013 April 1	Balance b/d		80,000				

### Land & Building Account

Dr.

Cr.

Date	Particulars	J.F.	Amount (Rs)	Date	Particulars	J.F.	Amount (Rs)
2013 April 1	Balance b/d		1,50,000				

### Sundry Creditors Account

Dr.

Cr.

Date	Particulars	J.F.	Amount (Rs)	Date	Particulars	J.F.	Amount (Rs)
				2013 April 1	Balance b/d		1,00,000

### Capital Account

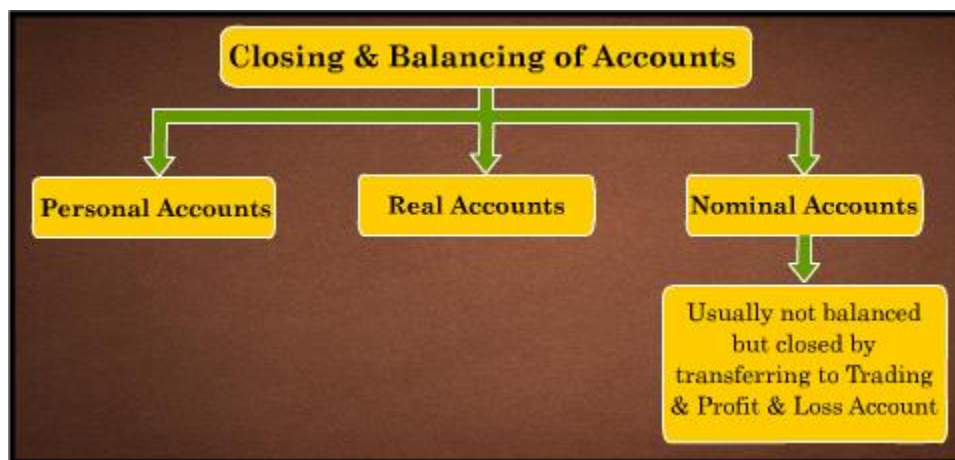
Dr.				Cr.			
Date	Particulars	J.F.	Amount (Rs)	Date	Particulars	J.F.	Amount (Rs)
				2013 April 1	Balance b/d		2,60,000

### Closing & Balancing of Ledgers

Once the transactions are posted in their respective accounts, the next process is to calculate the *net effect* of the transactions posted. This *net effect* is the difference between the total of debit side and the total of credit side of an account. This difference amount is also known as balance of an account. The balance amount can be a debit balance or a credit balance or even nil balance. This is due to the following factors.

- (1) If the *debit side* of an account exceeds its *credit side* then the difference amount is regarded as *debit balance of an account*.
- (2) If the *credit side* of an account exceeds its *debit side* then the difference amount is regarded as *credit balance of an account*.
- (3) If the debit side is equal to its credit side then there will be no balance and hence, this is termed as *nil balance of an account*.

**Note:** We usually balance Real Accounts (*assets*) and Personal Accounts (*Ram, Mohan*). Nominal Accounts are never balanced, these are closed by transferring their balances to the Trading and Profit & Loss Account.



### Steps for balancing a Ledger Account (Personal & Real Accounts only)

- (1) First total the amount column on the debit side of an account and thereafter, total the amount column on the credit side of the account.
- (2) Calculate difference between the two totals.  
If the total of debit side of an account *exceeds* the total of its credit side, then the difference amount is known as debit balance. This amount (dr. balance) is written on the credit side of an account in the “credit amount column”. Also, write date on which balancing is done in the date column and words Balance c/d (showing closing balance) in the Particulars column on the credit side of an account.

#### Furniture Account

Dr.				Cr.			
Date	Particulars	J.F.	Amount (Rs)	Date	Particulars	J.F.	Amount (Rs)
1-1-13	Cash A/c (say)	xx	25,000				
5-7-13	Ajay (say)	xx	35,000				
9-11-13	Vijay (say)	xx	80,000				
				31-12-13	Balance c/d	xx	1,40,000
			1,40,000				1,40,000

On the other hand, if the total of credit side exceeds the total of debit side of an account, then the difference amount is regarded as credit balance. This amount (cr. balance) is written on the debit side of an account in the “debit amount column”. Also, write date on which balancing is done in the date column and words Balance c/d (showing closing balance) in the Particulars column on the debit side of an account.

#### Raj Account

Dr.				Cr.			
Date	Particulars	J.F.	Amount (Rs)	Date	Particulars	J.F.	Amount (Rs)
				12-1-13	Cash A/c (say)	xx	5,000
				5-5-13	Cash (say)	xx	15,000

31-12-13	Balance c/d	xx	20,500	15-11-13	Discount Allowed (say)	xx	500
			20,500				20,500

(3) Now again, total the debit amount column and credit amount column of the account and put these totals on their respective side, signifying aggregate of the amount column of both the sides. After writing totals, draw double line underneath it. This *double line on both the sides shows equality of these two sides*.

### Furniture Account

Dr.

Cr.

Date	Particulars	J.F.	Amount (Rs)	Date	Particulars	J.F.	Amount (Rs)
1-1-13	Cash A/c	xx	25,000				
5-7-13	Ajay	xx	35,000				
9-11-13	Vijay	xx	80,000				
				31-12-13	Balance c/d	xx	1,40,000
			1,40,000				1,40,000

&

### Raj Account

Dr.

Cr.

Date	Particulars	J.F.	Amount (Rs)	Date	Particulars	J.F.	Amount (Rs)
				12-1-13	Cash A/c (say)	xx	5,000
				5-5-13	Cash (say)	xx	15,000
				15-11-13	Discount Allowed (say)	xx	500
31-12-13	Balance c/d	xx	20,500				

			20,500				20,500

(4) For the next period, first write the beginning date (*of the next period*) in the date column of the account. If there is a debit balance in the last period, then in the current period it will be shown on the debit side of the account under the amount column. Words '*balance b/d*' are written in the Particulars column for addressing balance brought down from the last year. However, the situation will be reverse in case there is a credit balance in the last period. If in the last period, there is a credit balance, then the same procedure as mentioned above will be followed but on the credit side of an account (*of the current period*).

### Furniture Account

Dr.

Cr.

Date	Particulars	J.F.	Amount (Rs)	Date	Particulars	J.F.	Amount (Rs)
1-1-13	Cash A/c	xx	25,000				
5-7-13	Ajay	xx	35,000				
9-11-13	Vijay	xx	80,000				
				31-12-13	Balance c/d	xx	1,40,000
			1,40,000				1,40,000
1-1-14	Balance b/d	xx	1,40,000				

&

### Raj Account

Dr.

Cr.

Date	Particulars	J.F.	Amount (Rs)	Date	Particulars	J.F.	Amount (Rs)
				12-1-13	Cash A/c (say)	xx	5,000
				5-5-13	Cash (say)	xx	15,000
				15-11-13	Discount Allowed (say)	xx	500



April 01	Brought forwarded from the last month Cash Rs 60,000, Bank Rs 25,000, Building Rs 40,000, Furniture Rs 12,000 and Loan from Rashmi Rs 15,000.
April 04	Withdrawn goods for personal use (Sale Price Rs 12,000 and Cost Rs 8,000) and cash Rs 6,000.
April 06	Purchased goods of Rs 10,000 from Sohan
April 07	Paid Rs 7,500 to Sohan in full settlement of his account.
April 09	Goods sold to Rakesh for Rs 12,000 on credit.
April 10	Goods (Sale Price Rs 12,000, Cost Rs 10,000) were stolen in transit.
April 12	Paid Income Tax of Rs 15,000
April 13	Paid rent of the building Rs 18,000; half of the building was used for the proprietor's residence.
April 14	Brokerage due of Rs 8,000
April 15	Purchased second hand machine from Vinod against a cheque for Rs 12,000
April 18	Paid installation charges on the Machinery Rs 1,000
April 20	Salary of Rs 5,000 was due

### ***Solution***

#### **Journal**

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
2013 April 01	Cash A/c Dr. Bank A/c Dr. Building A/c Dr. Furniture A/c Dr. To Loan from Rashmi A/c To Capital A/c ( <i>Balancing Figure</i> ) (Balance brought forwarded from the last month)		60,000 25,000 40,000 12,000	15,000 1,22,000
April 04	Drawings A/c Dr.		14,000	

	To Purchases A/c			8,000
	To Cash A/c			6,000
	(Withdrawn goods and cash for personal use )			
April 06	Purchases A/c	Dr.	10,000	
	To Sohan			10,000
	(Goods purchased from Sohan)			
April 07	Sohan	Dr.	10,000	
	To Cash A/c			7,500
	To Discount Received A/c			2,500
	(Paid Rs 7,500 To Sohan in full and final settlement)			
April 09	Rakesh	Dr.	12,000	
	To Sales A/c			12,000
	(Goods sold to Rakesh on credit)			
April 10	Goods Lost-in-Transit A/c	Dr.	10,000	
	To Purchases A/c			10,000
	(Goods were stolen during transit)			
April 12	Drawings A/c	Dr.	15,000	
	To Cash A/c			15,000
	(Paid Income Tax)			
April 13	Drawings A/c	Dr.	9,000	
	Rent A/c	Dr.	9,000	
	To Cash A/c			18,000
	(Paid rent, half of which belongs To residence of owner)			
April 14	Accrued Brokerage A/c	Dr.	8,000	
	To Brokerage A/c			8,000
	(Brokerage due)			
April 15	Machinery A/c	Dr.	12,000	
	To Bank A/c			12,000
	(Purchased machinery against cheque)			
April 18	Machinery A/c	Dr.	1,000	
	To Cash A/c			1,000
	(Paid installation charges for the machinery)			
April 20	Salary A/c	Dr.	5,000	
	To Salary Outstanding A/c			5,000
	(Salary due)			

Bank Account							
Dr.				Cr.			
Date	Particulars	J.F.	Amount (₹)	Date	Particulars	J.F.	Amount (₹)
2013 April 01	Balance b/d		25,000	2013 April 15	Machinery A/c		12,000
				April 30	Balance c/d		13,000
			<b>25,000</b>				<b>25,000</b>

Building Account							
Dr.				Cr.			
Date	Particulars	J.F.	Amount (₹)	Date	Particulars	J.F.	Amount (₹)
2013 April 01	Balance b/d		40,000	2013 April 30	Balance c/d		40,000
			<b>40,000</b>				<b>40,000</b>

Furniture Account							
Dr.				Cr.			
Date	Particulars	J.F.	Amount (₹)	Date	Particulars	J.F.	Amount (₹)
2013				2013			

April 01	Balance b/d		12,000	April 30	Balance c/d		12,000
			12,000				12,000

#### Loan From Rashmi Account

Dr.				Cr.			
Date	Particulars	J.F.	Amount (₹)	Date	Particulars	J.F.	Amount (₹)
2013 April 30	Balance c/d		15,000	2013 April 01	Balance b/d		15,000
			15,000				15,000

#### Capital Account

Dr.				Cr.			
Date	Particulars	J.F.	Amount (₹)	Date	Particulars	J.F.	Amount (₹)
2013 April 30	Balance c/d		1,22,000	2013 April 01	Balance b/d		1,22,000
			1,22,000				1,22,000

#### Drawings Account

Dr.				Cr.			
Date	Particulars	J.F.	Amount (₹)	Date	Particulars	J.F.	Amount (₹)
2013 April 04	Purchases A/c		8,000	2013			
April 04	Cash A/c		6,000				
April 12	Cash A/c		15,000				
April 13	Cash A/c		9,000	April 30	Balance c/d		38,000
			38,000				38,000

#### Purchases Account

Dr.				Cr.			
Date	Particulars	J.F.	Amount (₹)	Date	Particulars	J.F.	Amount (₹)
2013 April 06	Sohan		10,000	2013 April 04	Drawings A/c		8,000
April 30	Balance c/d		8,000	April 10	Goods Lost-in-transit A/c		10,000
			18,000				18,000

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### Sohan

Dr.				Cr.			
Date	Particulars	J.F.	Amount (₹)	Date	Particulars	J.F.	Amount (₹)
2013 April 07	Cash A/c		7,500	2013			
April 07	Discount Received A/c		2,500	April 06	Purchases A/c		10,000
			<b>10,000</b>				<b>10,000</b>

### Discount Received A/c

Dr.				Cr.			
Date	Particulars	J.F.	Amount (₹)	Date	Particulars	J.F.	Amount (₹)
2013 April 30	Balance c/d		2,500	2013 April 07	Sohan		2,500
			<b>2,500</b>				<b>2,500</b>

### Rakesh

Dr.				Cr.			
Date	Particulars	J.F.	Amount (₹)	Date	Particulars	J.F.	Amount (₹)
2013 April 09	Sales A/c		12,000	2013 April 30	Balance c/d		12,000
			<b>12,000</b>				<b>12,000</b>

### Sales Account

Dr.				Cr.			
Date	Particulars	J.F.	Amount (₹)	Date	Particulars	J.F.	Amount (₹)
2013 April 30	Balance c/d		12,000	2013 April 09	Rakesh		12,000
			<b>12,000</b>				<b>12,000</b>

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### Goods Lost-in-transit Account

Dr.				Cr.			
Date	Particulars	L.F.	Amount (₹)	Date	Particulars	L.F.	Amount (₹)
2013 April 10	Purchases A/c		10,000	2013 April 30	Balance c/d		10,000
			<b>10,000</b>				<b>10,000</b>

### Accrued Brokerage Account

Dr.				Cr.			
Date	Particulars	J.F.	Amount (₹)	Date	Particulars	J.F.	Amount (₹)
2013 April 14	Brokerage A/c		8,000	2013 April 30	Balance c/d		8,000
			<b>8,000</b>				<b>8,000</b>

### Brokerage Account

Dr.				Cr.			
Date	Particulars	J.F.	Amount (₹)	Date	Particulars	J.F.	Amount (₹)
2013 April 30	Balance c/d		8,000	2013 April 14	Accrued Brokerage A/c		8,000
			<b>8,000</b>				<b>8,000</b>

### Machinery Account

Dr.				Cr.			
Date	Particulars	J.F.	Amount (₹)	Date	Particulars	J.F.	Amount (₹)
2013 April 15	Bank A/c		12,000	2013			
April 18	Cash A/c		1,000	April 30	Balance c/d		13,000
			<b>13,000</b>				<b>13,000</b>

### Rent Account

Dr.	Cr.
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Date	Particulars	J.F.	Amount (₹)	Date	Particulars	J.F.	Amount (₹)
2013 April 13	Cash A/c		9,000	2013 April 30	Balance c/d		9,000
			<b>9,000</b>				<b>9,000</b>

### Salary Account

Dr.				Cr.			
Date	Particulars	J.F.	Amount (₹)	Date	Particulars	J.F.	Amount (₹)
2013 April 20	Salary Outstanding A/c		5,000	2013 April 30	Balance c/d		5,000
			<b>5,000</b>				<b>5,000</b>

### Salary Outstanding Account

Dr.				Cr.			
Date	Particulars	J.F.	Amount (₹)	Date	Particulars	J.F.	Amount (₹)
2013 April 30	Balance c/d		5,000	2013 April 20	Salary A/c		5,000
			<b>5,000</b>				<b>5,000</b>

**Note:** In the above questions and questions to come, Expenses and Revenue Accounts such as Purchases A/c, Sales A/c, Salaries, Wages, Purchases Returns Account etc. should not be balanced but are closed at the end of year by transferring To Trading or Profit and Loss Account. They have been balanced just for the purpose of showing balancing as these entries are not for the whole year but only for a month or two.

**Example 2** Enter the following transactions in To the Journal and post them in To the ledger.

Date	Particulars
2013 April 01	<b>Assets:</b> Cash Rs 35,000, Bank Rs 32,000, Stock Rs 20,000, Machinery Rs 25,000, Furniture Rs 22,000
April 04	<b>Liabilities:</b> Atul Rs 18,000, Mohit Rs 15,000
April 06	Goods purchased from Rohit Rs 15,000.
April 07	Sold goods to Veeru Rs 40,000.
April 08	Paid to Mohit Rs 14,000 in full settlement.
	Sold furniture for Cash Rs 20,500.

April 11	Paid Salaries Rs 5,600.
April 13	Paid Insurance premium of Rs 12,000.
April 14	Sold goods costing Rs 5,000 to Ajit at 20% above the cost.
April 15	Cash of Rs 20,000 deposited in to the Bank
April 16	Rs 12,000 were paid to Rohit through cheque on account of purchases made from him.
April 18	Cheque paid to Rohit got dishonoured due to mismatch of signature
April 25	An old amount written off as bad debt in previous year recovered Rs 4,200.
April 28	Goods stolen by employee Rs 4,500
April 29	Paid rent of Rs 7,200 for the next year
April 30	Acceptance given to bill of Rs 18,000 drawn by Atul

### ***Solution***

#### **Journal**

<b>Date</b>	<b>Particulars</b>	<b>L.F.</b>	<b>Debit Amount (₹)</b>	<b>Credit Amount (₹)</b>
2013 April 01	Cash A/c Dr. Bank A/c Dr. Stock A/c Dr. Machinery A/c Dr. Furniture A/c Dr. To Atul To Mohit To Capital A/c ( <i>Balancing Figure</i> ) (Balance forwarded from the last month)		35,000 32,000 20,000 25,000 22,000	18,000 15,000 1,01,000
April 04	Purchases A/c Dr. To Rohit (Goods purchased on credit)		15,000	15,000
April 06	Veeru Dr. To Sales A/c (Goods sold to Veeru)		40,000	40,000
April 07	Mohit Dr. To Cash A/c		15,000	14,000

	To Discount Received A/c (Paid to Mohit in full settlement)			1,000
April 08	Cash A/c Loss on Sale of Furniture A/c To Furniture A/c (Furniture sold)	Dr. Dr.	20,500 1,500	22,000
April 11	Salary A/c To Cash A/c (Salary paid)	Dr.	5,600	5,600
April 13	Insurance Premium A/c To Cash A/c (Insurance Premium paid)	Dr.	12,000	12,000
April 14	Ajit To Sales A/c (Goods sold to Ajit)	Dr.	6,000	6,000
April 15	Bank A/c To Cash A/c (Cash deposited in to the bank)	Dr.	20,000	20,000
April 16	Rohit To Bank A/c To Discount Received A/c (Cash paid to Rohit)	Dr.	15,000	12,000 3,000
April 18	Bank A/c Discount Received A/c To Rohit (Cheque paid to Rohit got dishonoured)	Dr. Dr.	12,000 3,000	15,000
April 25	Cash A/c To Bad debts Recovered A/c (Amount written off as Bad-debt now recovered)	Dr.	4,200	4,200
April 28	Loss by Theft A/c To Purchases A/c (Goods Stolen by employees)	Dr.	4,500	4,500
April 29	Prepaid Rent A/c To Cash A/c (Paid rent in advance for the next year)	Dr.	7,200	7,200

April 30	Atul To Bills Payable A/c (Bill accepted and send back to Atul)	Dr.		18,000	18,000
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### Cash Account

Dr.				Cr.			
Date	Particulars	J.F.	Amount (₹)	Date	Particulars	J.F.	Amount (₹)
2013				2013			
April 01	Balance b/d		35,000	April 07	Mohit		14,000
April 08	Furniture A/c		20,500	April 11	Salaries A/c		5,600
April 25	Bad Debts Recovered A/c		4,200	April 13	Insurance Premium A/c		12,000
				April 15	Bank A/c		20,000
				April 29	Prepaid Rent A/c		7,200
				April 30	Balance c/d		900
			<b>59,700</b>				<b>59,700</b>

### Bank Account

Dr.				Cr.			
Date	Particulars	J.F.	Amount (₹)	Date	Particulars	J.F.	Amount (₹)
2013				2013			
April 01	Balance b/d		32,000	April 16	Rohit		12,000
April 15	Cash A/c		20,000				
April 18	Rohit		12,000	April 30	Balance c/d		52,000
			<b>64,000</b>				<b>64,000</b>

### Machinery Account

Dr.				Cr.			
Date	Particulars	J.F.	Amount (₹)	Date	Particulars	J.F.	Amount (₹)
2013				2013			
April 01	Balance b/d		25,000	April 30	Balance c/d		25,000
			<b>25,000</b>				<b>25,000</b>

### Stock Account

Dr.				Cr.			
Date	Particulars	J.F.	Amount (₹)	Date	Particulars	J.F.	Amount (₹)
2013 April 01	Balance b/d		20,000	2013 April 30	Balance c/d		20,000
			<b>20,000</b>				<b>20,000</b>

### Furniture Account

Dr.				Cr.			
Date	Particulars	J.F.	Amount (₹)	Date	Particulars	J.F.	Amount (₹)
2013 April 01	Balance b/d		22,000	2013 April 08 April 08	Cash A/c Loss on Sale A/c		20,500 1,500
			<b>22,000</b>				<b>22,000</b>

### Capital Account

Dr.				Cr.			
Date	Particulars	J.F.	Amount (₹)	Date	Particulars	J.F.	Amount (₹)
2013 April 30	Balance c/d		1,01,000	2013 April 01	Balance b/d		1,01,000
			<b>1,01,000</b>				<b>1,01,000</b>

### Atul

Dr.				Cr.			
Date	Particulars	J.F.	Amount (₹)	Date	Particulars	J.F.	Amount (₹)
2013 April 30	Bills Payable A/c		18,000	2013 April 01	Balance b/d		18,000
			<b>18,000</b>				<b>18,000</b>

### Mohit

Dr.				Cr.			
Date	Particulars	J.F.	Amount (₹)	Date	Particulars	J.F.	Amount (₹)
2013 April 07 April 07	Cash A/c Discount Received A/c		14,000 1,000 <b>15,000</b>	2013 April 01	Balance b/d		15,000 <b>15,000</b>

### Purchases Account

Dr.				Cr.			
Date	Particulars	J.F.	Amount (₹)	Date	Particulars	J.F.	Amount (₹)
2013 April 04	Rohit		15,000 <b>15,000</b>	2013 April 30	Balance c/d		15,000 <b>15,000</b>

### Loss on Sale A/c

Dr.				Cr.			
Date	Particulars	J.F.	Amount (₹)	Date	Particulars	J.F.	Amount (₹)
2013 April 04	Furniture A/c		1,500 <b>1,500</b>	2013 April 04	Purchases A/c		1,500 <b>1,500</b>

### Loss by Theft A/c

Dr.				Cr.			
Date	Particulars	J.F.	Amount (₹)	Date	Particulars	J.F.	Amount (₹)
2013 April 30	Balance c/d		4,500 <b>4,500</b>	2013 April 28	Purchases A/c		4,500 <b>4,500</b>

### Veeru

Dr.	Cr.
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Date	Particulars	J.F.	Amount (₹)	Date	Particulars	J.F.	Amount (₹)
2013 April 09	Sales A/c		40,000	2013 April 30	Balance c/d		40,000
			<b>40,000</b>				<b>40,000</b>

### Sales Account

Dr.				Cr.			
Date	Particulars	J.F.	Amount (₹)	Date	Particulars	J.F.	Amount (₹)
2013 April 30	Balance c/d		40,000	2013 April 06	Veeru		40,000
			<b>40,000</b>				<b>40,000</b>

### Salary Account

Dr.				Cr.			
Date	Particulars	L.F.	Amount (₹)	Date	Particulars	L.F.	Amount (₹)
2013 April 11	Cash A/c		5,600	2013 April 30	Balance c/d		5,600
			<b>5,600</b>				<b>5,600</b>

### Prepaid Rent Account

Dr.				Cr.			
Date	Particulars	J.F.	Amount (₹)	Date	Particulars	J.F.	Amount (₹)
2013 April 29	Cash A/c		7,200	2013 April 30	Balance c/d		7,200
			<b>7,200</b>				<b>7,200</b>

### Bad debts Recovered Account

Dr.				Cr.			
Date	Particulars	J.F.	Amount (₹)	Date	Particulars	J.F.	Amount (₹)
2013 April 30	Balance c/d		4,200	2013 April 25	Cash A/c		4,200

			4,200			4,200

### Discount Received Account

Dr.				Cr.			
Date	Particulars	J.F.	Amount (₹)	Date	Particulars	J.F.	Amount (₹)
2013 April 18 April 30	Rohit Balance c/d		3,000 1,000 <b>4,000</b>	2013 April 07 April 16	Mohit Rohit		1,000 3,000 <b>4,000</b>

### Bills Payable Account

Dr.				Cr.			
Date	Particulars	J.F.	Amount (₹)	Date	Particulars	J.F.	Amount (₹)
2013 April 30	Balance c/d		18,000 <b>18,000</b>	2013 April 30	Atul		18,000 <b>18,000</b>

**Example 3** From the following transactions of M/s Ansh & Sons, prepare Journal, post them in the ledgers and balance the ledgers.

Date	Particulars	Amount (₹)
2013 March 01	Brought forwarded balance of the last month: <b>Assets:</b> Cash in hand Rs 20,000, Cash at Bank Rs 25,000 Building Rs 30,000, Furniture Rs 5,000, Stock Rs 4,000, M/s Kapur Bros owed Rs 4,000. <b>Liabilities:</b> Loan Rs 7,000, Owed to M/s Vineet Traders Rs 4,500	
March 02	Bought goods for Cash	6,000
March 05	Bought goods from Vineet Traders	5,000
	Carriage on these goods	50
March 08	Paid Municipal Taxes through cheque	1,200
March 10	Sale of old Newspaper	800
March 11	Paid rent to landlord in cash	5,200
March 14	Withdrawn from the bank for office use	2,600

March 15	Payment made to Vineet Traders in full settlement of their Account	9,000
March 18	Cheque received from M/s Kapur Bros	4,000
March 19	Bank interest received	500
March 20	Bank intimates that cheque of Kapur Bros was returned unpaid	
March 22	Purchased 10 chairs for office use from Sohan Furnitures	6,000
March 26	Returned 4 chairs back due to defective quality	2,400
March 28	Paid to Sohan Furnitures through cheque	3,600
March 31	Received loan from Salman and deposited same in to the bank	8,000

### Solution

#### Books of M/s Ansh & Sons Journal

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
2013 March 01	Cash A/c Dr. Bank A/c Dr. Building A/c Dr. Furniture A/c Dr. Stock A/c Dr. M/s Kapur Bros Dr. To Loan A/c To Vineet Traders To Capital A/c ( <i>Balancing Figure</i> ) (Balances of the last month were brought forwarded)		20,000 25,000 30,000 5,000 4,000 4,000	7,000 4,500 76,500
March 02	Purchases A/c Dr. To Cash A/c (Goods bought for cash)		6,000	6,000
March 05	Purchases A/c Dr. To M/s Vineet Traders (Goods purchased from Vineet Traders)		5,000	5,000
March 05	Carriage A/c Dr.		50	

	To Cash A/c (Carriage paid on purchase of goods from Vineet Traders)			50
March 08	Municipal Taxes A/c To Bank A/c (Paid Municipal Taxes)	Dr.	1,200	1,200
March 10	Cash A/c To Sundry Receipts A/c (Cash received on sale of old newspaper)	Dr.	800	800
March 11	Rent A/c To Cash A/c (Paid rent To landlord)	Dr.	5,200	5,200
March 14	Cash A/c To Bank A/c (Withdrawn cash from the bank)	Dr.	2,600	2,600
March 15	Vineet Traders A/c To Cash A/c To Discount Received A/c (Payment made to Vineet Traders in full settlement of their account)	Dr.	9,500	9,000 500
March 18	Bank A/c To Kapur Bros (Cheque received from Kapur Bros)	Dr.	4,000	4,000
March 19	Bank A/c To Bank Interest A/c (Bank interest received)	Dr.	500	500
March 20	Kapur Bros. To Bank A/c (Kapur Bros cheque got dishonoured)	Dr.	4,000	4,000
March 22	Furniture A/c To Sohan Furnitures (Purchased 10 chairs from Sohan Furnitures)	Dr.	6,000	6,000
March 26	Sohan Furnitures To Furniture A/c (4 Chairs were returned due to defective quality)	Dr.	2,400	2,400

March 28	Sohan Furnitures To Bank A/c (Paid to Sohan Furniture by cheque)	Dr.		3,600	3,600
March 31	Bank A/c To Loan From Salman (Received loan from Salman and deposited in to the bank)	Dr.		8,000	8,000

### Cash Account

Dr.				Cr.			
Date	Particulars	L.F.	Amount	Date	Particulars	L.F.	Amount
2013 March 01	Balance b/d		20,000	2013 March 02	Purchases A/c		6,000
March 10	Sundry Receipts A/c		800	March 05	Carriage A/c		50
March 14	Bank A/c		2,600	March 11	Rent A/c		5,200
				March 15	Vineet Traders		9,000
				March 31	Balance c/d		3,150
			<b>23,400</b>				<b>23,400</b>

### Bank Account

Dr.				Cr.			
Date	Particulars	L.F.	Amount	Date	Particulars	L.F.	Amount
2013 March 01	Balance b/d		25,000	2013 March 08	Municipal Taxes A/c		1,200
March 18	Kapur Bros		4,000	March 14	Cash A/c		2,600
March 19	Bank Interest A/c		500	March 20	Kapur Bros		4,000
March 31	Loan from Salman A/c		8,000	March 28	Sohan Furniture A/c		3,600
				March 31	Balance c/d		26,100
			<b>37,500</b>				<b>37,500</b>

### Building Account

Dr.				Cr.			
Date	Particulars	L.F.	Amount	Date	Particulars	L.F.	Amount
2013 March 01	Balance b/d		30,000	2013 March 31	Balance c/d		30,000

			30,000				30,000

### Furniture Account

Dr.				Cr.			
Date	Particulars	L.F.	Amount	Date	Particulars	L.F.	Amount
2013 March 01	Balance b/d		5,000	2013 March 26	Sohan Furnitures		2,400
March 22	Sohan Furnitures		6,000	March 31	Balance c/d		8,600
			11,000				11,000

### Stock Account

Dr.				Cr.			
Date	Particulars	L.F.	Amount	Date	Particulars	L.F.	Amount
2013 March 01	Balance b/d		4,000	2013 March 31	Balance c/d		4,000
			4,000				4,000

### Kapur Bros

Dr.				Cr.			
Date	Particulars	L.F.	Amount	Date	Particulars	L.F.	Amount
2013 March 01	Balance b/d		4,000	2013 March 18	Bank A/c		4,000
March 20	Bank A/c		4,000	March 31	Balance c/d		4,000
			8,000				8,000

### Loan Account

Dr.				Cr.			
Date	Particulars	L.F.	Amount	Date	Particulars	L.F.	Amount
2013 March 31	Balance c/d		7,000	2013 March 01	Balance b/d		7,000
			7,000				7,000

### Vineet Traders

Dr.				Cr.			
Date	Particulars	L.F.	Amount	Date	Particulars	L.F.	Amount
2013				2013			
March 15	Cash A/c		9,000	March 01	Balance b/d		4,500
March 15	Discount Received A/c		500	March 05	Purchases A/c		5,000
			<b>9,500</b>				<b>9,500</b>

### Capital Account

Dr.				Cr.			
Date	Particulars	L.F.	Amount	Date	Particulars	L.F.	Amount
2013				2013			
March 31	Balance c/d		76,500	March 01	Balance b/d		76,500
			<b>76,500</b>				<b>76,500</b>

### Purchases Account

Dr.				Cr.			
Date	Particulars	L.F.	Amount	Date	Particulars	L.F.	Amount
2013				2013			
March 02	Cash A/c		6,000	March 31	Balance c/d		11,000
March 05	Vineet Traders		5,000				<b>11,000</b>
			<b>11,000</b>				

### Carriage Account

Dr.				Cr.			
Date	Particulars	L.F.	Amount	Date	Particulars	L.F.	Amount
2013				2013			
March 05	Cash A/c		50	March 31	Balance c/d		50
			<b>50</b>				<b>50</b>

### Municipal Taxes Account

Dr.				Cr.			
Date	Particulars	L.F.	Amount	Date	Particulars	L.F.	Amount

2013 March 08	Bank A/c		1,200	2013 March 31	Balance c/d		1,200
			<b>1,200</b>				<b>1,200</b>

### Sundry Receipts Account

Dr.				Cr.			
Date	Particulars	L.F.	Amount	Date	Particulars	L.F.	Amount
2013 March 31	Balance c/d		800	2013 March 10	Cash A/c		800
			<b>800</b>				<b>800</b>

### Rent Account

Dr.				Cr.			
Date	Particulars	L.F.	Amount	Date	Particulars	L.F.	Amount
2013 March 11	Cash A/c		5,200	2013 March 31	Balance c/d		5,200
			<b>5,200</b>				<b>5,200</b>

### Discount Received Account

Dr.				Cr.			
Date	Particulars	L.F.	Amount	Date	Particulars	L.F.	Amount
2013 March 31	Balance c/d		500	2013 March 15	Vineet Traders		500
			<b>500</b>				<b>500</b>

### Bank Interest Account

Dr.				Cr.			
Date	Particulars	L.F.	Amount	Date	Particulars	L.F.	Amount
2013 March 31	Balance c/d		500	2013 March 19	Bank A/c		500
			<b>500</b>				<b>500</b>

### Sohan Furniture

Dr.				Cr.			
Date	Particulars	L.F.	Amount	Date	Particulars	L.F.	Amount
2013				2013			
March 26	Furniture A/c		2,400	March 22	Furniture A/c		6,000
March 28	Bank A/c		3,600				
			<b>6,000</b>				<b>6,000</b>

### Loan from Salman Account

Dr.				Cr.			
Date	Particulars	L.F.	Amount	Date	Particulars	L.F.	Amount
2013				2013			
March 31	Balance c/d		8,000	March 31	Bank A/c		8,000
			<b>8,000</b>				<b>8,000</b>

**Note: It is assumed that cheque received from M/s Kapur Bros. was deposited in the Bank on the same day.**

**Example 4** From the following transactions of Sachin, prepare Journal, post them in the ledgers and balance the ledgers.

Date	Particulars
2013 June 01	Brought forwarded balance of the last month: <b>Assets:</b> Cash in hand Rs 35,000, Cash at Bank Rs 30,000 Machinery Rs 40,000, Stock of goods Rs 25,000, Sundry Debtors: Aman Rs 6,000, Yohan Rs 8,000 <b>Liabilities:</b> Sundry Creditors: Vicky Rs 7,000, Kusum Rs 4,500.
June 03	Rajesh sold goods to Sachin for Rs 25,000
June 05	Sachin sold goods to Vishesh for Rs 28,000
June 08	Rejected 10% of Rajesh's goods
June 09	Purchased goods worth Rs 13,200 from Rohit, which were sold to Ajay at a profit of Rs 4,000

June 11	Sachin issued cash memo for Rs 18,000 to Ansari, who came personally To take goods.
June 13	Yohan cleared 70% of his total dues and received cash discount of 1.5%
June 14	Dues of Kusum were cleared through a cheque and received a cash discount of Rs 600.
June 15	Aman got bankrupt, only 40 paisa in rupee was recovered from his estates.
June 18	Purchased Machinery for Rs 18,000, paid Rs 500 as cartage and Rs 1,500 as installation charges.
June 21	Paid salary to Dev Rs 3,500
June 23	Rent of Rs 4,200 is due to landlady Sushila but not yet paid.
June 26	Goods (Cost Rs 4,000 and Sales Price Rs 5,100) were taken for the personal use
June 28	Bank charges of Rs 95 were charged by the bank
June 30	Charged depreciation on Machinery Rs 4,200

### Solution

#### Books of Sachin Journal

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
2013 June 01	Cash A/c Dr. Bank A/c Dr. Machinery A/c Dr. Stock of Goods A/c Dr. Aman Dr. Yohan Dr. To Vicky To Kusum To Capital A/c ( <i>Balancing Figure</i> ) (Balances of the last month were brought forwarded)		35,000 30,000 40,000 25,000 6,000 8,000	7,000 4,500 1,32,500
June 03	Purchases A/c Dr. To Rajesh		25,000	25,000

	(Goods purchased from Rajesh)			
June 05	Vishesh To Sales A/c (Goods sold To Vishesh)	Dr.	28,000	28,000
June 08	Rajesh To Purchases Return A/c (Cartage paid on purchase of goods from Vineet Traders)	Dr.	2,500	2,500
June 09	Purchases A/c To Rohit (Goods purchased from Rohit)	Dr.	13,200	13,200
June 09	Ajay To Sales A/c (Goods sold To Ajay)	Dr.	17,200	17,200
June 11	Cash A/c To Sales A/c (Goods sold)	Dr.	18,000	18,000
June 13	Cash A/c Discount Allowed A/c To Yohan (Cash received and discount allowed)	Dr. Dr.	5,516 84	5,600
June 14	Kusum To Bank A/c To Discount Received A/c (Paid To Kusum through cheque and discount received)	Dr.	4,500	3,900 600
June 15	Cash A/c Bad Debts A/c To Aman (Aman got bankrupt and only 40 paisa in rupees were realised from his estates)	Dr. Dr.	2,400 3,600	6,000
June 18	Machinery A/c To Cash A/c (Machinery purchased for Rs 18,000 and Rs 500 spent on its cartage and Rs 1,500 on its installation)	Dr.	20,000	20,000

June 21	Salaries A/c To Cash A/c (Salaries paid)	Dr.	3,500	3,500
June 23	Rent A/c To Rent Outstanding A/c (Rent due but not yet paid)	Dr.	4,200	4,200
June 26	Drawings A/c To Purchases A/c (Goods taken for personal use)	Dr.	4,000	4,000
June 28	Bank Charges A/c To Bank A/c (Bank Charges charged by the bank)	Dr.	95	95
June 30	Depreciation A/c To Machinery A/c (Depreciation charged on the Machinery)	Dr.	4,200	4,200

#### Cash Account

Dr.				Cr.			
Date	Particulars	L.F.	Amount	Date	Particulars	L.F.	Amount
2013				2013			
June 01	Balance b/d		35,000	June 18	Machinery A/c		20,000
June 11	Sales A/c		18,000	June 21	Salaries A/c		3,500
June 13	Yohan		5,516	June 30	Balance c/d		37,416
June 15	Aman		2,400				
			<b>60,916</b>				<b>60,916</b>

#### Bank Account

Dr.				Cr.			
Date	Particulars	L.F.	Amount	Date	Particulars	L.F.	Amount
2013				2013			
June 01	Balance b/d		30,000	June 14	Kusum		3,900
				June 28	Bank Charges A/c		95
				June 30	Balance c/d		26,005
			<b>30,000</b>				<b>30,000</b>

#### Machinery Account

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

Date	Particulars	L.F.	Amount	Date	Particulars	L.F.	Amount
2013 June 01	Balance b/d		40,000	2013 June 30	Depreciation A/c		4,200
June 18	Cash A/c		20,000	June 30	Balance c/d		55,800
			<b>60,000</b>				<b>60,000</b>

**Stock of Goods Account****Dr.****Cr.**

Date	Particulars	L.F.	Amount	Date	Particulars	L.F.	Amount
2013 June 01	Balance b/d		25,000	2013 June 30	Balance c/d		25,000
			<b>25,000</b>				<b>25,000</b>

**Aman****Dr.****Cr.**

Date	Particulars	L.F.	Amount	Date	Particulars	L.F.	Amount
2013 June 01	Balance b/d		6,000	2013 June 15	Cash A/c		2,400
				June 15	Bad debts A/c		3,600
			<b>6,000</b>				<b>6,000</b>

**Yohan****Dr.****Cr.**

Date	Particulars	L.F.	Amount	Date	Particulars	L.F.	Amount
2013 June 01	Balance b/d		8,000	2013 June 13	Cash A/c		5,516
				June 13	Discount Allowed A/c		84
				June 30	Balance c/d		2,400
			<b>8,000</b>				<b>8,000</b>

**Vicky****Dr.****Cr.**

Date	Particulars	L.F.	Amount	Date	Particulars	L.F.	Amount
2013 June 30	Balance c/d		7,000	2013 June 01	Balance b/d		7,000

			7,000				7,000

### Kusum

Dr.

Cr.

Date	Particulars	L.F.	Amount	Date	Particulars	L.F.	Amount
2013 June 14	Bank A/c Discount Received A/c		3,900 600 <b>4,500</b>	2013 June 01	Balance b/d		4,500 <b>4,500</b>

### Capital Account

Dr.

Cr.

Date	Particulars	L.F.	Amount	Date	Particulars	L.F.	Amount
2013 June 30	Balance c/d		1,32,500 <b>1,32,500</b>	2013 June 01	Balance b/d		1,32,500 <b>1,32,500</b>

### Purchases Account

Dr.

Cr.

Date	Particulars	L.F.	Amount	Date	Particulars	L.F.	Amount
2013 June 03 June 09	Rajesh Rohit		25,000 13,200 <b>38,200</b>	2013 June 26 June 30	Drawings A/c Balance c/d		4,000 34,200 <b>38,200</b>

### Rajesh

Dr.

Cr.

Date	Particulars	L.F.	Amount	Date	Particulars	L.F.	Amount
2013 June 08 June 30	Purchases Return A/c Balance c/d		2,500 22,500 <b>25,000</b>	2013 June 03	Purchases A/c		25,000 <b>25,000</b>

### Sales Account

Dr.

Cr.

Date	Particulars	L.F.	Amount	Date	Particulars	L.F.	Amount
2013				2013			
				June 05	Vishesh		28,000
				June 09	Ajay		17,200
June 30	Balance c/d		63,200	June 11	Sales A/c		18,000
			<b>63,200</b>				<b>63,200</b>

### Vishesh

Dr.

Cr.

Date	Particulars	L.F.	Amount	Date	Particulars	L.F.	Amount
2013				2013			
June 05	Sales A/c		28,000				
			<b>28,000</b>	June 30	Balance c/d		28,000
							<b>28,000</b>

### Purchase Return Account

Dr.

Cr.

Date	Particulars	L.F.	Amount	Date	Particulars	L.F.	Amount
2013				2013			
				June 08	Rajesh		2,500
June 30	Balance c/d		2,500				
			<b>2,500</b>				<b>2,500</b>

### Rohit

Dr.

Cr.

Date	Particulars	L.F.	Amount	Date	Particulars	L.F.	Amount
2013				2013			
June 09				June 09	Purchases A/c		13,200
June 30	Balance c/d		13,200				
			<b>13,200</b>				<b>13,200</b>

### Ajay

Dr.

Cr.

Date	Particulars	L.F.	Amount	Date	Particulars	L.F.	Amount
2013				2013			
June 09	Sales A/c		17,200				
				June 30	Balance c/d		17,200

			17,200				17,200

### Discount Allowed Account

Dr.				Cr.			
Date	Particulars	L.F.	Amount	Date	Particulars	L.F.	Amount
2013 June 13	Yohan		84	2013 June 30	Balance c/d		84
			84				84

### Discount Received Account

Dr.				Cr.			
Date	Particulars	L.F.	Amount	Date	Particulars	L.F.	Amount
2013 June 30	Balance c/d		600	2013 June 14	Kusum		600
			600				600

### Bad Debts Account

Dr.				Cr.			
Date	Particulars	L.F.	Amount	Date	Particulars	L.F.	Amount
2013 June 15	Aman		3,600	2013 June 30	Balance c/d		3,600
			3,600				3,600

### Salaries Account

Dr.				Cr.			
Date	Particulars	L.F.	Amount	Date	Particulars	L.F.	Amount
2013 June 21	Cash A/c		3,500	2013 June 30	Balance c/d		3,500
			3,500				3,500

### Rent Account

Dr.	Cr.
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Date	Particulars	L.F.	Amount	Date	Particulars	L.F.	Amount
2013 June 23	Rent Outstanding A/c		4,200	2013 June 30	Balance c/d		4,200
			<b>4,200</b>				<b>4,200</b>

### Rent Outstanding Account

Dr.

Cr.

Date	Particulars	L.F.	Amount	Date	Particulars	L.F.	Amount
2013 June 30	Balance c/d		4,200	2013 June 23	Rent A/c		4,200
			<b>4,200</b>				<b>4,200</b>

### Drawings Account

Dr.

Cr.

Date	Particulars	L.F.	Amount	Date	Particulars	L.F.	Amount
2013 June 26	Purchases A/c		4,000	2013 June 30	Balance c/d		4,000
			<b>4,000</b>				<b>4,000</b>

### Bank Charges Account

Dr.

Cr.

Date	Particulars	L.F.	Amount	Date	Particulars	L.F.	Amount
2013 June 28	Bank A/c		95	2013 June 30	Balance c/d		95
			<b>95</b>				<b>95</b>

### Depreciation Account

Dr.

Cr.

Date	Particulars	L.F.	Amount	Date	Particulars	L.F.	Amount
2013 June 30	Machinery A/c		4,200	2013 June 30	Balance c/d		4,200
			<b>4,200</b>				<b>4,200</b>

**Example 5** Umesh started business with Cash Rs 40,000, Bank Rs 50,000 and Stock of Rs 30,000 on January 01, 2013. His transactions during the month were as given below:

Date	Particulars
2013	
Jan 02	Shop was taken on rent and Rs 12,000 were paid as an advance for the rent
Jan 04	Purchased furniture of Rs 10,000 from Furniture House
Jan 05	Bought goods worth Rs 18,000 from Raj Stores subject To trade discount of 5%
Jan 06	Goods of Rs 500 were given as Charity To an Old Age Home
Jan 08	Sold goods To Raju for Rs 14,000
Jan 11	Purchased stationery of Rs 1,500 in cash
Jan 13	Paid To Raj Stores 16,500 in the full settlement by cheque
Jan 14	Raju returned goods of Rs 4,500
Jan 16	Paid brokerage of Rs 2,300 and electricity bill of Rs 1,800
Jan 19	Goods of Rs 14,000 were purchased on credit from Mayank
Jan 23	Commission of Rs 2,400 received from Kunwar Bros
Jan 26	Due To defective quality goods of Rs 3,500 were returned back To Mayank
Jan 29	Mayank agrees To accept bill against his dues
Jan 31	Received Rs 5,000 from a travelling salesman, after deducting travelling expenses of Rs 500.

**Solution**

**Books of Umesh  
Journal**

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
2013 Jan.01	Cash A/c Dr. Bank A/c Dr. Stock A/c Dr. To Capital A/c ( <i>Balancing Figure</i> ) (Started business with cash, bank and Stock)		40,000 50,000 30,000	1,20,000
Jan.02	Advance for Rent A/c Dr. To Cash A/c (Advance paid for shop)		12,000	12,000

Jan.04	Furniture A/c To Furniture House (Furniture purchased)	Dr.	10,000	10,000
Jan.05	Purchases A/c To Raj Stores (Purchased goods from Raj Stores)	Dr.	17,100	17,100
Jan.06	Charity A/c To Purchases A/c (Goods distributed as charity)	Dr.	500	500
Jan.08	Raju To Sales A/c (Goods sold To Raju)	Dr.	14,000	14,000
Jan.11	Stationery A/c To Cash A/c (Stationery purchased)	Dr.	1,500	1,500
Jan.13	Raj Stores To Bank A/c To Discount Received A/c (Paid To Raj Stores through cheque and received discount)	Dr.	17,100	16,500 600
Jan.14	Sales Return A/c To Raju (Goods returned by Raju)	Dr.	4,500	4,500
Jan.16	Brokerage A/c Electricity Expenses A/c To Cash A/c (Brokerage and electricity bill paid)	Dr. Dr.	2,300 1,800	4,100
Jan.19	Purchases A/c To Mayank (Goods purchased on credit from Mayank)	Dr.	14,000	14,000
Jan.23	Cash A/c To Commission Received A/c (Commission received from Kunwar Bros)	Dr.	2,400	2,400
Jan.26	Mayank To Purchase Return A/c (Goods of defective quality were returned back To Mayank)	Dr.	3,500	3,500

Jan.29	Mayank To Bills Payable A/c (Mayank accepted bill against his balance)	Dr.		10,500	10,500
Jan.31	Cash A/c Travelling Expenses A/c To Sales A/c (Sales made by travelling salesman and deducted travelling expenses from this)	Dr. Dr.		5,000 500	5,500

### Cash Account

Dr.				Cr.			
Date	Particulars	L.F.	Amount	Date	Particulars	L.F.	Amount
2013				2013			
Jan.01	Balance b/d		40,000	Jan.02	Advance for Rent A/c		12,000
Jan.23	Commission Received A/c		2,400	Jan.11	Stationery A/c		1,500
Jan.31	Sales A/c		5,000	Jan.16	Brokerage A/c		2,300
					Electricity Expenses A/c		1,800
				Jan.31	Balance c/d		29,800
			<b>47,400</b>				<b>47,400</b>

### Bank Account

Dr.				Cr.			
Date	Particulars	L.F.	Amount	Date	Particulars	L.F.	Amount
2013				2013			
Jan.01	Balance b/d		50,000	Jan.13	Raj Stores		16,500
				Jan.31	Balance c/d		33,500
			<b>50,000</b>				<b>50,000</b>

### Stock Account

Dr.				Cr.			
Date	Particulars	L.F.	Amount	Date	Particulars	L.F.	Amount
2013				2013			
Jan.01	Balance b/d		30,000	Jan.31	Balance c/d		30,000
			<b>30,000</b>				<b>30,000</b>

### Capital Account

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

Date	Particulars	L.F.	Amount	Date	Particulars	L.F.	Amount
2013				2013			
Jan.31	Balance c/d		1,20,000	Jan.01	Balance b/d		1,20,000
			<b>1,20,000</b>				<b>1,20,000</b>

**Advance for Rent Account****Dr.****Cr.**

Date	Particulars	L.F.	Amount	Date	Particulars	L.F.	Amount
2013				2013			
Jan.02	Cash A/c		12,000	Jan.31	Balance c/d		12,000
			<b>12,000</b>				<b>12,000</b>

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

Date	Particulars	L.F.	Amount	Date	Particulars	L.F.	Amount
2013				2013			
Jan.02	Furniture House		10,000	Jan.31	Balance c/d		10,000
			<b>10,000</b>				<b>10,000</b>

**Furniture House****Dr.****Cr.**

Date	Particulars	L.F.	Amount	Date	Particulars	L.F.	Amount
2013				2013			
Jan.31	Balance c/d		10,000	Jan.02	Furniture A/c		10,000
			<b>10,000</b>				<b>10,000</b>

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

Date	Particulars	L.F.	Amount	Date	Particulars	L.F.	Amount
2013				2013			
Jan.05	Raj Stores		17,100	Jan.06	Charity A/c		500
Jan 19	Mayank		14,000	Jan.31	Balance c/d		30,600

			<b>31,100</b>			<b>31,100</b>

### Raj Stores

Dr.				Cr.			
Date	Particulars	L.F.	Amount	Date	Particulars	L.F.	Amount
2013 Jan.13	Bank A/c		16,500	2013 Jan.05	Purchases A/c		17,100
	Discount Received A/c		600				
			<b>17,100</b>				<b>17,100</b>

### Charity Account

Dr.				Cr.			
Date	Particulars	L.F.	Amount	Date	Particulars	L.F.	Amount
2013 Jan.06	Purchases A/c		500	2013 Jan.31	Balance c/d		500
			<b>500</b>				<b>500</b>

### Raju

Dr.				Cr.			
Date	Particulars	L.F.	Amount	Date	Particulars	L.F.	Amount
2013 Jan.08	Sales A/c		14,000	2013 Jan.14	Sales Return A/c		4,500
				Jan.31	Balance c/d		10,500
			<b>14,000</b>				<b>14,000</b>

### Sales Account

Dr.				Cr.			
Date	Particulars	L.F.	Amount	Date	Particulars	L.F.	Amount
2013				2013 Jan.08	Raju		14,000
				Jan.31	Cash A/c		5,000
Jan.31	Balance c/d		19,500		Travelling Expenses A/c		500
			<b>19,500</b>				<b>19,500</b>

### Stationery Account

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

Date	Particulars	L.F.	Amount	Date	Particulars	L.F.	Amount
2013 Jan.11	Cash A/c		1,500	2013 Jan.31	Balance c/d		1,500
			<b>1,500</b>				<b>1,500</b>

**Discount Received Account****Dr.****Cr.**

Date	Particulars	L.F.	Amount	Date	Particulars	L.F.	Amount
2013 Jan.31	Balance c/d		600	2013 Jan.13	Raj Stores		600
			<b>600</b>				<b>600</b>

**Sales Return Account****Dr.****Cr.**

Date	Particulars	L.F.	Amount	Date	Particulars	L.F.	Amount
2013 Jan.14	Raju		4,500	2013 Jan.31	Balance c/d		4,500
			<b>4,500</b>				<b>4,500</b>

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

Date	Particulars	L.F.	Amount	Date	Particulars	L.F.	Amount
2013 Jan.16	Cash A/c		2,300	2013 Jan.31	Balance c/d		2,300
			<b>2,300</b>				<b>2,300</b>

**Electricity Expenses Account****Dr.****Cr.**

Date	Particulars	L.F.	Amount	Date	Particulars	L.F.	Amount
2013 Jan.16	Cash A/c		1,800	2013 Jan.31	Balance c/d		1,800

			1,800				1,800

### Mayank

Dr.				Cr.			
Date	Particulars	L.F.	Amount	Date	Particulars	L.F.	Amount
2013 Jan.26	Purchase Return A/c		3,500	2013 Jan.19	Purchases A/c		14,000
Jan.29	Bills Payable A/c		10,500				
			14,000				14,000

### Commission Received Account

Dr.				Cr.			
Date	Particulars	L.F.	Amount	Date	Particulars	L.F.	Amount
2013 Jan.31	Balance c/d		2,400	2013 Jan.23	Cash A/c		2,400
			2,400				2,400

### Purchase Return Account

Dr.				Cr.			
Date	Particulars	L.F.	Amount	Date	Particulars	L.F.	Amount
2013 Jan.31	Balance c/d		3,500	2013 Jan.26	Mayank		3,500
			3,500				3,500

### Bills Payable Account

Dr.				Cr.			
Date	Particulars	L.F.	Amount	Date	Particulars	L.F.	Amount
2013 Jan.31	Balance c/d		11,400	2013 Jan.29	Mayank		11,400
			11,400				11,400

### Travelling Expenses Account

Dr.				Cr.			
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Date	Particulars	L.F.	Amount	Date	Particulars	L.F.	Amount
2013 Jan.31	Sales A/c		500	2013 Jan.31	Balance c/d		500
			<b>500</b>				<b>500</b>

Example 6 (**Journal, Ledger and Trial Balance including GST**) Record necessary journal entries assuming CGST and SGST @ 6% each and IGST @12% for the transactions:

Date 2018	Particulars	Amount (₹)
March 1	Shri commenced business with cash in Haryana	50,000
March 2	She opened a Bank Account at Bank of Baroda	20,000
March 5	She purchased goods in cash from Punjab	10,000
March 8	She sold goods costing Rs.8,000 to Mudit of Delhi	20,000
March 12	She took a loan from Bank of Baroda	1,00,000
March 15	She purchased an office furniture from Raghu of Haryana	5,000
March 18	She withdrew goods for personal use	1,000
March 25	She paid to Raghu by cheque in full settlement	5,100
March 30	She purchased stationery for cash	500
March 31	Paid Rent by cheque	5,000
March 31	Paid wages and salaries	11,200

Solution:

#### Journal of Shri

Date 2018	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
March 1	Cash A/c Dr. To Capital A/c (Being business started with cash)		50,000	50,000
March 2	Bank A/c Dr. To Cash A/c (Being a current account opened at Bank of Baroda.)		20,000	20,000
March 5	Purchases A/c Dr. Input IGST A/c Dr. To Cash A/c (Being goods purchased in cash @ 12% GST)		10,000 1,200	11,200
March 8	Mudit Dr.		22,400	

	To Sales A/c To Output IGST A/c (Being goods sold on credit)			20,000 2,400
March 12	Bank A/c Dr.	1,00,000		
	To Bank Loan A/c (Being loan raised from Bank of Baroda)			1,00,000
March 15	Furniture A/c Dr.	5,000		
	Input CGST A/c Dr.	300		
	Input SGST A/c Dr.	300		
	To Raghu (Being furniture purchased)			5,600
March 18	Drawings A/c Dr.	1,120		
	To Purchases A/c To IGST A/c (Being goods purchased withdrawn for personal use and GST reversed)			1,000 120
March 25	Raghu Dr.	5,600		
	To Bank A/c To Discount Received A/c (Being payment to Raghu in full settlement)			5,100 500
March 30	Stationery A/c Dr.	500		
	Input CGST A/c Dr.	30		
	Input SGST A/c Dr.	30		
	To Cash A/c (Being stationery purchased)			560
March 31	Rent A/c Dr.	5,000		
	Input CGST A/c Dr.	300		
	Input SGST A/c Dr.	300		
	To Bank A/c (Being rent paid)			5,600
March 31	Wages and Salaries A/c Dr.	11,200		
	To Cash A/c (Being wages and salaries paid)			11,200

<b>Dr.</b>	<b>Ledger Capital Account</b>	<b>Cr.</b>
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Dr. Bank Loan Account				Cr.			
Date 2018	Particulars	J.F.	Amount (₹)	Date 2018	Particulars	J.F.	Amount (₹)
Mar.31	Balance c/d		1,00,000	Mar.12	Bank A/c		1,00,000

Dr. Purchases Account				Cr.			
Date 2018	Particulars	J.F.	Amount (₹)	Date	Particulars	J.F.	Amount (₹)
Mar.5	Cash A/c		10,000	Mar.18	Drawings A/c		1,000
			10,000	Mar.31	Balance c/d		9,000
							10,000

Dr. Furniture Account				Cr.			
Date 2018	Particulars	J.F.	Amount (₹)	Date 2018	Particulars	J.F.	Amount (₹)
Mar.15	Raghu		5,000	Mar.31	Balance c/d		5,000

Dr. Stationery Account				Cr.			
Date 2018	Particulars	J.F.	Amount (₹)	Date 2018	Particulars	J.F.	Amount (₹)
Mar.30	Cash A/c		500	Mar.31	Balance c/d		500

Dr. Input IGST Account				Cr.			
Date 2018	Particulars	J.F.	Amount (₹)	Date 2018	Particulars	J.F.	Amount (₹)
Mar.5	Cash A/c		1,200	Mar.18	Drawings A/c		120
			1,200	Mar.31	Balance c/d		1,080
							1,200

Dr. Output IGST Account				Cr.			
Date 2018	Particulars	J.F.	Amount (₹)	Date	Particulars	J.F.	Amount (₹)
Mar.31	Balance c/d		2,400	Mar.8	Mudit		2,400

**Dr.****Input CGST Account****Cr.**

Date 2018	Particulars	J.F.	Amount (₹)	Date 2018	Particulars	J.F.	Amount (₹)
Mar.15	Raghu		300	Mar.31	Balance c/d		630
Mar.30	Cash A/c		30				
Mar.31	Rent A/c		300				
			630				630

**Dr.****Input SGST Account****Cr.**

Date 2018	Particulars	J.F.	Amount (₹)	Date	Particulars	J.F.	Amount (₹)
Mar.15	Raghu		300	Mar.31	Balance c/d		630
Mar.30	Cash A/c		30				
Mar.31	Rent A/c		300				
			630				630

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

Date 2018	Particulars	J.F.	Amount (₹)	Date	Particulars	J.F.	Amount (₹)
Mar.31	Balance c/d		20,000	Mar.8	Mudit		20,000

**Dr.****Mudit's Account****Cr.**

Date 2018	Particulars	J.F.	Amount (₹)	Date 2018	Particulars	J.F.	Amount (₹)
Mar.8	Sales A/c		20,000	Mar.31	Balance c/d		22,400
Mar.8	Output IGST A/c		2,400				
			22,400				22,400

**Dr.****Raghu's Account****Cr.**

Date 2018	Particulars	J.F.	Amount (₹)	Date 2018	Particulars	J.F.	Amount (₹)
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Mar.25	Bank A/c		5,100	Mar.15	Furniture A/c		5,000
Mar.25	Discount Received A/c		500	Mar.15	Input CGST A/c		300
				Mar.15	Input SGST A/c		300
			5,600				5,600

Dr. Wages and Salaries Account				Cr.			
Date 2018	Particulars	J.F.	Amount (₹)	Date 2018	Particulars	J.F.	Amount (₹)
Mar.31	Cash A/c		11,200	Mar.31	Balance c/d		11,200

Dr. Rent Account				Cr.			
Date 2018	Particulars	J.F.	Amount (₹)	Date 2018	Particulars	J.F.	Amount (₹)
Mar.31	Bank A/c		5,000	Mar.31	Balance/d		5,000

Dr. Discount Received Account				Cr.			
Date 2018	Particulars	J.F.	Amount (₹)	Date 2018	Particulars	J.F.	Amount (₹)
Mar.31	Balance c/d		500	Mar.25	Raghu's A/c		500

Trial Balance as on 31 <sup>st</sup> March' 2018				
S. No.	Accounts	L.F.	Debit Amount (₹)	Credit Amount (₹)
1.	Cash A/c		7,040	
2.	Capital A/c			50,000
3.	Drawings A/c		1,120	
4.	Bank A/c		1,09,300	
5.	Bank Loan A/c			1,00,000
6.	Purchases A/c		9,000	
7.	Sales A/c			20,000
8.	Furniture A/c		5,000	
9.	Stationery A/c		500	
10.	Mudit's A/c		22,400	

11.	Discount Received A/c			500
12.	Rent A/c		5,000	
13.	Wages and Salaries A/c		11,200	
14.	Input IGST A/c		1,080	
15.	Output IGST A/c			2,400
16.	Input CGST A/c		630	
17.	Input SGST A/c		630	
	<b>Total</b>		<b>1,72,900</b>	<b>1,72,900</b>