Recording of Transactions-I

3

Learning Objectives

After studying this chapter, you will be able to:

- *describe the nature of transaction and source documents;*
- *explain the preparation of accounting vouchers;*
- *apply accounting equation to explain the effect of transactions;*
- *record transactions using rules of debit and credit;*
- *explain the concept of book of original entry and recording of transactions in journal;*
- *explain the concept of ledger and posting of journal entries to the ledger accounts.*

In chapter 1 and 2, while explaining the development and importance of accounting as a source of disseminating the financial information along with the discussion on basic accounting concepts that guide the recording of business transactions, it has been indicated that accounting involves a process of identifying and analysing the business transactions, recording them, classifying and summarising their effects and finally communicating it to the interested users of accounting information.

In this chapter, we will discuss the details of each step involved in the accounting process. The first step involves identifying the transactions to be recorded and preparing the source documents which are in turn recorded in the basic book of original entry called journal and are then posted to individual accounts in the principal book called *ledger*.

3.1 Business Transactions and Source Document

After securing good percentage in your previous examination, as promised, your father wishes to buy you a computer. You go to the market along with your father to buy a computer. The dealer gives a *cash memo* along with the computer and in exchange your father makes cash payment of Rs. 35,000. Purchase of computer for cash is an example of a *transaction*, which involves reciprocal exchange of two things: (i) *payment of cash,* (ii) *delivery of a computer*. Hence, the transaction involves this aspect, i.e. *Give* and *Take*. Payment of cash involves *give* aspect and delivery of computer is a *take* aspect. Thus, business transactions are exchanges of economic consideration between parties and have two-fold effects that are recorded in at least two accounts.

Business transactions are usually evidenced by an appropriate documents such as Cash memo, Invoice, Sales bill, Pay-in-slip, Cheque, Salary slip, etc. A document which provides evidence of the transactions is called the *Source Document or a Voucher*. At times, there may be no documentary for certain items as in case of petty expenses. In such case voucher may be prepared showing the necessary details and got approved by appropriate authority within the firm. All such documents (vouchers) are arranged in chronological order and are serially numbered and kept in a separate file. All recording in books of account is done on the basis of vouchers.

Transaction Voucher
Name of Firm :

Voucher No :
Date :
Debit account :
Credit account:
Amount (Rs.) :
Narration :

Authorised By : **Prepared By :**

Fig. 3.1 *: Showing specimen transaction voucher*

3.1.1 Preparation of Accounting Vouchers

Accounting vouchers may be classified as cash vouchers, debit vouchers, credit vouchers, journal vouchers, etc. There is no set format of accounting vouchers. A specimen of a simple transaction voucher is used in practice is shown in figure 3.1.

These must be preserved in any case till the audit of the accounts and tax assessments for the relevant period are completed. Now a days, accounting is computerised and the necessary accounting vouchers showing the code number and name of the accounts to be debited and credited are prepared for the purpose of necessary recording of transactions. A transaction with one debit and one credit is a simple transaction and the accounting vouchers prepared for such transaction is known as *Transaction Voucher,* the format of which is shown in figure 3.1. Voucher which records a transaction that entails multiple debits/credits and one credit/debit is called compound voucher. Compound voucher may be: (a) *Debit Voucher or (b) Credit Voucher*; the specimen is shown in figure 3.2.

Debit Voucher
Name of Firm :

Voucher No : **Date :**
Credit Account :
Amount :

Debit Accounts

S. No.	*Code*	*Account Name*	*Amount Rs.*	*Narration (i.e. Explanation)*

Authorised By : **Prepared By :**

CreditVoucher
Name of Firm :

Voucher No : **Date :**
Debit Account :
Amount :

Credit Accounts

S. No.	*Code*	*Account Name*	*Amount Rs.*	*Narration (i.e. Explanation)*

Authorised By : **Prepared By :**

Fig. 3.2 : *Showing debit and credit vouchers*

Transactions with multiple *debits* and multiple *credits* are called complex transactions and the accounting voucher prepared for such transaction is known as *Complex Voucher/ Journal Voucher.* The format of a complex transaction voucher is shown in figure 3.3.

Journal Voucher

Name of Firm :

Voucher No : **Date :**

Debit Entries

S. No.	*Code*	*Account Name*	*Amount Rs.*	*Narration (i.e. Explanation)*

Credit Entries

S. No.	*Code*	*Account Name*	*Amount Rs.*	*Narration (i.e. Explanation)*

Authorised By : **Prepared By :**

Fig. 3.3 : *Showing specimen of complex transaction voucher*

The design of the accounting vouchers depends upon the nature, requirement and convenience of the business. There is no set format of an accounting voucher. To distinguish various vouchers, different colour papers and different fonts of printing are used. Some of the specimen of the accounting vouchers are given in the earlier pages. A accounting voucher must contain the following essential elements :

- It is written on a good quality paper;
- Name of the firm must be printed on the top;
- Date of transaction is filled up against the date and not the date of recording of transaction is to be mentioned;
- The number of the voucher is to be in a serial order;
- Name of the account to be debited or credited is mentioned;

- Debit and credit amount is to be written in figures against the amount;
- Description of the transaction is to be given account wise;
- The person who prepares the voucher must mention his name along with signature; and
- The name and signature of the authorised person are mentioned on the voucher.

3.2 Accounting Equation

Accounting equation signifies that the assets of a business are always equal to the total of its liabilities and capital (*owner's equity*). The equations reads as follows:

A = L + C

Where,

A = Assets

L = Liabilities

C = Capital

The above equation can also be presented in the following forms as its derivatives to enable the determination of missing figures of Capital(C) or Liabilities(L).

(i) A – L = C

(ii) A – C = L

Since, the accounting equation depicts the fundamental relationship among the components of the balance sheet, it is also called the Balance Sheet Equation. As the name suggests, the balance sheet is a statement of assets, liabilities and capital.

At any point of time resources of the business entity must be equal to the claims of those who have financed these resources. The proprietors and outsiders provide the resources of the business. The claim of the proprietors is called *capital* and that of the outsides is known as *liabilities.* Each element of the equation is the part of balance sheet, which states the financial position of the business on a particular date. When we analyse the transactions, we actually try to know that how balance sheet of a business entity gets affected.

Asset side of the balance sheet is the list of assets, which the business entity owns. The liabilities side of the balance sheet is the list of owner's claims and outsider's claims, i.e., what the business entity owes. The equality of the assets side and the liabilities side of the balance sheet is an undeniable fact and this justifies the name of accounting equation as balance sheet equation also.

For example, Rohit started business with a capital of Rs. 5,00,000. From the accounting point of view, the resources of this business entity is in the form of cash, i.e., Rs. 5,00,000. Sources of this business entity is the contribution by Rohit (Proprietor) Rs. 5,00,000 as Capital .

(For the purpose of understanding we will refer this example as example 1, throughout the chapter) .

If we put this information in the form of equality of resources and sources, the picture would emerge somewhat as follows:

Books of Rohit
Balance Sheet as at ....

Liabilities	*Amount Rs.*	*Assets*	*Amount Rs.*
Capital	5,00,000	Cash in hand	5,00,000
	5,00,000		5,00,000

In the above balance sheet, the total assets are equal to the liabilities of the business. Since, the business has not yet started its activities and has not earned any profits; the amount invested in business is still Rs. 5,00,000. In case any profits are earned, it will increase the invested amount in business. On the other hand, if business suffers any losses, it will decrease the invested amount in business.

We will now analyse the transactions listed in example 1 and its effect on different elements and you will observe that the accounting equation always remain balanced:

Example 1.

1. Opened a bank account in State Bank of India with an amount of Rs. 4,80,000.

   Analysis of transaction: This transaction increases the cash in hand (assets) and decreases cash (asset) by Rs. 4,80,000.

2. Bought furniture for Rs. 60,000 and cheque was issued on the same day.

   Analysis of transaction: This transaction increases furniture (assets) and decreases bank (assets) by Rs. 60,000.

3. Bought plant and machinery for the business for Rs. 1,25,000 and an advance of Rs. 10,000 in cash is paid to M/s Ramjee Lal.

   Analysis of transaction: This transaction increases plant and machinery (assets) by Rs. 1,25,000, decreases cash by Rs. 10,000 and increases liabilities (M/s Ramjee lal as creditor)by Rs. 1,15,000.

4. Goods purchased from M/s Sumit Traders for Rs. 55,000.

   Analysis of transaction: This transaction increases goods (assets) and increases liabilities (M/s Sumit Traders as creditors) by Rs. 55,000.

5. Goods costing Rs. 25,000 sold to Rajani Enterprises for Rs. 35,000.

   *Analysis of transaction: This transaction decreases stock of goods (assets) by Rs. 25,000 and increases assets (*Rajani Enterprises as debtors Rs. 35,000) and capital (with the profit of Rs. 10,000)

The final equation as per the above analysis table can be summarised in the form of a balance sheet as under:

Balance Sheet as at.....2005

Liabilities	*Amount Rs.*	*Assets*	*Amount Rs.*
Outsider's Claims (Creditors)	1,70,000	Cash	10,000
Capital	5,10,000	Bank	4,20,000
		Debtors	35,000
		Stock	30,000
		Furniture	60,000
		Plant & Machinery	1,25,000
	6,80,000		6,80,000

In terms of accounting equation

A = L + C

Rs. 6,80,000 = Rs. 1,70,000 + Rs. 5,10,000

3.3 Using Debit and Credit

As already stated every transaction involves give and take aspect. In double entry accounting, every transaction affects and is recorded in at least two accounts**.** When recording each transaction, the *total amount debited must equal to the total amount credited.* In accounting, the terms — *debit* and *credit* indicate whether the transactions are to be recorded on the left hand side or right hand side of the account. In its simplest form, an account looks like the letter **T**. Because of its shape, this simple form called a T-account (refer figure 3.4). Notice that the T format has a left side and a right side for recording increases and decreases in the item. This helps in ascertaining the ultimate position of each item at the end of an accounting period. For example, if it is an account of a customer all goods sold shall appear on the left (debit) side of customer's account and all payments received on the right side. The difference between the totals of the two sides called *balance* shall reflect the amount due to the customer. In a **T** account, the left side is called *debit* (often abbreviated as Dr.) and the right side is known as *credit* (often abbreviated as Cr.). To

The summary of effects of transactions on accounting equation is in the following analysis table:

(Figures in rupees)

Transaction No.	*Cash*	*Bank*	*Assets Debtors*	*Goods (Stock)*	*Furniture*	*Plant and Machinery*	*Total Assets*	*Liabilities*	*Capital*	*Total*
	5,00,000						5,00,000	....	5,00,000	5,00,000
1.	(4,80,000)	4,80,000					....		....	....
Post Trans. Equation	20,000	4,80,000					5,00,000		5,00,000	5,00,000
2.	....	(60,000)			60,000		....		....	....
Post Trans. Equation	20,000	4,20,000			60,000		5,00,000		5,00,,000	5,00,000
3.	(10,000)					1,25,000	1,15,000	1,15,000		1,15,000
Post Trans. Equation	10,000	4,20,000			60,000	1,25,000	6,15,000	1,15,000	5,00,000	6,15,000
4.				55,000			55,000	55,000		55,000
Post Trans. Equation	10,000	4,20,000		55,000	60,000	1,25,000	6,70,000	1,70,000	5,00,000	6,70,000
5.			35,000	(25,000)			10,000		10,000	10,000
Final Equation	10,000	4,20,000	35,000	30,000	60,000	1,25,000	6,80,000	1,70,000	5,10,000	6,80,000

enter amount on the left side of an account is to *debit* the account. To enter amount on the right side is to *credit* the account.

Account Title	
(Left Side)	(Right Side)

Fig. 3.4 : *Showing T-account*

3.3.1 Rules of Debit and Credit

All accounts are divided into five categories for the purposes of recording the transactions: (a) Asset (b) Liability (c) Capital (d) Expenses/Losses, and (e) Revenues/Gains.

Two fundamental rules are followed to record the changes in these accounts:

(1) For recording changes in Assets/Expenses (Losses):

(i) "Increase in asset is debited, and *decrease* in asset is credited."

(ii) "Increase in expenses/losses is debited, and *decrease* in expenses/losses is credited."

(2) For recording changes in Liabilities and Capital/Revenues (Gains):

(i) "*Increase* in liabilities is credited and *decrease* in liabilities is debited."

(ii) "*Increase* in capital is credited and *decrease* in capital is debited."

(iii) "*Increase* in revenue/gain is credited and *decrease* in revenue/gain is debited."

The rules applicable to the different kinds of accounts have been summarised in the following chart:

Rules of Debit and Credit

Asset	
(Increase) **+** **Debit**	**(Decrease)** **–** **Credit**

Liabilities	
(Decrease) **–** **Debit**	**(Increase)** **+** **Credit**

Capital	
(Decrease) **–** **Debit**	**(Increase)** **+** **Credit**

Expenses/Losses	
(Increase) **+** **Debit**	**(Decrease)** **–** **Credit**

Revenues/Gains	
(Decrease) **–** **Debit**	**(Increase)** **+** **Credit**

The transactions in Example 1 on page 47 will help you to learn how to apply these debit and credit rules. Observe the analysis table given on page 48 carefully to be sure that you understand before you go on to the next one. To illustrate different kinds of events, three more transactions have been added (transactions 7 to 9).

1. Rohit started business with cash Rs. 5,00,000

Analysis of Transaction : The transaction increases cash on one hand and increases capital on the other hand. Increases in assets are debited and increases in capital are credited. Therefore record the transaction with debit to Cash and credit to Rohit's Capital.

Cash Account

(1) 5,00,000	

Capital Account

	(1) 5,00,000
	(6) 10,000

2. Opened a bank account with an amount of Rs. 4,80,000

Analysis of Transaction: The transaction increases the cash at bank on one hand and decreases cash in hand on the other hand. Increases in assets are debited and a decreases in assets are credited. Therefore, record the transactions with debit to Bank account and credit to Cash account.

Cash Account

(1) 5,00,000	**(2) 4,80,000**

Bank Account

(2) 4,80,000	

3. Bought furniture for Rs. 60,000 and issued cheque for the same

Analysis of Transaction : This transaction increases furniture (assets) on one hand and decreases bank (assets) on the other hand by Rs. 60,000. Increases in assets are debited and decreases are credited. Therefore record the transactions with debit to Furniture account and credit to Bank account.

Furniture Account

(1) 60,000	

Bank Account

(2) 4,80,000	**(3) 60,000**

4. Bought Plant and Machinery from Ramjee lal for the business for-Rs. 1,25,000 and an advance of Rs. 10,000 in cash is given.

Analysis of Transaction : This transaction increases plant and machinery (assets) by Rs. 1,25,000, decreases cash by Rs. 10,000 and increases liabilities (M/s Ramjee Lal as creditor) by Rs. 1,15,000. Increases in assets are debited whereas decreases in assets are credited. On the other hand increases in liabilities are credited. Therefore, record the transaction with debit to furniture account and with credit to Cash and Ramjee Lal's account.

Cash Account

(1) 5,00,000	(2) 4,80,000
	(4) 10,000

Plant and Machinery Account

(4) 1,25,000	

Ramjee Lal's Account

	(4) 1,15,000

5. Goods purchased from Sumit Traders for Rs. 55,000

Analysis of transaction : This transaction increases purchases (expenses) and increases liabilities (M/s Sumit Traders as creditors) by Rs. 55,000. Increases in expenses are debited and increases in liabilities are credited. Therefore record the transaction with debit to Purchases account and credit to Sumit Traders account.

Purchases Account

(5) 55,000	

Sumit Traders Account

	(5) 55,000

6. Goods costing Rs. 25,000 sold to Rajani Enterprises for Rs. 35,000

Analysis of transaction : This transaction increases sales (Revenue) and increases assets (Rajani Enterprises as debtors). Increases in assets are debited and increases in revenue are credited. Therefore record the entry with credit to Sales account and debit to Rajani Enterprises account.

Sales Account

	(6) 35,000

Rajani Enterprises Account

	(6) 35,000

7. Paid the monthly store rent Rs. 2,500 in cash

Analysis of transaction : The payment of rent is an expense which decreases capital thus, are recorded as debits. Credit cash to record decrease in assets.

Rent Account

(7) 2,500	

Cash Account

(7) 5,00,000	(2) 4,80,000
	(4) 10,000
	(7) 2,500

8. Paid Rs. 5,000 as salary to the office employees

Analysis of transaction : The payment of salary is an expense which decreases capital thus, are recorded as debits. Credit Cash to record decrease in assets.

Salary Account

(8) 5,000	

Cash Account

(1) 5,00,000	(2) 4,80,000 (4) 10,000 (7) 2,500 **(8) 5,000**

9. Received cheque as full payment from Rajani Enterprises and deposited same day into bank

Analysis of transaction : This transaction increase assets(Bank) on the one hand and decreases assets(Rajani Enterprises as debtors) on the other hand. Increase in assets is debited whereas decrease in assets is credited. Therefore record the entry with debit to Bank account and credit to Rajani Enterprises account.

Rajani Enterprises Account

(6) 35,000	**(9) 35,000**

Bank's Account

(2) 4,80,000 **(9) 35,000**	(3) 60,000

Test Your Understanding - I

1. Double entry accounting requires that :
   (i) All transactions that create debits to asset accounts must create credits to liability or capital accounts;
   (ii) A transaction that requires a debit to a liability account require a credit to an asset account;
   (iii) Every transaction must be recorded with equal debits equal total credits.
2. State different kinds of transactions that increase and decrease capital.
3. Does debit always mean increase and credit always mean decrease?
4. Which of the following answers properly classifies these commonly used accounts:
   (1) Building (2) Wages (3) Credit sales (4) Credit purchases (5) Electricity charges due but not yet paid(outstanding electricity bills) (6) Godown rent paid in advance(prepaid godown rent) (7) Sales (8) Fresh capital introduced (9) Drawings (10) Discount paid

	Assets	Liabilities	Capital	Revenue	Expense
(i)	5,4,	3,	9,6	2,10	8,7
(ii)	1, 6	4, 5	8	7, 3	2,9,10
(iii)	2,10,4	4,6	8	7,5	1,3,9

Illustration 1

Analyse the effect of each transaction on assets and liabilities and show that the both sides of Accounting Equation (A = L + C) remains equal :

(i) Introduced Rs. 8,00,000 as cash and Rs. 50,000 by stock.

(ii) Purchased plant for Rs. 3,00,000 by paying Rs. 15,000 in cash and balance at a later date.
(iii) Deposited Rs. 6,00,000 into the bank.
(iv) Purchased office furniture for Rs. 1,00,000 and made payment by cheque.
(v) Purchased goods worth Rs. 80,000 for cash and for Rs. 35,000 in credit.
(vi) Goods amounting to Rs. 45,000 was sold for Rs. 60,000 on cash basis.
(vii) Goods costing to Rs. 80,000 was sold for Rs. 1,25,000 on credit.
(viii) Cheque issued to the supplier of goods worth Rs. 35,000.
(ix) Cheque received from customer amounting to Rs. 75,000.
(x) Withdrawn by owner for personal use Rs. 25,000.

Solution

Transaction (i) It affects Cash and Inventory on the assets side and Capital on the other hand. There is increase in cash by Rs. 8, 00,000 and Inventory of goods by Rs. 50,000 on assets side of the equation. Capital is increased by Rs. 8, 50,000.

Rs.

Assets			=	**Liabilities**	+	**Capital**
Cash	+	Inventory(Stock)				
8,00,000	+	50,000	=			8,50,000
Total		**8,50,000**	**=**	**8,50,000**		

Transaction (ii) It affects Cash and Plant and Machinery on the assets side and liabilities on the other side of the equation. There is an increase in plant and machinery by Rs. 3, 00,000 and decrease in cash by Rs. 15,000. Liability to pay to the supplier of plant and machinery increases by Rs. 2,85,000.

Rs.

Assets					=	**Liabilities**	+	**Capital**
Cash	+	Inventory	+	Plant and Machinery				
8,00,000	+	50,000			=			8,50,000
(15,000)				**3,00,000**	**=**	**2,85,000**		
7,85,000	**+**	**50,000**	**+**	**3,00,000**	**=**	**2,85,000**	**+**	**8,50,000**
Total		**11,35,000**			**=**	**11,35,000**		

Transaction (iii) It affects assets side only. The composition of the asset side changes. Cash decreases by Rs. 6,00,000 and by the same amount bank increases.

Rs.

Assets							=	**Liabilities**	+	**Capital**
Cash	+	Inventory	+	Plant and Machinery	+	Bank	=			
7,85,000	+	5,0000	+	3,00,000			=	2,85,000	+	8,50,000
(6,00,000)					**+**	**6,00,000**				
1,85,000	**+**	**50,000**	**+**	**3,00,000**	**+**	**6,00,000**	**=**	**2,85,000**	**+**	**8,50,000**
Total		**11,35,000**					**=**	**11,35,000**		

Transaction (iv) It affects assets side only. The composition of the asset side changes. Furniture increases by Rs. 1,00,000 and by the same amount bank decreases.

Rs.

Assets						= Liabilities	+ Capital
Cash	+ Inventory	+ Plant and Machinery	+ Bank	+ Furniture			
1,85,000	+ 50,000	+ 3,00,000	+ 6,00,000			= 2,85,000	+ 8,50,000
			(1,00,000)	**+ 1,00,000**			
1,85,000	**+ 50,000**	**+3,00,000**	**+5,00,000**	**+ 1,00,000**		**= 2,85,000**	**+ 8,50,000**
Total	**11,35,000**					**= 11,35,000**	

Transaction (v) It affects Cash and Inventory on the assets side and liability on the other side. There is decrease in cash by Rs. 80,000 and increase of inventory of goods by Rs. 1,15,000 on the assts side of the equation. Liabilities increases by Rs. 35,000.

Rs.

Assets						= Liabilities	+ Capital
Cash	+ Inventory	+Plant and Machinery	+ Bank	+ Furniture			
1,85,000	+ 50,000	+ 3,00,000	+ 5,00,000	+ 1,00,000		= 2,85,000	+ 8,50,000
(80,000)	**+ 1,15,000**					**= 35,000**	
1,05,000	**+ 1,65,000**	**+3,00,000**	**+5,00,000**	**+ 1,00,000**		**= 3,20,000**	**+ 8,50,000**
Total	**11,70,000**					**= 11,70,000**	

Transaction (vi) It affects Cash and Inventory on the assets side and capital on the other side. There is an increase in cash by Rs. 60,000 and decrease in inventory of goods by Rs. 45,000 on the assets side of the equation. Capital increases by Rs. 15,000.

Rs.

Assets						= Liabilitie	+ Capital
Cash	+ Inventory	+ Plant and Machinery	+ Bank	+ Furniture			
1,05,000	+ 1,65,000	+ 3,00,000	+ 5,00,000	+ 1,00,000		= 3,20,000	+ 8,50,000
60,000	**+ (45,000)**						**+ 15,000**
1,65,000	**+ 1,20,000**	**+3,00,000**	**+5,00,000**	**+ 1,00,000**		**= 3,20,000**	**+ 8,65,000**
Total	**11,85,000**					**= 11,85,000**	

Transaction (vii) It affects Debtors and Inventory on the assets side and capital on the other side. There is increase in debtors by Rs. 1, 25,000 and decrease in Inventory of goods by Rs. 80,000 on the assets side of the equation. Capital increases by Rs.45, 000.

Rs.

Assets						= Liabilities	+ Capital
Cash	+ Inventory	+Plant and Machinery	+ Bank	+ Furniture	+ Debtors		
1,65,000	+ 1,20,000	+ 3,00,000	+ 5,00,000	+ 1,00,000		= 3,20,000	+ 8,65,000
	(80,000)				**+ 1,25,000**	**=**	**+ 45,000**
1,65,000	**+ 40,000**	**+3,00,000**	**+5,00,000**	**+ 1,00,000**	**+ 1,25,000**	**= 3,20,000**	**+ 9,10,000**
Total	**12,30,000**					**= 12,30,000**	

Transaction (viii) It affects Bank on the assets side on one side and liability on the other side. There is decrease in bank by Rs. 35,000 on the assets side and liability also decreases by Rs. 35,000.

Rs.

Assets						**= Liabilities +**	**Capital**
Cash	+ Inventory	+Plant and Machinery	+ Bank	+Furniture	+ Debtors		
1,65,000 +	40,000	+ 3,00,000	+ 5,00,000	+ 1,00,000	+ 1,25,000	= 3,20,000	+ 9,10,000
			(35,000)			= **(35,000)**	
1,65,000 +	**40,000**	**+ 3,00,000**	**+4,65,000**	**+ 1,00,000**	**+ 1,25,000=**	**2,85,000**	**+ 9,10,000**
Total	**11,95,000**					**= 11,95,000**	

Transaction (ix) It affects assets side only. The composition of the assets side changes. Bank increases by R. 75,000 and by the same amount Debtors decreases.

Rs.

Assets						**= Liabilities +**	**Capital**
Cash	+ Inventory	+Plant and Machinary	+ Bank	+Furniture	+ Debtors		
1,65,000 +	40,000	+ 3,00,000	+ 4,65,000	+ 1,00,000	+ 1,25,000	= 2,85,000	+ 9,10,000
			+ 75,000		**(75,000)**		
1,65,000 +	40,000	+ 3,00,000	+ 5,40,000	+ 1,00,000	+ 50,000	= **2,85,000**	**+ 9,10,000**
Total	**11,95,000**					**= 11,95,000**	

Transaction (x) It affects Cash on the asset side and Capital on the other hand. There is decrease in Cash by Rs. 25,000 on the assets side whereas capital decreases by Rs. 25,000.

Rs.

Assets						**= Liabilities +**	**Capital**
Cash	+ Inventory	+Plant and Machinery	+ Bank	+Furniture	+ Debtors		
1,65,000 +	40,000	+ 3,00,000	+ 5,40,000	+ 1,00,000	+ 50,000	= 2,85,000	+ 9,10,000
(25,000)							**+ (25,000)**
1,40,000+	**40,000**	**+3,00,000**	**+5,40,000**	**+ 1,00,000**	**+ 50,000**	**= 2,85,000**	**+ 8,85,000**
Total	**11,95,000**					**= 11,95,000**	

3.4 Books of Original Entry

In the preceding pages, you learnt about debits and credits and observed how transactions affect accounts. This process of analysing transactions and recording their effects directly in the accounts is helpful as a learning exercise. However, real accounting systems do not record transactions directly in the accounts. The book in which the transaction is recorded for the first time is called journal or book of original entry. The source document, as discussed earlier, is required to record the transaction in the journal. This practice provides a complete record of each transaction in one place and links the debits and credits for each transaction. After the debits and credits for each transaction are entered in the journal, they are transferred to the individual accounts. The process of recording transactions in journal is called journalising. Once the *journalising* process is completed, the journal entry provides a complete and useful description of the event's effect on the organisation. The process of transferring journal entry to individual accounts is called *posting*. This sequence causes the journal to be called the B*ook of Original Entry* and the ledger account as the *Principal Book* of entry. In this context, it should be noted that on account of the number and commonality of most transactions, the journal is subdivided into a number of books of original entry as follows:

(a) Journal Proper

(b) Cash book

(c) Other day books:

  (i) Purchases (journal) book

  (ii) Sales (journal) book

  (iii) Purchase Returns (journal) book

  (iv) Sale Returns (journal) book

  (v) Bills Receivable (journal) book

  (vi) Bills Payable (journal) book

In this chapter you will learn about the process of journalising and their posting into ledger. The cash book and other day books are dealt in detail in chapter 4.

3.4.1 Journal

This is the basic book of original entry. In this book, transactions are recorded in the chronological order, as and when they take place. Afterwards, transactions from this book are posted to the respective accounts. Each transaction is separately recorded after determining the particular account to be debited or credited. The format of Journal is shown is figure 3.5

Journal

Date	*Particulars*	*L.F.*	*Debit Amount Rs.*	*Credit Amount Rs.*

Fig. 3.5 : *Showing the format of journal*

The first column in a journal is *Date* on which the transaction took place. In the *Particulars* column, the account title to be debited is written on the first line beginning from the left hand corner and the word 'Dr.' is written at the end of the column. The account title to be credited is written on the second line leaving sufficient margin on the left side with a prefix 'To'. Below the account titles, a brief description of the transaction is given which is called N*arration*. Having written the *Narration* a line is drawn in the Particulars column, which indicates the end of recording the specific journal entry. The column relating to *Ledger Folio* records the page number of the ledger book on which relevant account is appears. This column is filled up at the time of posting and *not* at the time of making journal entry.

The D*ebit amount* column records the amount against the account to be debited and similarly the *Credit Amount* column records the amount against the account to be credited. It may be noted that, the number of transactions is very large and these are recorded in number of pages in the journal book. Hence, at the end of each page of the journal book, the amount columns are totaled and carried forward (c/f) to the next page where such amounts are recorded as brought forward (b/f) balances.

The journal entry is the basic record of a business transaction. It may be simple or compound. When only two accounts are involved to record a transaction, it is called a simple journal entry.

For Example, Goods Purchased on credit for Rs.30,000 from M/s Govind Traders on December 24, 2005, involves only two accounts: (a) Purchases A/c (Goods), (b) Govind Traders A/c (Creditors). This transaction is recorded in the journal as follows :

Journal

Date	*Particulars*	*L.F.*	*Debit Amount Rs.*	*Credit Amount Rs.*
2005				
Dec.24	Purchases A/c Dr.		30,000	
	To Govind Traders A/c			30,000
	(Purchase of goods- in-trade from Govind Traders)			

It will be noticed that although the transaction results in an increase in stock of goods, the account debited is purchases, not goods. In fact, as explained in chater 7 the goods account is divided into five accounts, viz. purchases account, sales account, purchases returns account, sales returns account, and stock account. When the number of accounts to be debited or credited is more than one, entry made for recording the transaction is called *compound* journal entry. That means compound journal entry involves multiple accounts. For example, For Rs. 25,000 Office furniture is purchased from Modern Furniture's on July 4, 2005 and Rs. 5,000 is paid by cash immediately and balance of Rs. 20,000 is still payable. It increases furniture (assets) by Rs. 25,000, decreases cash (assets) by Rs. 5,000 and increases liability by Rs. 20,000. The entry made in the journal on July 4, 2005 is :

Journal

Date	Particulars	L.F.	Debit Amount Rs.	Credit Amount Rs.
2005				
July 4	Office Furniture A/c Dr.		25,000	
	To Cash A/c			5,000
	To Modern Furniture A/c			20,000
	(Purchase of office furniture from Modern Furnitures)			

Now refer to example 1*(on page 47* again and observe how the transactions listed are recorded in the journal:

Books of Rohit
Journal

Date	Particulars	L.F.	Debit Amount Rs.	Credit Amount Rs.
	Cash A/c Dr.		5,00,000	
	To Capital A/c			5,00,000
	(Business started with cash)			
	Bank A/c Dr.		4,80,000	
	To Cash A/c			4,80,000
	(Opened bank account with State Bank of India)			
	Furniture A/c Dr.		60,000	
	To Bank A/c			60,000
	(Purchased furniture and made payment through bank))			
	Plant and Machinery A/c Dr.		1,25,000	
	To Cash A/c			10,000
	To Ramjee Lal			1,15,000
	(Bought Plant and Machinery from M/s Ramjee Lal, made an advance payment by cash for Rs. 10,000 and balance at the later date)			
	Purchases A/c Dr.		55,000	
	To M/s Sumit Traders A/c			55,000
	(Goods bought on credit)			
	Rajani Enterprises A/c Dr.		35,000	
	To Sales A/c			35,000
	(Goods sold on profit)			
	Total		12,55,000	12,55,000

Illustration 2.

Soraj Mart furnishes the following information :

Transactions during the month of April, 2005 are as under :

Date	*Details*
1.4.2005	Business started with cash Rs. 1,50,000.
1.4.2005	Goods purchased form Manisha Rs. 36,000.
1.4.2005	Stationery purchased for cash Rs. 2,200.
2.4.2005	Open a bank account with SBI for Rs. 35,000.
2.4.2005	Goods sold to Priya for Rs. 16,000.
3.4.2005	Received a cheque of Rs. 16,000 from Priya.
5.4.2005	Sold goods to Nidhi Rs. 14,000.
08.4.2005	Nidhi pays Rs. 14,000 cash.
10.4.2005	Purchased goods for Rs. 20,000 on credit from Ritu.
14.4.2005	Insurance paid by cheque Rs. 6,000.
18.4.2005	Paid rent Rs. 2,000.
20.4.2005	Goods costing Rs. 1,500 given as charity.
24.4.2005	Purchased office furniture for Rs. 11,200.
29.4.2005	Cash withdrawn for household purposes Rs. 5000.
30.4.2005	Interest received cash Rs.1,200.
30.4.2005	Cash sales Rs.2,300.
30.4.2005	Commission paid Rs. 3,000 by cehque.
30.4.2005	Telephone bill paid by cheque Rs. 2,000.
30.4.2005	Payment of salaries in cash Rs. 12,000.

Journalise the transactions.

Solution

Books of Saroj Mart
Journal

Date	*Particulars*	*L.F.*	*Debit Amount Rs.*	*Credit Amount Rs.*
2005				
Apr.01	Cash A/c Dr.		1,50,000	
	To Capital A/c			1,50,000
	(Business started with cash)			
Apr.01	Purchases A/c Dr.		36,000	
	To Manisha A/c			36,000
	(Goods purchase on credit)			
Apr.01	Stationery A/c Dr.		2,200	
	To Cash A/c			2,200
	(Purchase of stationery for cash)			
	Total c/f		1,88,200	1,88,200

	Total b/f		1,88,200	1,88,200
Apr.02	Bank A/c Dr. To Cash A/c (Opened a bank account with SBI)		35,000	 35,000
Apr.02	Priya A/c Dr. To Sales A/c (Goods sold to Priya On Credit)		16,000	 16,000
Apr.03	Bank A/c Dr. To Priya A/c (Cheque Received from Priya)		16,000	 16,000
Apr.05	Nidhi A/c Dr. To Sales A/c (Sale of goods to Nidhi on credit)		14,000	 14,000
Apr.08	Cash A/c Dr. To Nidhi A/c (Cash received from Nidhi)		14,000	 14,000
Apr.10	Purchases A/c Dr. To Ritu A/c (Purchase of goods on credit)		20,000	 20,000
Apr.14	Insurance Premium A/c Dr. To Bank A/c (Payment of Insurance premium by cheque)		6,000	 6,000
Apr.18	Rent A/c Dr. To Cash A/c (Rent paid)		2,000	 2,000
Apr.20	Charity A/c Dr. To Purchases A/c (Goods given as charity)		1,500	 1,500
Apr.24	Furniture A/c Dr. To Cash A/c (Purchase of office furniture)		11,200	 11,200
Apr.29	Drawings A/c Dr. To Cash A/c (With drawl of cash from the business for personal use of the proprietor)		5,000	 5,000
Apr.30	Cash A/c Dr. To Interest received A/c (Interest received)		1,200	 1,200
Apr.30	Cash A/c Dr. To Sales A/c (Sale of goods for cash)		2,300	 2,300
	Total c/f		3,32,400	3,32,400

	Total c/f		3,32,400	3,32,400
Apr.30	Commission A/c Dr. To Bank A/c (Commission paid by cheque)		3,000	 3,000
Apr.30	Telephone expenses A/c Dr. To Cash A/c (Payment of telephone bill)		2,000	 2,000
Apr.30	Salaries A/c Dr. To Cash A/c (Payment of salary to the office persons)		12,000	 12,000
	Total		3,49,400	3,49,400

Illustration 3

Prove that the accounting equation is satisfied in all the following transactions of Sita Ram house by preparing the analysis table. Also record the transactions in Journal.

(i) Business commenced with a capital of Rs. 6,00,000.

(ii) Rs. 4,50,000 deposited in a bank account.

(iii) Rs. 2,30,000 Plant and Machinery Purchased by paying Rs. 30,000 cash immediately.

(iv) Purchased goods worth Rs. 40,000 for cash and Rs. 45,000 on account.

(v) Paid a cheque of Rs. 2, 00,000 to the supplier for Plant and Machinery.

(vi) Rs. 70,000 cash sales (of goods costing Rs. 50,000).

(vii) Withdrawn by the proprietor Rs. 35,000 cash for personal use.

(viii) Insurance paid by cheque of Rs. 2,500.

(ix) Salary of Rs. 5,500 outstanding.

(x) Furniture of Rs. 30,000 purchased in cash.

Solution

Journal

Date	*Particulars*	*L.F.*	*Debit Amount Rs.*	*Credit Amount Rs.*
(i)	Cash A/c Dr. To Capital A/c (Business started with cash)		6,00,000	 6,00,000
(ii)	Bank A/c Dr. To Cash A/c (Cash deposited into the bank)		4,50,000	 4,50,000
	Total c/f		10,50,000	10,50,000

	Total c/f		10,50,000	10,50,000
(iii)	Plant and Machinery A/c Dr. To Cash A/c To Creditors A/c (Purchase of plant and machinery by paying Rs. 30,000 cash and balance on a later date)		2.30,000	 30,000 2,00,000
(iv)	Purchases A/c Dr. To Cash A/c To Creditors A/c (Bought goods for cash as well as on credit)		85,000	 40,000 45,000
(v)	Creditor's A/c Dr. To Bank A/c (Payment made to the supplier of plant and machinery)		2,00,000	 2,00,000
(vi)	Cash A/c Dr. To Sales A/c (Sold goods on profit)		70,000	 70,000
(vii)	Drawings A/c Dr. To Cash A/c (Withdrew cash for personal use)		35,000	 35,000
(viii)	Insurance A/c Dr. To Bank A/c (Paid insurance by cheque)		2,500	 2,500
(ix)	Outstanding salary A/c Dr. To Salary A/c (Salary outstanding)		5,500	 5,500
(x)	Furniture A/c Dr. To Cash A/c (Furniture purchased for cash)		30,000	 30,000
	Total		17,08,000	17,08,000

Test Your Understanding - II

State the title of the accounts affected, type of account and the account to be debited and account to be credited :

		Rs
1.	Bhanu commenced business with cash	1,00,000
2.	Purchased goods on credit from Ramesh	40,000
3.	Sold goods for cash	30,000
4.	Paid salaries	3,000
5.	Furniture purchased for cash	10,000

Statement showing the effect of various transaction on accounting equation

(Figures in rupees)

No.	*Cash*	*Bank*	*Stock*	*Fur-niture*	*Plant and Machinery*	*Total*	=	*Non-trade Creditors*	*Trade Creditors*	*Capital*	*Total*
1	6,00,000					6,00,000	=			6,00,000	6,00,000
2	6,00,000	-	-	-	-	6,00,000	=	-	-	6,00,000	6,00,000
	(4,50,000)	4,50,000									
3	1,50,000	4,50,000	--	--	-	6,00,000	=	-	-	6,00,000	6,00,000
	(30,000)	-	-	-	2,30,000	2,00,000		2,00,000	-	-	2,00,000
4	1,20,000	4,50,000	-	-	2,30,000	8,00,000	=	2,00,000	-	600,000	8,00,000
	(40,000)	-	85,000	-	-	45,000		-	45,000	-	45,000
5	80,000	4,50,000	85,000	-	2,30,000	8,45,000	=	2,00,000	45,000	600,000	8,45,000
	-	(2,00,000)	-	-	-	(2,00,000)		(2,00,000)	-	-	(2,00,000)
6	80,000	2,50,000	85,000	-	2,30,000	6,45,000	=	-	45,000	6,00,000	20,000
	70,000	-	(50,000)	-	-	20,000		-	-	20,000	20,000
7	1,50,000	2,50,000	35,000	-	2,30,000	6,65,000	=	-	45,000	6,20,000	6,65,000
	(35,000)	-	-			(35,000)				(35,000)	(35,000)
8	1,15,000	2,50,000	35,000	-	2,30,000	6,30,000	=	-	45,000	5,85,000	6,30,000
		(2,500)				(2,500)				(2,500)	(2,500)
9	1,15,000	2,47,500	35,000	-	2,30,000	6,27,500	=	-	45,000	5,82,500	6,27,500
								5,500	-	(5,500)	
10	1,15,000	2,47,500	35,000	-	2,30,000	6,27,500	=	5,500	45,000	5,77,000	6,27,500
	(30,000)	-	-	30,000	-	-		-	-	-	
	85,000	2,47,500	35,000	30,000	2,30,000	6,27,500	=	5,500	45,000	5,77,000	6,27,500

6.	Borrowed from bank	50,000
7.	Sold goods to Sarita	10,000
8.	Cash paid to Ramesh on account	20,000
9.	Rent paid	1,500

Transaction No.	*Name of Accounts Affected*		*Type of Accounts (Assets, Liabilities Capital, Revenues and Expenses)*		*Affected Accounts Increase/Decrease*	
	1	2	1	2	1	2
1.						
2.						
3.						
4.						
5.						
6.						
7.						
8.						
9.						

3.5 The Ledger

The ledger is the principal book of accounting system. It contains different accounts where transactions relating to that account are recorded. A ledger is the collection of all the accounts, debited or credited, in the journal proper and various special journal (about which you will learn in chapter 4). A ledger may be in the form of bound register, or cards, or separate sheets may be maintained in a loose leaf binder. In the ledger, each account is opened preferably on separate page or card.

Utility

A ledger is very useful and is of utmost importance in the organisation. The net result of all transactions in respect of a particular account on a given date can be ascertained only from the ledger. For example, the management on a particular date wants to know the amount due from a certain customer or the amount the firm has to pay to a particular supplier, such information can be found only in the ledger. Such information is very difficult to ascertain from the journal because the transactions are recorded in the chronological order and defies classification. For easy posting and location, accounts are opened in the ledger in some definite order. For example, they may be opened in the same order as they appear in the profit and loss account and in balance sheet. In the beginning, an index is also provided. For easy identification, in big organisations, each account is also allotted a code number.
Format of the account is shown in figure 3.6.

Name of the Account

Dr. **Cr.**

Date	*Particulars*	*J.F.*	*Amount Rs.*	*Date*	*Particulars*	*J.F.*	*Amount Rs.*

Fig. 3.6 : *Showing format of a ledger*

According to this format the columns will contain the information as given below:

An account is debited or credited according to the rules of debit and credit already explained in respect of each category of account.

Title of the account : The Name of the item is written at the top of the format as the title of the account. The title of the account ends with suffix 'Account'.

Dr./Cr. : Dr. means Debit side of the account that is left side and Cr. means Credit side of the account, i.e. right side.

Date : Year, Month and Date of transactions are posted in chronological order in this column.

Particulars : Name of the item with reference to the original book of entry is written on debit/credit side of the account.

Journal Folio : It records the page number of the original book of entry on which relevant transaction is recorded. This column is filled up at the time of posting.

Amount : This column records the amount in numerical figure, corresponding to what has been entered in the amount column of the original book of entry.

Test Your Understanding - III

Choose the Correct Answer :

1. The ledger folio column of journal is used to:
   (a) Record the date on which amount posted to a ledger account.
   (b) Record the number of ledger account to which information is posted.
   (c) Record the number of amounts posted to the ledger account.
   (d) Record the page number of the ledger account.
2. The journal entry to record the sale of services on credit should include:
   (a) Debit to debtors and credit to capital.
   (b) Debit to cash and Credit to debtors.
   (c) Debit to fees income and Credit to debtors.
   (d) Debit to debtors and Credit to fees income.
3. The journal entry to record purchase of equipment for Rs. 2,00,000 cash and a balance of Rs. 8,00,000 due in 30 days include:
   (a) Debit equipment for Rs. 2,00,000 and Credit cash 2,00,000.

(b) Debit equipment for Rs. 10,00,000 and Credit cash Rs. 2,00,000 and creditors Rs. 8,00,000.
(c) Debit equipment Rs. 2,00,000 and Credit debtors Rs. 8,00,000.
(d) Debit equipment Rs. 10,00,000 and Credit cash Rs. 10,00,000.

4. When a entry is made in journal:
   (a) Assets are listed first.
   (b) Accounts to be debited listed first.
   (c) Accounts to be credited listed first.
   (d) Accounts may be listed in any order.
5. If a transaction is properly analysed and recorded:
   (a) Only two accounts will be used to record the transaction.
   (b) One account will be used to record transaction.
   (c) One account balance will increase and another will decrease.
   (d) Total amount debited will equals total amount credited.
6. The journal entry to record payment of monthly bill will include:
   (a) Debit monthly bill and Credit capital.
   (b) Debit capital and Credit cash.
   (c) Debit monthly bill and Credit cash.
   (d) Debit monthly bill and Credit creditors.
7. Journal entry to record salaries will include:
   (a) Debit salaries Credit cash.
   (b) Debit capital Credit cash.
   (c) Debit cash Credit salary.
   (d) Debit salary Credit creditors.

Distinction between Journal and Ledger

The Journal and the Ledger are the most important books of the double entry mechanism of accounting and are indispensable for an accounting system. Following points of comparison are worth noting :

1. The Journal is the book of *first* entry (original entry); the ledger is the book of *second* entry.
2. The Journal is the book for *chronological* record; the ledger is the book for *analytical* record.
3. The Journal, as a book of source entry, gets greater importance as *legal evidence* than the ledger.
4. *Transaction* is the basis of classification of data within the Journal; *Account* is the basis of classification of data within the ledger.
5. Process of recording in the Journal is called Journalising; the process of recording in the ledger is known as *Posting*.

3.5.1 Classification of Ledger Accounts

We have seen earlier that all ledger accounts are put into five categories namely, assets, liabilities, capital, revenues/gains and expense losses. All these accounts may further be put into two groups, i.e. permanent accounts and temporary accounts. All permanent accounts are balanced and carried forward to the next accounting period. The temporary accounts are closed at the end of the accounting period by transferring them to the trading and profit and loss account. All permanent accounts appears in the balance sheet. Thus, all assets, liabilities and capital accounts are permanent accounts and all revenue and expense accounts are temporary accounts. This classification is also relevant for preparing the financial statements.

3.6 Posting from Journal

Posting is the process of transferring the entries from the books of original entry (journal) to the ledger. In other words, posting means grouping of all the transactions in respect to a particular account at one place for meaningful conclusion and to further the accounting process. Posting from the journal is done periodically, may be, weekly or fortnightly or monthly as per the requirements and convenience of the business.

The complete process of posting from journal to ledger has been discussed below:

Step 1 : Locate in the ledger, the account to be debited as entered in the journal.

Step 2 : Enter the date of transaction in the date column on the debit side.

Step 3 : In the 'Particulars' column write the name of the account through which it has been debited in the journal. For example, furniture sold for cash Rs. 34,000. Now, in cash account on the debit side in the particulars column 'Furniture' will be entered signifying that cash is received from the sale of furniture. In Furniture account, in the ledger on the credit side is the particulars column, the word, cash will be recorded. The same procedure is followed in respect of all the entries recorded in the journal.

Step 4 : Enter the page number of the journal in the folio column and in the journal write the page number of the ledger on which a particular account appears.

Step 5 : Enter the relevant amount in the amount column on the debit side.

It may be noted that the same procedure is followed for making the entry on the credit side of that account to be credited. An account is opened only once in the ledger and all entries relating to a particular account is posted on the debit or credit side, as the case may be.

We will now see how the transactions listed in example on *page 47* are posted to different accounts from the journal.

Cash Account

Dr. **Cr.**

Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
	Capital		5,00,000		Bank Plant and Machinery		4,80,000 10,000

Capital Account

Dr. **Cr.**

Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
					Cash		5,00,000

Bank Account

Dr. **Cr.**

Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
	Cash		4,80,000		Furniture		60,000

Furniture Account

Dr. **Cr.**

Date	Particulars	J.F.	Amount R s.	Date	Particulars	J.F.	Amount Rs.
	Bank		60,000				

Plant and Machinery Account

Dr. **Cr.**

Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
	Cash Ramjee lal		10,000 1,15,000				

Ramjee Lal's Account

Dr. **Cr.**

Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
					Plant and Machinery		1,15,000

Purchases Account

Dr. **Cr.**

Date	*Particulars*	*J.F.*	*Amount Rs.*	*Date*	*Particulars*	*J.F.*	*Amount Rs.*
	Sumit Traders		55,000				

Sumit Traders Account

Dr. **Cr.**

Date	*Particulars*	*J.F.*	*Amount Rs.*	*Date*	*Particulars*	*J.F.*	*Amount Rs.*
					Purchases		55,000

Rajani Enterprises Account

Dr. **Cr.**

Date	*Particulars*	*J.F.*	*Amount Rs.*	*Date*	*Particulars*	*J.F.*	*Amount Rs.*
	Sales		35,000				

Sales Account

Dr. **Cr.**

Date	*Particulars*	*J.F.*	*Amount Rs.*	*Date*	*Particulars*	*J.F.*	*Amount Rs.*
					Rajani Enter prises		35,000

Test Your Understanding - IV

Fill in the blanks:

1. Issued a cheque for Rs.8,000 to pay rent. The account to be debited is …………
2. Collected Rs. 35,000 from debtors. The account to be credited is …………
3. Purchased office stationary for Rs. 18,000. The account to be credited is ………..
4. Purchased new machine for Rs. 1,70,000 and issued cheque for the same. The account to be debited is …………
5. Issued cheque for Rs. 70,000 to pay off on of the creditors. The account to be debited is …………
6. Returned damaged office stationary and received Rs. 50,000. The account to be credited is …………
7. Provided services for Rs. 65,000 on credit. The account to be debited is ………..

Illustration 4

Journalise the following transactions of M/s Mallika Fashion House and post the entries to the Ledger:

Date	*Details*	*Amount*
2005		*Rs.*
June 05	Business started with cash	2,00,000
June 08	Opened a bank account with Syndicate Bank	80,000
June 12	Goods purchased on credit from M/s Gulmohar Fashion House	30,000
June 12	Purchase office machines, paid by cheque	20,000
June 18	Rent paid by cheque	5,000
June 20	Sale of goods on credit to M/s Mohit Bros	10,000
June 22	Cash sales	15,000
June 25	Cash paid to M/s Gulmohar Fashion House	30,000
June 28	Received a cheque from M/s Mohit Bros	10,000
June 30	Salary paid in cash	6,000

Solution

(i) *Recording the transactions*

Books of Mallika Fashion House
Journal

Date	*Particulars*		*L.F.*	*Debit Amount Rs.*	*Credit Amount Rs.*
2005					
June 05	Cash A/c	Dr.		2,00,000	
	To Capital A/c				2,00,000
	(Business started with cash)				
June 08	Bank A/c	Dr.		80,000	
	To Cash A/c				80,000
	(Opened a current account with syndicate bank)				
June 12	Purchases A/c	Dr.		30,000	
	To Gulmohar Fashion House A/c				30,000
	(Goods purchased on credit)				
June 12	Office Machines A/c	Dr.		20,000	
	To Bank A/c				20,000
	(Office machine purchased)				
June 18	Rent A/c	Dr.		5,000	
	To Bank A/c				5,000
	(Rent paid)				
June 20	Mohit Bros A/c	Dr.		10,000	
	To Sales A/c				10,000
	(Goods sold on credit)				
	Total c/f			3,45,000	3,45,000

	Total b/f		3,45,000	3,45,000
June 22	Cash A/c Dr. To Sales A/c (Goods sold for cash)		15,000	 15,000
June 25	Gulmohar Fashion House A/c Dr. To Cash A/c (Cash paid to Gulmohar Fashion House)		30,000	 30,000
June 28	Bank A/c Dr. To Mohit Bros A/c (Payment received in full and final settlement)		10,000	 10,000
June 30	Salary A/c Dr. To Cash A/c (Monthly salary paid)		6,000	 6,000
	Total		4,06,000	4,06,000

(ii) Posting in the Ledger Book

Cash Account

Dr. **Cr.**

Date	*Particulars*	*J.F.*	*Amount Rs.*	*Date*	*Particulars*	*J.F.*	*Amount Rs.*
2005				*2005*			
June 5	Capital		2,00,000	June 8	Bank		80,000
June 22	Sales		15,000	June 25	Gulmohar Fashion House		30,000
				June 30	Salary		6,000

Capital Account

Dr. **Cr.**

Date	*Particulars*	*J.F.*	*Amount Rs.*	*Date*	*Particulars*	*J.F.*	*Amount Rs.*
				2005			
				June 5	Cash		2,00,000

Bank Account

Dr. **Cr.**

Date	*Particulars*	*J.F.*	*Amount Rs.*	*Date*	*Particulars*	*J.F.*	*Amount Rs.*
2005				*2005*			
June 08	Cash		80,000	June 12	Office Machines		30,000
June 28	Mohit Bros.		10,000	June 18	Rent		5,000

Purchases Account

Dr. **Cr.**

Date	*Particulars*	*J.F.*	*Amount Rs.*	*Date*	*Particulars*	*J.F.*	*Amount Rs.*
2005				*2005*			
June 12	Gulmohar Fashion House		30,000				

Gulmohar Fashion House Account

Dr. **Cr.**

Date	*Particulars*	*J.F.*	*Amount Rs.*	*Date*	*Particulars*	*J.F.*	*Amount Rs.*
2005				*2005*			
June 25	Cash		30,000	June 12	Purchases		30,000

Office Machines Account

Dr. **Cr.**

Date	*Particulars*	*J.F.*	*Amount Rs.*	*Date*	*Particulars*	*J.F.*	*Amount Rs.*
2005							
June 12	Bank		20,000				

Rent Account

Dr. **Cr.**

Date	*Particulars*	*J.F.*	*Amount Rs.*	*Date*	*Particulars*	*J.F.*	*Amount Rs.*
2005							
June 18	Bank		5,000				

Mohit Bros. Account

Dr. **Cr.**

Date	*Particulars*	*J.F.*	*Amount Rs.*	*Date*	*Particulars*	*J.F.*	*Amount Rs.*
2005				*2005*			
June 20	Sales		10,000	June 28	Cash		10,000

Sales Account

Dr. **Cr.**

Date	*Particulars*	*J.F.*	*Amount Rs.*	*Date*	*Particulars*	*J.F.*	*Amount Rs.*
2005				*2005*			
June 20				June 20	Mohit Bros.		10,000
				June 22	Cash		15,000

Salary Account

Dr. **Cr.**

Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
2005 June 30	Cash		6,000				

Illustrtion 5

Journalise the following transactions of M/s Time Zone and post them to the ledger accounts :

Date 2005	Details	Amount Rs.
Dec. 01	Business started with cash	1,20,000
Dec. 02	Opened a bank account with ICICI	4,00,00
Dec. 04	Goods purchased for cash	12,000
Dec. 10	Paid cartage	500
Dec. 12	Goods sold on credit to M/s Lara India	25,000
Dec. 14	Cash received from M/s Lara India	10,000
Dec. 16	Goods returned from Lara India	3,000
Dec. 18	Paid trade expenses	700
Dec. 19	Goods purchased on credit from Taranum	32,000
Dec. 20	Cheque received from M/s Lara India for final settlement and deposited sameday into bank	11,500
Dec. 22	Goods returned to Taranum	1,500
Dec. 24	Paid for stationery	1,200
Dec. 26	Cheque given to Taranum on account	20,000
Dec. 28	Paid rent by cheque	4,000
Dec. 29	Drew cash for personal use	10,000
Dec. 30	Cash sales	12,000
Dec. 31	Goods sold to M/s Rupak Traders	11,000

Solution

Books of Time Zone
Journal

Date	Particulars	L.F.	Debit Amount Rs.	Credit Amount Rs.
2005				
Dec. 01	Cash A/c Dr.		1,20,000	
	To Capital A/c			1,20,000
	(Business started with cash)			
02	Bank A/c Dr.		40,000	
	To Cash A/c			40,000
	(Opened a current account with ICICI bank)			
04	Purchases A/c Dr.		12,000	
	To Cash A/c			12,000
	(Goods purchased for cash)			
	Total c/f		1,72,000	1,72,000

	Total b/f		1,72,000	1,72,000
10	Cartage A/c Dr. To Cash A/c (Cartage paid)		500	 500
12	Lara India A/c Dr. To Sales A/c (Goods sold on credit)		25,000	 25,000
14	Cash A/c Dr. To Lara India A/c (Cash received from Lara India)		10,000	 10,000
16	Sales Return A/c Dr. To Lara India A/c (Goods returned from Lara India)		3,000	 3,000
18	Trade Expenses A/c Dr. To Cash A/c (Trade expenses paid)		700	 700
19	Purchases A/c Dr. To Tranum's A/c (Goods purchased on credit)		32,000	 32,000
20	Bank A/c Dr. Discount A/c Dr. To Lara India A/c (Cheque received for final settlement)		11,500 500	 12,000
22	Taranum's A/c Dr. To Purchase Return's A/c (Goods returned to Tranum)		1,500	 1,500
24	Stationery A/c Dr. To Cash A/c (Cash paid for stationery)		1,200	 1,200
26	Taranum's A/c Dr. To Bank A/c (Cheque given to Tranum)		20,000	 20,000
28	Rent A/c Dr. To Bank A/c (Rent paid by cheque)		4,000	 4,000
29	Drawings A/c Dr. To Cash A/c (Cash withdrawn for personal use)		10,000	 10,000
30	Cash A/c Dr. To Sales A/c (Goods sold for cash)		12,000	 12,000
31	Rupak Trader A/c Dr. To Sales A/c (Goods sold on credit)		11,000	 11,000
	Total		3,14,900	3,14, 900

Posting in the Ledger Book :

Cash Account

Dr. **Cr.**

Date	*Particulars*	*J.F.*	*Amount Rs.*	*Date*	*Particulars*	*J.F.*	*Amount Rs.*
2005				*2005*			
Dec. 01	Capital		1,20,000	Dec. 02	Bank		40,000
Dec. 14	Lara India		10,000	Dec. 04	Purchase		12,000
Dec. 30	Sales		12,000	Dec. 10	Cartage		500
				Dec. 18	Trade Expenses		700
				Dec. 24.	Stationery		1,200
				Dec. 29	Drawings		1,000

Capital Account

Dr. **Cr.**

Date	*Particulars*	*J.F.*	*Amount Rs.*	*Date*	*Particulars*	*J.F.*	*Amount Rs.*
				2005			
				Dec.01	Cash		1,20,000

Bank Account

Dr. **Cr.**

Date	*Particulars*	*J.F.*	*Amount Rs.*	*Date*	*Particulars*	*J.F.*	*Amount Rs.*
2005				*2005*			
Dec.02	Cash		40,000	Dec.26	Taranum's		20,000
Dec.20	Lara India		11,500	Dec.28	Rent		4,000

Purchases Account

Dr. **Cr.**

Date	*Particulars*	*J.F.*	*Amount Rs.*	*Date*	*Particulars*	*J.F.*	*Amount Rs.*
2005							
Dec.04	Cash		12,000				
Dec.19	Taranum		32,000				

Cartage Account

Dr. **Cr.**

Date	*Particulars*	*J.F.*	*Amount Rs.*	*Date*	*Particulars*	*J.F.*	*Amount Rs.*
2005							
Dec.10	Cash		500				

Lara India Account

Dr. **Cr.**

Date	*Particulars*	*J.F.*	*Amount Rs.*	*Date*	*Particulars*	*J.F.*	*Amount Rs.*
2005				*2005*			
Dec.12	Sales		25,000	Dec. 14	Cash		10,000
				Dec. 16	Sales return		3,000
				Dec. 20	Bank		11,500
					Discount		500

Sales Account

Dr. **Cr.**

Date	*Particulars*	*J.F.*	*Amount Rs.*	*Date*	*Particulars*	*J.F.*	*Amount Rs.*
				2005			
				Dec.12	Lara India		25,000
				Dec.30	Cash		12,000
				Dec.31	Rupak Traders		11,000

Sales Return Account

Dr. **Cr.**

Date	*Particulars*	*J.F.*	*Amount Rs.*	*Date*	*Particulars*	*J.F.*	*Amount Rs.*
2005							
Dec.16	Lara India		3,000				

Trade Expenses Account

Dr. **Cr.**

Date	*Particulars*	*J.F.*	*Amount Rs.*	*Date*	*Particulars*	*J.F.*	*Amount Rs.*
2005							
Dec.18	Cash		700				

Taranum Account

Dr. **Cr.**

Date	*Particulars*	*J.F.*	*Amount Rs.*	*Date*	*Particulars*	*J.F.*	*Amount Rs.*
2005				*2005*			
Dec.22	Purchase Return		1,500	Dec.19	Purchase		32,000
Dec.26	Bank		20,000				

Discount Received Account

Dr. **Cr.**

Date	*Particulars*	*J.F.*	*Amount Rs.*	*Date*	*Particulars*	*J.F.*	*Amount Rs.*
2005 Dec.20	Lara India		500				

Purchases Return Account

Dr. **Cr.**

Date	*Particulars*	*J.F.*	*Amount Rs.*	*Date*	*Particulars*	*J.F.*	*Amount Rs.*
				2005 Dec.22	Taranum		1,500

Stationery Account

Dr. **Cr.**

Date	*Particulars*	*J.F.*	*Amount Rs.*	*Date*	*Particulars*	*J.F.*	*Amount Rs.*
2005 Dec.	Cash		1,200				

Rent Account

Dr. **Cr.**

Date	*Particulars*	*J.F.*	*Amount Rs.*	*Date*	*Particulars*	*J.F.*	*Amount Rs.*
2005 Dec. 28	Bank		4,000				

Drawings Account

Dr. **Cr.**

Date	*Particulars*	*J.F.*	*Amount Rs.*	*Date*	*Particulars*	*J.F.*	*Amount Rs.*
2005 Dec. 29	Cash		10,000				

Rupak Traders Account

Dr. **Cr.**

Date	*Particulars*	*J.F.*	*Amount Rs.*	*Date*	*Particulars*	*J.F.*	*Amount Rs.*
2005 Dec. 31	Sales		11,000				

Test Your Understanding - V

Select Right Answer:

1. Voucher is prepared for:
   (i) Cash received and paid
   (ii) Cash/Credit sales
   (iii) Cash/Credit purchase
   (iv) All of the above
2. Voucher is prepared from:
   (i) Documentary evidence
   (ii) Journal entry
   (iii) Ledger account
   (iv) All of the above
3. How many sides does an account have?
   (i) Two
   (ii) Three
   (iii) one
   (iv) None of These
4. A purchase of machine for cash should be debited to:
   (i) Cash account
   (ii) Machine account
   (iii) Purchase account
   (iv) None of these
5. Which of the following is correct?
   (i) Liabilities = Assets + Capital
   (ii) Assets = Liabilities – Capital
   (iii) Capital = Assets – Liabilities
   (iv) Capital = Assets + Liabilities.
6. Cash withdrawn by the Proprietor should be credited to:
   (i) Drawings account
   (ii) Capital account
   (iii) Profit and loss account
   (iv) Cash account
7. Find the correct statement:
   (i) Credit a decrease in assets
   (ii) Credit the increase in expenses
   (iii) Debit the increase in revenue
   (iv) Credit the increase in capital
8. The book in which all accounts are maintained is known as:
   (i) Cash Book
   (ii) Journal
   (iii) Purchases Book
   (iv) Ledger
9. Recording of transaction in the Journal is called:
   (i) Casting
   (ii) Posting
   (iii) Journalising
   (iv) Recording

Key Terms Introduced in the Chapter

- Source Documents
- Accounting Equation
- Books of Original Entry
- Journalising and Posting
- Double Entry Book Keeping·
- Credit
- Debit
- Account
- Ledger
- Journal

Summary with Reference to Learning Objectives

1. *Meaning of source documents* : Various business documents such as invoice, bills, cash memos, vouchers, which form the basis and evidence of a business transaction recorded in the books of account, are called source documents.
2. *Meaning of accounting equation* : A statement of equality between debits and credits signifying that the assets of a business are always equal to the total liabilities and capital.
3. *Rules of debit and credit* : An account is divided into two sides. The left side of an account is known as debit and the credit. The rules of debit and credit depend on the nature of an account. Debit and Credit both represent either increase or decrease, depending on the nature of an account. These rules are summarised as follows :

Name of an account	*Debit*	*Credit*
Assets	Increase	Decrease
Liabilities	Decrease	Increase
Capital	Decrease	Increase
Revenues	Decrease	Increase
Expenses	increase	Decrease

4. *Books of Original entry* : The transactions are first recorded in these books in a chronological order. Journal is one of the books of original entry. The process of recording entries in the journal is called *journalising*.
5. *Ledger :* A book containing all accounts to which entries are transferred from the books of original entry. *Posting* is process of transferring entries from books of original entry to the ledger.

Questions for Practice

Short Answers

1. States the three fundamental steps in the accounting process.
2. Why is the evidence provided by source documents important to accounting?
3. Should a transaction be first recorded in a journal or ledger? Why?
4. Are debits or credits listed first in journal entries? Are debits or credits indented?
5. Why are some accounting systems called double accounting systems?
6. Give a specimen of an account.

7. Why are the rules of debit and credit same for both liability and capital?
8. What is the purpose of posting J.F numbers that are entered in the journal at the time entries are posted to the accounts.
9. What entry (debit or credit) would you make to: (a) increase revenue (b) decrease in expense, (c) record drawings (d) record the fresh capital introduced by the owner.
10. If a transaction has the effect of decreasing an asset, is the decrease recorded as a debit or as a credit? If the transaction has the effect of decreasing a liability, is the decrease recorded as a debit or as a credit?

Long Answers

1. Describe the events recorded in accounting systems and the importance of source documents in those systems?
2. Describe how debits and credits are used to analyse transactions.
3. Describe how accounts are used to record information about the effects of transactions?
4. What is a journal? Give a specimen of journal showing at least five entries.
5. Differentiate between source documents and vouchers.
6. Accounting equation remains intact under all circumstances. Justify the statement with the help of an example.
7. Explain the double entry mechanism with an illustrative example.

Numerical Questions

Analysis of Transactions

1. Prepare accounting equation on the basis of the following :
   (a) Harsha started business with cash
   Rs.2,00,000
   (b) Purchased goods from Naman for cash
   Rs. 40,000
   (c) Sold goods to Bhanu costing Rs.10,000/-
   Rs. 12,000
   (d) Bought furniture on credit
   Rs. 7,000
   (*Ans:* Asset = cash Rs. 1,60,000 + Goods Rs. 30,000 + Debtors Rs. 12,000 + Furniture Rs. 7,000 = Rs. 2,09,000; Liabilities = Creditors Rs. 7,000 + Capital Rs. 2,02,000 = Rs. 2,09,000)
2. Prepare accounting equation from the following:
   (a) Kunal started business with cash
   Rs.2,50000
   (b) He purchased furniture for cash
   Rs. 35,000

(c) He paid commission Rs. 2,000

(d) He purchases goods on credit Rs. 40,000

(e) He sold goods (Costing Rs.20,000) for cash Rs. 26,000

(*Ans:* Asset = Cash Rs. 2,39,000 + Furniture Rs. 35,000 + Goods Rs. 20,000 = Rs. 2,94,000; Liabilities = Creditors Rs. 40,000 + Capital Rs. 2,54,000= Rs. 2,94,000)

3. Mohit has the following transactions, prepare accounting equation:

(a) Business started with cash Rs. 1,75,000

(b) Purchased goods from Rohit Rs. 50,000

(c) Sales goods on credit to Manish (Costing Rs. 17,500) Rs. 20,000

(d) Purchased furniture for office use Rs. 10,000

(e) Cash paid to Rohit in full settlement Rs. 48,500

(f) Cash received from Manish Rs. 20,000

(g) Rent paid Rs. 1,000

(h) Cash withdrew for personal use Rs. 3,000

(*Ans:* Cash Rs. 1,33,000 + Goods Rs. 32,500 + Furniture Rs. 10,000 = Rs. 1,75,500; Liabilition = Capital Rs. 1,77,500)

4. Rohit has the following transactions :

(a) Commenced business with cash Rs.1,50,000

(b) Purchased machinery on credit Rs. 40,000

(c) Purchased goods for cash Rs. 20,000

(d) Purchased car for personal use Rs. 80,000

(e) Paid to creditors in full settlement Rs. 38,000

(f) Sold goods for cash costing Rs. 5,000 Rs. 4,500

(g) Paid rent Rs. 1,000

(h) Commission received in advance Rs. 2,000

Prepare the Accounting Equation to show the effect of the above transactions on the assets, liabilities and capital.

(*Ans:* Assets = Cash Rs. 17,500 + Machine Rs. 40,000 + Goods Rs. 15,000 = Rs. 72,500; Liabilities = Commission Rs. 2,000 + Capital Rs. 70,500 = Rs. 72,500)

5. Use accounting equation to show the effect of the following transactions of M/s Royal Traders:

(a) Started business with cash Rs.1,20,000

(b) Purchased goods for cash Rs. 10,000

(c) Rent received Rs. 5,000

(d) Salary outstanding Rs. 2,000

(e) Prepaid Insurance Rs. 1,000

(f) Received interest Rs. 700

(g) Sold goods for cash (Costing Rs. 5,000) Rs. 7,000

(h) Goods destroyed by fire Rs. 500

(*Ans:* Assets = Cash Rs. 1,22,700 + Goods Rs. 4,500 + Prepaid insurance Rs. 1,000; Liabilities = Outstanding salary Rs. 2,000 + Capital Rs. 1,26,200)

6. Show the accounting Equation on the basis of the following transaction:

(a) Udit started business with:

(i) Cash Rs. 5,00,000

(ii) Goods Rs. 1,00,000

(b) Purchased building for cash Rs. 2, 00,000

(c) Purchased goods from Himani Rs. 50,000

(d) Sold goods to Ashu (Cost Rs. 25,000) Rs. 36, 000

(e) Paid insurance premium Rs. 3,000

(f) Rent outstanding Rs. 5,000

(g) Depreciation on building Rs. 8,000

(h) Cash withdrawn for personal use Rs. 20,000

(i) Rent received in advance Rs. 5,000

(j) Cash paid to himani on account Rs. 20,000

(k) Cash received from Ashu Rs. 30,000

(*Ans* : Assets = Cash Rs. 2,92,000 + Goods Rs. 1,25,000 + Building Rs. 1,92,000 + Debitors Rs. 6,000 = 6,15,000: Laibilities = Creditors Rs. 30,000 + Outstanding Rent Rs. 5,000 + Rent Rs. 5,000 + Capital Rs. 5,75,000 = Rs. 6,15,000)

7. Show the effect of the following transactions on Assets, Liabilities and Capital through accounting equation:

(a) Started business with cash Rs. 1,20,000

(b) Rent received Rs. 10,000

(c) Invested in shares Rs. 50,000

(d) Received dividend Rs. 5,000

(e) Purchase goods on credit from Ragani Rs. 35,000

(f) Paid cash for house hold Expenses Rs. 7,000

(g) Sold goods for cash (costing Rs.10,000) Rs. 14,000

(h) Cash paid to Ragani Rs. 35,000

(i) Deposited into bank Rs. 20,000

(*Ans:* Assets = Cash Rs. 37,000 + Shares Rs. 50,000 + Goods Rs. 25,000 + Bank Rs. 20,000 = Rs. 1,32,000; Liabilities = Capital Rs. 1,32,000)

8. Show the effect of following transaction on the accounting equation:

(a) Manoj started business with

(i) Cash Rs. 2,30,000

	(ii) Goods	Rs. 1,00,000
	(iii) Building	Rs. 2,00,000
(b)	He purchased goods for cash	Rs. 50,000
(c)	He sold goods(costing Rs.20,000)	Rs. 35,000
(d)	He purchased goods from Rahul	Rs. 55,000
(e)	He sold goods to Varun (Costing Rs. 52,000)	Rs. 60,000
(f)	He paid cash to Rahul in full settlement	Rs. 53,000
(g)	Salary paid by him	Rs. 20,000
(h)	Received cash from Varun in full settlement	Rs. 59,000
(i)	Rent outstanding	Rs. 3,000
(j)	Prepaid Insurance	Rs. 2,000
(k)	Commission received by him	Rs. 13, 000
(l)	Amount withdrawn by him for personal use	Rs. 20,000
(m)	Depreciation charge on building	Rs. 10,000
(n)	Fresh capital invested	Rs. 50,000
(o)	Purchased goods from Rakhi	Rs. 6,000

(*Ans:* Assets = Cash Rs. 2,42,000 + Goods Rs. 1,43,000 +Building Rs.1,90,000 + Prepaid Insurouce Rs. 2,000 = Rs. 5,77,000; Liabilities = Outstanding Rent Rs. 3,000 + Creditor Rs. 10,000 + Capital Rs. 5,64,000 = Rs. 5,77,000)

9. Transactions of M/s Vipin Traders are given below.

   Show the effects on Assets, Liabilities and Capital with the help of accounting Equation.

(a)	Business started with cash	Rs. 1,25,000
(b)	Purchased goods for cash	Rs. 50,000
(c)	Purchase furniture from R.K. Furniture	Rs. 10,000
(d)	Sold goods to Parul Traders (Costing Rs. 7,000 vide bill no. 5674)	Rs.9,000
(e)	Paid cartage	Rs. 100
(f)	Cash Paid to R.K. furniture in full settlement	Rs. 9,700
(g)	Cash sales (costing Rs.10,000)	Rs. 12,000
(h)	Rent received	Rs. 4,000
(i)	Cash withdrew for personal use	Rs. 3,000

(*Ans:* Asset = cash Rs. 78,200 + Goods Rs. 33,000 + Furniture Rs. 10,000 Debtors Rs. 9,000= Rs. 1,30,200; Liabilities = Capital Rs. 1,30,200)

10. Bobby opened a consulting firm and completed these transactions during November, 2005:

(a) Invested Rs. 4,00,000 cash and office equipment with Rs. 1,50,000 in a business called Bobbie Consulting.

(b) Purchased land and a small office building. The land was worth Rs. 1,50,000 and the building worth Rs. 3, 50,000. The purchase price was price was paid with Rs. 2,00,000 cash and a long term note payable for Rs. 8,00,000.

(c) Purchased office supplies on credit for Rs. 12,000.

(d) Bobbie transferred title of motor car to the business. The motor car was worth Rs. 90,000.

(e) Purchased for Rs. 30,000 additional office equipment on credit.

(f) Paid Rs. 75,00 salary to the office manager.

(g) Provided services to a client and collected Rs. 30,000

(h) Paid Rs. 4,000 for the month's utilities.

(i) Paid supplier created in transaction *c.*

(j) Purchase new office equipment by paying Rs. 93,000 cash and trading in old equipment with a recorded cost of Rs. 7,000.

(k) Completed services of a client for Rs. 26,000. This amount is to be paid within 30 days.

(l) Received Rs. 19,000 payment from the client created in transaction ***k.***

(m) Bobby withdrew Rs. 20,000 from the business.

Analyse the above stated transactions and open the following **T**-accounts:

Cash, client, office supplies, motor car, building, land, long term payables, capital, withdrawals, salary, expense and utilities expense.

Journalising

11. Journalise the following transactions in the books of Himanshu:

2005		Rs.
Dec.01	Business started with cash	75,000
Dec.07	Purchased goods for cash	10,000
Dec.09	Sold goods to Swati	5,000
Dec.12	Purchased furniture	3,000
Dec.18	Cash received from Swati In full settlement	4,000
Dec.25	Paid rent	1,000
Dec.30	Paid salary	1,500

12. Enter the following Transactions in the Journal of Mudit :

2006		Rs.
Jan.01	Commenced business with cash	1,75,000
Jan.01	Building	1,00,000
Jan.02	Goods purchased for cash	75,000

Jan.03	Sold goods to Ramesh	30,000
Jan.04	Paid wages	500
Jan.06	Sold goods for cash	10,000
Jan.10	Paid for trade expenses	700
Jan.12	Cash received from Ramesh	29,500
	Discount allowed	500
Jan.14	Goods purchased for Sudhir	27,000
Jan.18	Cartage paid	1,000
Jan.20	Drew cash for personal use	5,000
Jan.22	Goods use for house hold	2,000
Jan.25	Cash paid to Sudhir	26,700
	Discount allowed	300

13. Journalise the following transactions:

2005		Rs.
Dec. 01	Hema started business with cash	1,00,000
Dec. 02	Open a bank account with SBI	30,000
Dec. 04	Purchased goods from Ashu	20,000
Dec.06	Sold goods to Rahul for cash	15,000
Dec.10	Bought goods from Tara for cash	40,000
Dec.13	Sold goods to Suman	20,000
Dec.16	Received cheque from Suman	19,500
	Discount allowed	500
Dec.20	Cheque given to Ashu on account	10,000
Dec.22	Rent paid by cheque	2,000
Dec.23	Deposited into bank	16,000
Dec.25	Machine purchased from Parigya	10,000
Dec.26	Trade expenses	2,000
Dec.28	Cheque issued to Parigya	10,000
Dec.29	Paid telephone expenses by cheque	1,200
Dec.31	Paid salary	4,500

14. Jouranlise the following transactions in the books of Harpreet Bros.:
   (a) Rs.1,000 due from Rohit are now a bad debts.
   (b) Goods worth Rs.2,000 were used by the proprietor.
   (c) Charge depreciation @ 10% p.a for two month on machine costing Rs.30,000.
   (d) Provide interest on capital of Rs. 1,50,000 at 6% p.a. for 9 months.

(e) Rahul become insolvent, who owed is Rs. 2,000 a final dividend of 60 paise in a rupee is received from his estate.

15. Prepare Journal from the transactions given below :

(a)	Cash paid for installation of machine	Rs. 500
(b)	Goods given as charity	Rs. 2,000
(c)	Interest charge on capital @7% p.a. when total capital were	Rs. 70,000
(d)	Received Rs.1,200 of a bad debts written-off last year.	
(e)	Goods destroyed by fire	Rs. 2,000
(f)	Rent outstanding	Rs. 1,000
(g)	Interest on drawings	Rs. 900
(h)	Sudhir Kumar who owed me Rs. 3,000 has failed to pay the amount. He pays me a compensation of 45 paise in a rupee.	
(i)	Commission received in advance	Rs. 7,000

Posting

16. Journalise the following transactions, post to the ledger:

2005		Rs.
Nov. 01	Business started with (i) Cash	1,50,000
	(ii) Goods	50,000
Nov. 03	Purchased goods from Harish	30,000
Nov. 05	Sold goods for cash	12,000
Nov. 08	Purchase furniture for cash	5,000
Nov. 10	Cash paid to Harish on account	15,000
Nov. 13	Paid sundry expenses	200
Nov. 15	Cash sales	15,000
Nov. 18	Deposited into bank	5,000
Nov. 20	Drew cash for personal use	1,000
Nov. 22	Cash paid to Harish in full settlement of account	14,700
Nov. 25	Good sold to Nitesh	7,000
Nov. 26	Cartage paid	200
Nov. 27	Rent paid	1,500
Nov. 29	Received cash from Nitesh	6,800
	Discount allowed	200
Nov. 30	Salary paid	3,000

17. Journalise the following transactions is the journal of M/s Goel Brothers and post them to the ledger.

2006		Rs.
Jan. 01	Started business with cash	1,65,000

Jan. 02	Open bank account in PNB	80,000
Jan. 04	Goods purchased from Tara	22,000
Jan. 05	Goods purchased for cash	30,000
Jan. 08	Goods sold to Naman	12,000
Jan. 10	Cash paid to tara	22,000
Jan. 15	Cash received from Naman	11,700
	Discount allowed	300
Jan. 16	Paid wages	200
Jan. 18	Furniture purchased for office use	5,000
Jan. 20	withdrawn from bank for personal use	4,000
Jan. 22	Issued cheque for rent	3,000
Jan. 23	goods issued for house hold purpose	2,000
Jan. 24	drawn cash from bank for office use	6,000
Jan. 26	Commission received	1,000
Jan. 27	Bank charges	200
Jan. 28	Cheque given for insurance premium	3,000
Jan. 29	Paid salary	7,000
Jan. 30	Cash sales	10,000

18 Give journal entries of M/s Mohit traders, Post them to the Ledger from the following transactions :

August 2005		Rs.
1.	Commenced business with cash	1,10,000
2.	Opened bank account with H.D.F.C.	50,000
3.	Purchased furniture	20,000
7.	Bought goods for cash from M/s Rupa Traders	30,000
8.	Purchased good from M/s Hema Traders	42,000
10.	Sold goods for cash	30,000
14.	Sold goods on credit to M/s. Gupta Traders	12,000
16.	Rent paid	4,000
18.	Paid trade expenses	1,000
20.	Received cash from Gupta Traders	12,000
22.	Goods return to Hema Traders.	2,000
23.	Cash paid to Hema Traders	40,000
25.	Bought postage stamps	100
30.	Paid salary to Rishabh	4,000

19. Journalise the following transaction in the Books of the M/s Bhanu Traders and Post them into the Ledger.

December, 2005		Rs.
1.	Started business with cash	92,000
2.	Deposited into bank	60,000

4.	Bought goods on credit from Himani	40,000
6.	Purchased goods from cash	20,000
8.	Returned goods to Himani	4,000
10.	Sold goods for cash	20,000
14.	Cheque given to Himani	36,000
17.	Goods sold to M/s Goyal Traders.	3,50,000
19.	Drew cash from bank for personal use	2,000
21.	Goyal traders returned goods	3,500
22.	Cash deposited into bank	20,000
26.	Cheque received from Goyal Traders	31,500
28.	Goods given as charity	2,000
29.	Rent paid	3,000
30.	Salary paid	7,000
31.	Office machine purchased for cash	3,000

20. Journalise the following transaction in the Book of M/s Beauti traders. Also post them in the ledger.

	Dec. 2005	Rs.
1.	Started business with cash	2,00,000
2.	Bought office furniture	30,000
3.	Paid into bank to open an current account	1,00,000
5.	Purchased a computer and paid by cheque	2,50,000
6.	Bought goods on credit from Ritika	60,000
8.	Cash sales	30,000
9.	Sold goods to Karishna on credit	25,000
12.	Cash paid to Mansi on account	30,000
14.	Goods returned to Ritika	2,000
15.	Stationery purchased for cash	3,000
16.	Paid wages	1,000
18.	Goods returned by Karishna	2,000
20.	Cheque given to Ritika	28,000
22.	Cash received from Karishna on account	15,000
24.	Insurance premium paid by cheque	4,000
26.	Cheque received from Karishna	8,000
28.	Rent paid by cheque	3,000
29.	Purchased goods on credit from Meena Traders	20,000
30.	Cash sales	14,000

21. Journalise the following transaction in the books of Sanjana and post them into the ledger :

January, 2006		Rs.
1.	Cash in hand	6,000
	Cash at bank	55,000
	Stock of goods	40,000
	Due to Rohan	6,000
	Due from Tarun	10,000
3.	Sold goods to Karuna	15,000
4.	Cash sales	10,000
6.	Goods sold to Heena	5,000
8.	Purchased goods from Rupali	30,000
10.	Goods returned from Karuna	2,000
14.	Cash received from Karuna	13,000
15.	Cheque given to Rohan	6,000
16.	Cash received from Heena	3,000
20.	Cheque received from Tarun	10.000
22.	Cheque received from to Heena	2,000
25.	Cash given to Rupali	18,000
26.	Paid cartage	1,000
27.	Paid salary	8,000
28.	Cash sale	7,000
29.	Cheque given to Rupali	12,000
30.	Sanjana took goods for Personal use	4,000
31.	Paid General expense	500

Checklist to Test Your Understanding

Test Your Understanding - I

1. (iii), 2 (Capital increases by net profit and fresh capital introduced, decreases by drawings and net loss), 3 (No), 4 (ii)

Test Your Understanding - II

1. Cash account and capital account, Assets and Liabilities, Assest increase and capital increase.
2. Purchase account and Remesh account, Expenses and Liabilities, Expenses and Liabilities increases.
3. Cash account and sales account, Assets and Revenues, Assets and Revenues increases.
4. Salaries account and cash account, Expense and Assets, Expenses increases Assets decreases.
5. Furniture account and Cash account, Asset increases Asset decreases.
6. Loan account and Bank, Liability and Asset, Liabilities increases Asset decreases.

7. Sarita account and Sales account, Asset and Revenue, Assets decreases Revenue decreases.
8. Ramesh account and Cash, liabilities and Assets, Liabilities decreases Assets increases.
9. Rent account and Cash account, Expense and Assets, Expenses increases Assets decreases.

Test Your Understanding - III

1(d), 2(d), 3(b), 4(b), 5(d), 6(c), 7(a)

Test your understanding - IV

1. Rent	2. Debtors	3. Cash
4. Machine	5. Creditors	6. Office stationary
7. Debtors		

Test Your Understanding - V

1 (iv), 2 (i), 3 (i), 4 (ii), 5 (iii), 6 (iv), 7 (iv), 8 (iv), 9 (iii).