

# NCERT Solutions for Class 11 Accountancy Financial Accounting Part-1 Chapter 3

## Recording of Transactions - I Class 11

Chapter 3 Recording of Transactions - I Exercise Solutions

Short answers : Solutions of Questions on Page Number : 79

Q1 :

State the three fundamental steps in the accounting process.

Answer :

The fundamental steps in the accounting process are diagrammatically presented below.



Answer needs Correction? [Click Here](#)

Q2 :

Why is the evidence provided by source documents important to accounting?

Answer :

The evidence provided by the source document is important in the following manners:

1. It provides evidence that a transaction has actually occurred.
2. It provides important and relevant information about date, amount, parties involved and other details of a particular transaction.
3. It acts as a proof in the court of law.
4. It helps in verifying transactions during the auditing process.

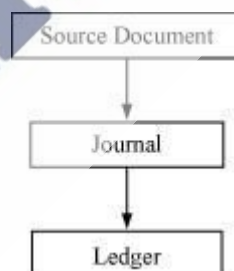
Answer needs Correction? [Click Here](#)

**Q3 :**

**Should a transaction be first recorded in a journal or ledger? Why?**

**Answer :**

A transaction should be recorded first in a journal because journal provides complete details of a transaction in one entry. Further, a journal forms the basis for posting the transactions into their respective accounts into ledger. Transactions are recorded in journal in chronological order, i.e. in the order of occurrence with the help of source documents. Journal is also known as 'book of original entry', because with the help of source document, transactions are originally recorded in books. The process of recording the transactions in journal and then in ledger is presented in the below given flow chart.



Answer needs Correction? [Click Here](#)

**Q4 :**

**Are debits or credits listed first in journal entries? Are debits or credits indented?**

**Answer :**




Answer needs Correction? [Click Here](#)

**Q7 :**

**Why are the rules of debit and credit same for both liability and capital?**

**Answer :**

Every business acquires funds from internal as well as from external sources. According to the business entity concept, the amount borrowed from the external sources together with the internal sources like, capital invested by the proprietor, is termed as liability to the business. Business entity concept treats business and business owner separately. Capital of the owner is treated as liability to the business because the business has to repay the amount of capital to the owner, in case of closure of the business. As liability incurred is credited, in the same way, fresh capital introduced and net profit increases the owner's capital, and so, capital is credited. On the other hand, if liability is paid, it reduces liability, and so, it is debited. Similarly, drawings from capital and net loss reduce the capital, and so, capital is debited. Thus the rules of debit and credit are same for both liability and capital.

Answer needs Correction? [Click Here](#)

**Q8 :**

**What is the purpose of posting J.F numbers that are entered in the journal at the time entries are posted to the accounts?**

**Answer :**

J.F. number is the number that is entered in the ledger at the time of posting entries into their respective accounts. It helps in determining whether all transactions are properly posted in their accounts. It is recorded at the time of posting and **not** at the time of recording the transactions.

The purpose of entering J.F. number in the ledger is because of the below given benefits.

1. J.F. number helps in locating the entries of accounts in the journal book. In other words, J.F. number helps to locate the position of the related journal entry and subsidiary book in the journal book.
2. J.F. number in accounts ensures that recording in the books of original entry has been posted or **not**.

Answer needs Correction? [Click Here](#)

**Q9 :**

**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.**

**Answer :**

1. Increase in revenue

Increase in revenue is credited as it increases the capital. Capital has credit balance and if capital increases, then it is credited.

2. Decrease in expense

Decrease in expense is credited as all expenses have debit balance. If expense decreases, then it is credited.

3. Record drawings

Capital has credit balance; if the capital increases, then it is credited. If capital decreases, then it is debited. Drawings are debited as they decrease the capital.

4. Record of fresh capital introduced by the owner- credit

Capital has credit balance, if capital increases, then it is credited. The introduction of fresh capital increases the balance of capital, and so, it is credited.

Answer needs Correction? [Click Here](#)

**Q10 :**

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?

**Answer :**

If a transaction has a decreasing effect on an asset, then this decrease is recorded as credit. This is because, as all assets have debit balance and if assets decrease, then it is credited. For example, sale of furniture results in decrease in furniture (asset); so, the sale of furniture will be credited.

If a transaction has a decreasing effect on a liability, then this decrease is recorded as debit. This is because all liabilities have credit balance. If the liability increases, then it is credited and if the liability decreases, then it is debited. For example, payment to the creditors results in a decrease in the creditors (liability); so, the creditors account will be debited.

Answer needs Correction? [Click Here](#)

**Numerical questions :** Solutions of Questions on Page Number : 80

**Q1 :**

**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

**Answer :**

S.No.	Explanation	Assets				=	Liabilities
		Cash	+	Stock	+ Debtors		+ Furniture
(a)	Increase in cash	2,00,000					=
	Increase in capital						

		2,00,000			=	NIL
(b)	Increase in stock		40,000			
	Decrease in cash	(40,000)				
		1,60,000	+	40,000		= NIL
(c)	Increase in debtors			12,000		
	Decrease in stock		(10,000)			
	Profit					
		1,60,000	+	30,000	+	12,000
						= NIL
(d)	Increase in furniture				7,000	
	Increase in creditors					7,000
		1,60,000	+	30,000	+	12,000
					+	7,000
						= 7,000

Answer needs Correction? [Click Here](#)

**Q2 :**

**Prepare accounting equation from the following:**

- Kunal started business with cash
- He purchased furniture for cash
- He paid commission
- He purchases goods on credit
- He sold goods (costing Rs 20,000) for cash

**Answer :**

S.No.	Explanation	Assets			=	Liabi
		Cash	Furniture	Stock		= Cred

(a)	Increase in cash	2,50,000					
	Increase in capital						
		2,50,000			= N		
(b)	Increase in furniture		35,000				
	Decrease in cash	(35,000)					
		2,15,000	+	35,000	= N		
(c)	Decrease in capital (Expense)						
	Decrease in cash	(2,000)					
		2,13,000	+	35,000	= N		
(d)	Increase in stock			40,000			
	Increase in creditors				40		
		2,13,000	+	35,000	+	40,000	= 40
(e)	Increase in cash	26,000					

[Answer needs Correction? Click Here](#)

**Q3 :**

**Mohit has the following transactions, prepare accounting equation:**

- (a) Business started with cash
- (b) Purchased goods from Rohit
- (c) Sales goods on credit to Manish (Costing Rs 17,500)
- (d) Purchased furniture for office use
- (e) Cash paid to Rohit in full settlement
- (f) Cash received from Manish
- (g) Rent paid
- (h) Cash withdrew for personal use



**Answer :**

S.No.	Explanation	Assets						
		Cash	+	Stock	+	Debtors	Furniture	=
(a)	Increase in cash	1,75,000						
	Increase in capital							
		1,75,000						
(b)	Increase in stock			50,000				
	Increase in creditors (Rohit)							
		1,75,000	+	50,000				
(c)	Increase in debtors (Manish)					20,000		
	Decrease in stock			(17,500)				
	Increase in capital (Profit)							
		1,75,000	+	32,500	+	20,000		
(d)	Increase in furniture						10,000	
	Decrease in cash	(10,000)						

[Answer needs Correction? Click Here](#)

**Q4 :**

**Rohit has the following transactions:**

- (a) Commenced business with cash
- (b) Purchased machinery on credit
- (c) Purchased goods for cash
- (d) Purchased car for personal use
- (e) Paid to creditors in full settlement
- (f) Sold goods for cash costing Rs 5,000

- (g) Paid rent
- (h) Commission received in advance

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

**Answer :**

S.No.	Explanation	Assets			=	Liabilities	
		Cash	+ Machinery	+ Stock		Creditors	+ U
(a)	Increase in cash	1,50,000					
	Increase in capital						
		1,50,000			=	NIL	
(b)	Increase in machinery		40,000				
	Increase in creditors				=	40,000	
		1,50,000	+ 40,000		=	40,000	
(c)	Increase in stock			20,000			
	Decrease in cash	(20,000)					
		1,30,000	+ 40,000	+ 20,000	=	40,000	
(d)	Decrease in cash	(80,000)					
	Decrease in capital (Drawings)						
		50,000	+ 40,000	+ 20,000	=	40,000	
(e)	Decrease in creditors					(40,000)	
	Decrease in cash	(38,000)					
	Increase in capital (Discount received)						

Answer needs Correction? [Click Here](#)

**Q5 :**

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

- (a) Started business with cash
- (b) Purchased goods for cash
- (c) Rent received
- (d) Salary outstanding
- (e) Prepaid Insurance
- (f) Received interest
- (g) Sold goods for cash (costing Rs 5,000)
- (h) Goods destroyed by fire

**Answer :**

S.No.	Explanation	Assets			=	Liabil Outstanding
		Cash	+	Stock + Prepaid Expenses		
(a)	Increase in cash	1,20,000				
	Increase in capital					
(b)	Increase in stock			10,000		
	Increase in cash	(10,000)				
(c)	Increase in cash	5,000				
	Increase in capital (Profit)					
(d)	Increase in outstanding expenses					
		1,15,000	+	10,000	=	NI

	Decrease in capital (Expense)	1,15,000	+	10,000	=	2,00,000
(e)	Increase in prepaid expenses					1,000
	Decrease in cash	(1,000)				
		1,14,000	+	10,000	+	1,000
(f)	Increase in cash	700			=	2,00,000
	Increase in capital (Profit)					
		1,14,700	+	10,000	+	1,000
(g)	Increase in cash	7,000			=	2,00,000
	Decrease in stock			(5,000)		
	Increase in capital (Profit)					
		1,21,700	+	5,000	+	1,000
(h)	Decrease in stock			(500)	=	2,00,000

Answer needs Correction? [Click Here](#)

**Q6 :**

**Show the accounting equation on the basis of the following transaction:**

- (a) Udit started business with:
  - (i) Cash
  - (ii) Goods
- (b) Purchased building for cash
- (c) Purchased goods from Himani
- (d) Sold goods to Ashu (Cost Rs 25,000)
- (e) Paid insurance premium
- (f) Rent outstanding
- (g) Depreciation on building
- (h) Cash withdrawn for personal use
- (i) Rent received in advance

- (j) Cash paid to Himani on account
- (k) Cash received from Ashu

**Answer :**

S.No.	Explanation	Assets				=	Creditors + O I	
		Cash	+	Stock	+ Building + Debtors			
(a)	Increase in cash	5,00,000						
	Increase in stock			1,00,000				
	Increase in capital							
		5,00,000 +		1,00,000		=	NIL	
(b)	Increase in building				2,00,000			
	Decrease in cash	(2,00,000)						
		3,00,000 +		1,00,000 +	2,00,000		=	NIL
(c)	Increase in stock			50,000				
	Increase in creditors						=	50,000
		3,00,000 +		1,50,000 +	2,00,000		=	50,000

Answer needs Correction? [Click Here](#)

**Q7 :**

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

- (a) Started business with cash
- (b) Rent received
- (c) Invested in shares

- (d) Received dividend
- (e) Purchase goods on credit from Ragani
- (f) Paid cash for house hold Expenses
- (g) Sold goods for cash (costing Rs 10,000)
- (h) Cash paid to Ragani
- (i) Deposited into bank

**Answer :**

S.No.	Explanation	Assets				=		
		Cash	+	Stock	+		Investment	+
(a)	Increase in cash	1,20,000						
	Increase in capital							
		1,20,000	+					=
(b)	Increase in cash	10,000						
	Increase in capital (Income)							
		1,30,000						=
(c)	Decrease in investment					50,000		
	Decrease in cash	(50,000)						=
		80,000	+			50,000		=
(d)	Increase in cash	5,000						
	Increase in capital (Income)							
		85,000	+			50,000		=
(e)	Increase in stock					35,000		
	Increase in creditor (Ragani)							
		85,000	+	35,000	+	50,000		=
(f)	Decrease in capital							

	Decrease in cash	(7,000)					
		78,000	+	35,000	+	50,000	=
(g)	Increase in cash						

Answer needs Correction? [Click Here](#)

**Q8 :**

**Show the effect of following transaction on the accounting equation:**

- (a) Manoj started business with
  - (i) Cash
  - (ii) Goods
  - (iii) Building
- (b) He purchased goods for cash
- (c) He sold goods(costing Rs 20,000)
- (d) He purchased goods from Rahul
- (e) He sold goods to Varun (Costing Rs 52,000)
- (f) He paid cash to Rahul in full settlement
- (g) Salary paid by him
- (h) Received cash from Varun in full settlement
- (i) Rent outstanding
- (j) Prepaid Insurance
- (k) Commission received by him
- (l) Amount withdrawn by him for personal use
- (m) Depreciation charge on building
- (n) Fresh capital invested
- (o) Purchased goods from Rakhi

**Answer :**

S.No.	Explanation	Assets						Prepaid Expenses	=	Cro
		Cash	+	Stock	+	Building	+			
(a)	Increase in cash, stock and building	2,30,000	+	1,00,000	+	2,00,000				
	Increase in capital									
		2,30,000	+	1,00,000	+	2,00,000			=	
(b)	Increase in stock					50,000				
	Decrease in cash	(50,000)								
		1,80,000	+	1,50,000	+	2,00,000			=	
(c)	Increase in cash	35,000								
	Decrease in stock			(20,000)						
	increase in capital (Profit)									
		2,15,000	+	1,30,000	+	2,00,000				

Answer needs Correction? [Click Here](#)

**Q9 :**

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
- (b) Purchased goods for cash
- (c) Purchase furniture from R.K. Furniture
- (d) Sold goods to Parul Traders (costing Rs 7,000 vide bill no. 5674)
- (e) Paid cartage
- (f) Cash Paid to R.K. furniture in full settlement
- (g) Cash sales (costing Rs 10,000)
- (h) Rent received
- (i) Cash withdrew for personal use



**Answer :**

S.No.	Explanation	Assets				=			
		Cash	+ Stock	+ Furniture	+ Debtors				
(a)	Increase in cash	1,25,000				=			
	Increase in capital					=			
		1,25,000	+			=			
(b)	Increase in stock			50,000		=			
	Decrease in cash	(50,000)				=			
		75,000	+	50,000		=			
(c)	Increase in furniture				10,000	=			
	Increase in creditors					=			
		75,000	+	50,000	+	10,000	=		
(d)	Increase in debtors					9,000	=		
	Decrease in stock			(7,000)		)	=		
	Increase in capital (Profit)						=		
		75,000	+	43,000	+	10,000	+	9,000	=
(e)	Decrease in capital (Cartage Expenses)						=		
	Decrease in cash	(100)					=		
		74,900	+	43,000	+	10,000	+	9,000	=
(f)	Decrease in creditors						=		
	Decrease in cash	(9,700)					=		
	Increase in capital (Discount-received)						=		

Answer needs Correction? [Click Here](#)

**Q10 :**

**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 8,00,000. purchase 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) Bobby 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 value of Rs 60,000.
- (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.**

**Answer :**

a)

The transaction (a) increases assets by Rs 5,50,000 (cash Rs 4,00,000 and office equipment Rs 1,50,000) it will be debited and on the other hand it will increase the capital by Rs 5,50,000, so it will be credited in capital account.

**Cash Account**

**Office Equipment Account**

**Capital Account**

<b>Dr.</b>	<b>Cr.</b>	<b>Dr.</b>	<b>Cr.</b>	<b>Dr.</b>	<b>Cr.</b>
(a) Rs 4,00,000		(a) Rs 1,50,000			(a) Rs 4,00,000
					(a) Rs 1,50,000

b)

Purchase of land and small office building are assets. On one hand, the purchase of these items will increase their individual accounts and this will increase the total amount of the assets in the business; so, both the accounts will be debited. On the other hand, payment in cash on the purchase of these assets will decrease the cash balance, so cash account will be credited to the extent of amount paid. After payment for building in cash, the balance of building account will be transferred to creditors for building account. This will increase the amount of the creditors, which in turn will increase the total liabilities of the business. Long term payables are regarded as loan to the business that will increase both cash balance (due to intake of loan) as well as liabilities of the business.

<b>Land Account</b>		<b>Building Account</b>	
<b>Dr.</b>	<b>Cr.</b>	<b>Dr.</b>	<b>Cr.</b>
(b) Rs 1,50,000		(b) Rs 3,50,000	
<b>Cash Account</b>		<b>Long Term Payable Account</b>	
<b>Dr.</b>	<b>Cr.</b>	<b>Dr.</b>	<b>Cr.</b>
(a) Rs 4,00,000	(b) Rs 1,50,000		(b) Rs 8,00,000
(b) Rs 8,00,000	(b) Rs 50,000		

Answer needs Correction? [Click Here](#)

**Q11 :**

**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

**Answer :**

Books of Himanshu

Journal

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
2005				
Dec.01	Cash A/c To Capital A/c (Started business with cash)	Dr.	75,000	75,000
Dec.07	Purchases A/c To Cash A/c (Goods purchased for cash)	Dr.	10,000	10,000
Dec.09	Swati To Sales A/c (Goods sold on credit)	Dr.	5,000	5,000

Dec.12	Furniture A/c	Dr.	3,000	
	To Cash A/c			3,000
	(Furniture purchased for cash)			
Dec.18	Cash A/c	Dr.	4,000	
	Discount Allowed A/c	Dr.	1,000	
	To Swati			5,000
	(Cash received from Swati and discount allowed)			
Dec.25	Rent A/c	Dr.	1,000	
	To Cash A/c			1,000
	(Rent paid in cash)			

Answer needs Correction? [Click Here](#)

### Q12 :

Enter the following Transactions in the Journal of Mudit :

2006

- Jan.01 Commenced business with cash
- Jan.01 Building
- Jan.02 Goods purchased for cash
- Jan.03 Sold goods to Ramesh
- Jan.04 Paid wages
- Jan.06 Sold goods for cash
- Jan.10 Paid for trade expenses
- Jan.12 Cash received from Ramesh
- Discount allowed
- Jan.14 Goods purchased for Sudhir
- Jan.18 Cartage paid
- Jan.20 Drew cash for personal use
- Jan.22 Goods use for house hold



	(Wages paid in cash)			
Jan.0 6	Cash A/c	Dr.	10,000	
	To Sales A/c			10,000
	(Goods sold for cash)			

Answer needs Correction? [Click Here](#)

**Q13 :**

**Journalise the following transactions:**

2005

- Dec. 01 Hema started business with cash
- Dec. 02 Open a bank account with SBI
- Dec. 04 Purchased goods from Ashu
- Dec.06 Sold goods to Rahul for cash
- Dec.10 Bought goods from Tara for cash
- Dec.13 Sold goods to Suman
- Dec.16 Received cheque from Suman  
Discount allowed
- Dec.20 Cheque given to Ashu on account
- Dec.22 Rent paid by cheque
- Dec.23 Deposited into bank
- Dec.25 Machine purchased from Parigya
- Dec.26 Trade expenses
- Dec.28 Cheque issued to Parigya
- Dec.29 Paid telephone expenses by cheque
- Dec.31 Paid salary

Answer :

Books of Hema

Journal

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
2005				
Dec.01	Cash A/c To Capital A/c (Started business with cash)	Dr.	1,00,000	1,00,000
Dec.02	Bank A/c To Cash A/c (Bank account opened with SBI)	Dr.	30,000	30,000
Dec.04	Purchases A/c To Ashu (Goods purchased from Ashu)	Dr.	20,000	20,000
Dec.06	Cash A/c To Sales A/c (Goods sold for cash)	Dr.	15,000	15,000
Dec.10	Purchases A/c To Cash A/c (Goods purchased for cash)	Dr.	40,000	40,000
Dec.13	Suman To Sales A/c	Dr.	20,000	



Answer needs Correction? [Click Here](#)

**Q14 :**

**Jouranlise the following transactions in the books of Harpreet Bros.:**

- (a) Rs 1,000 due from Rohit are now 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

**Answer :**

**Books of Harpreet Bros.**

**Journal**

S. No.	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
(a)	Bad Debt A/c To Rohit (Debtors) (Due from Rohit became bad debt)	Dr.	1,000	1,000
(b)	Drawings A/c To Purchases A/c (Goods withdrawn by proprietor for personal use)	Dr.	2,000	2,000
(c)	Depreciation A/c To Machinery A/c (Depreciation charged on machinery for two months)	Dr.	500	500

(d)	Interest on Capital A/c	Dr.	6,750	
	To Capital A/c			6,750
	(Interest on capital at 6% due for 9 months)			
(e)	Bad Debt A/c	Dr.	800	
	Cash A/c	Dr.	1,200	
	To Rahul (Debtor)			2,000
	(Received from Rahul 60 paise in a rupee and rest amount considered as bad debt)			

Answer needs Correction? [Click Here](#)

#### Q15 :

Prepare Journal from the transactions given below :

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

**Answer :**

## Journal

S. No.	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
(a)	Machinery A/c To Cash A/c (Cash paid for installation of machinery)	Dr.	500	500
(b)	Charity A/c To Purchases A/c (Goods given as charity)	Dr.	2,000	2,000
(c)	Interest on Capital A/c To Capital A/c (Interest on capital charged @ 7% p.a.)	Dr.	4,900	4,900
(d)	Cash A/c To Bad Debt Recovered A/c (Cash received on from debtors which was previously written off as bad)	Dr.	1,200	1,200
(e)	Goods Destroyed by Fire A/c To Purchases A/c (Goods destroyed by fire)	Dr.	2,000	2,000

Answer needs Correction? [Click Here](#)

**Q16 :**

**Journalise the following transactions, post to the ledger:**

2005

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

**Answer :**

**Journal**

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
2005				
Nov.01	Cash A/c	Dr.	1,50,000	
	Stock A/c	Dr.	50,000	
	To Capital A/c			2,00,000
	(Started business with cash and goods)			

Nov.03	Purchases A/c To Harish (Goods purchased from Harish)	Dr.	30,000	30,000
Nov.05	Cash A/c To Sales A/c	Dr.	12,000	12,000

Answer needs Correction? [Click Here](#)

**Q17 :**

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

2006

- Jan. 01 Started business with cash
- Jan. 02 Opened bank account in PNB
- Jan. 04 Goods purchased from Tara
- Jan.05 Goods purchased for cash
- Jan.08 Goods sold to Naman
- Jan.10 Cash paid to Tara
- Jan.15 Cash received from Naman  
Discount allowed
- Jan. 16 Paid wages
- Jan. 18 Furniture purchased for office use
- Jan. 20 Withdrawn from bank for personal use
- Jan. 22 Issued cheque for rent
- Jan. 23 Goods issued for house hold purpose
- Jan. 24 Drawn cash from bank for office use
- Jan. 26 Commission received
- Jan. 27 Bank charges

**Rs**

- Jan. 28 Cheque given for insurance premium  
 Jan. 29 Paid salary  
 Jan. 30 Cash sales

**Answer :**

**Books of M/s Goel Brothers  
 Journal**

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
2006				
Jan.01	Cash A/c To Capital A/c  (Started business with cash)	Dr.	1,65,000	1,65,000
Jan.02	Bank A/c To Cash A/c  (Bank account opened with PNB)	Dr.	80,000	80,000
Jan.04	Purchases A/c To Tara  (Goods purchased from Tara)	Dr.	22,000	22,000
Jan.05	Purchases A/c To Cash A/c  (Goods purchased for cash)	Dr.	30,000	30,000

Jan.08	Naman To Sales A/c  (Sale of goods to Naman)	Dr.	12,000	12,000
Jan.10	Tara To Cash A/c  (Cash paid to Tara)	Dr.	22,000	22,000
Jan.15	Cash A/c  Discount Allowed A/c To Naman  (Cash received from Naman and discount allowed)	Dr.  Dr.	11,700 300	12,000

Answer needs Correction? [Click Here](#)

**Q18 :**

**Give journal entries of M/s. Mohit traders; post them to the Ledger from the following transactions:**

**August,  
2005**

- 1 Commenced business with cash
- 2 Opened bank account with H.D.F.C.
- 3 Purchased furniture
- 7 Bought goods for cash from M/s. Rupa Traders
- 8 Purchased good from M/s. Hema Traders
- 10 Sold goods for cash
- 14 Sold goods on credit to M/s. Gupta Traders
- 16 Rent paid
- 18 Paid trade expenses

- 20 Received cash from Gupta Traders
- 22 Goods return to Hema Traders
- 23 Cash paid to Hema Traders
- 25 Bought postage stamps
- 30 Paid salary to Rishabh

**Answer :**

**Books of M/s. Mohit Traders**

**Journal**

<b>Date</b>	<b>Particulars</b>	<b>L.F.</b>	<b>Debit Amount Rs</b>	<b>Credit Amount Rs</b>
2005 Aug.01	Cash A/c To Capital A/c (Commenced business with cash)	Dr.	1,10,000	1,10,000
Aug.02	Bank A/c To Cash A/c (Bank account opened with H.D.F.C)	Dr.	50,000	50,000
Aug.03	Furniture A/c To Cash A/c (Furniture purchased)	Dr.	20,000	20,000
Aug.07	Purchases A/c To Cash A/c	Dr.	30,000	30,000



	(Goods purchased for cash)			
Aug.08	Purchases A/c	Dr.	42,000	
	To M/s. Hema Traders			42,000
	(Goods purchased from M/s. Hema Traders)			
Aug.10	Cash A/c	Dr.	30,000	
	To Sales A/c			30,000
	(Goods sold for cash)			
Aug.14	M/s. Gupta Traders	Dr.	12,000	
	To Sales A/c			12,000
	(Goods sold to M/s. Gupta traders)			

Answer needs Correction? [Click Here](#)

**Q19 :**

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

**December, 2005**

- 1 Started business with cash
- 2 Deposited into bank
- 4 Bought goods on credit from Himani
- 6 Purchased goods from cash
- 8 Returned goods to Himani
- 10 Sold goods for cash
- 14 Cheque given to Himani
- 17 Goods sold to M/s. Goyal TradeRs

- 19 Drew cash from bank for personal use
- 21 Goyal traders returned goods
- 22 Cash deposited into bank
- 26 Cheque received from Goyal Traders
- 28 Goods given as charity
- 29 Rent paid
- 30 Salary paid
- 31 Office machine purchased for cash

**Answer :**

**Books of M/s. Bhanu Traders**

**Journal**

<b>Date</b>	<b>Particulars</b>	<b>L.F.</b>	<b>Debit Amount Rs</b>	<b>Credit Amount Rs</b>
2005 Dec.01	Cash A/c To Capital A/c (Started business with cash)	Dr.	92,000	92,000
Dec.02	Bank A/c To Cash A/c (Cash deposited into bank)	Dr.	60,000	60,000
Dec.04	Purchases A/c To Himani (Goods purchased from Himani)	Dr.	40,000	40,000

Answer needs Correction? [Click Here](#)

**Q20 :**

**Journalise the following transaction in the Book of M/s. Beuti tradeRs Also post them in the ledger.**

**Dec.  
2005**

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

Answer :

**Books of Beauti Traders**

**Journal**

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
2005				
Dec.01	Cash A/c To Capital A/c (Started business with cash)	Dr.	2,00,000	2,00,000
Dec.02	Office Furniture A/c To Cash A/c (Office furniture purchased)	Dr.	30,000	30,000
Dec.03	Bank A/c To Cash A/c (Opened a current account)	Dr.	1,00,000	1,00,000
Dec.05	Computer A/c	Dr.	2,50,000	

Answer needs Correction? [Click Here](#)

**Q21 :**

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

**January, 2006**

- 1      Cash in hand
- Cash at bank
- Stock of goods

- Due to Rohan
- Due from Tarun
- 3 Sold goods to Karuna
- 4 Cash sales
- 6 Goods sold to Heena
- 8 Purchased goods from Rupali
- 10 Goods returned from Karuna
- 14 Cash received from Karuna
- 15 Cheque given to Rohan
- 16 Cash received from Heena
- 20 Cheque received from Tarun
- 22 Cheque received from to Heena
- 25 Cash given to Rupali
- 26 Paid cartage
- 27 Paid salary
- 28 Cash sale
- 29 Cheque given to Rupali
- 30 Sanjana took goods for Personal use
- 31 Paid General expense

Answer :

### Books of Sanjana

#### Journal Entries

S.No.	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
2006 Jan.01	Cash A/c	Dr.	6,000	

	Bank A/c	Dr.	55,000	
	Stock A/c	Dr.	40,000	
	Tarun	Dr.	10,000	
	To Rohan			6,000
	To Capital A/c			1,05,000
	(Balance brought from the last month)			
Jan.03	Karuna	Dr.	15,000	
	To Sales A/c			15,000
	(Goods sold to Karuna)			

Answer needs Correction? [Click Here](#)

**Long answers :** Solutions of Questions on Page Number : 80

**Q1 :**

**Describe the events recorded in accounting systems and the importance of source documents in those systems?**

**Answer :**

It is beyond human capabilities to memorise each financial transaction and that is why, source documents have their own importance in accounting system. They are considered as an evidence of transactions and can be presented in the court of law. Transactions supported by evidence can be verified. Source documents also ensure that transactions recorded in the books are free from personal biases.

A few events that are supported by source document are given below.

1. Sale of goods worth Rs 200 on credit, supported by sales invoice/bill
2. Purchase of goods worth Rs 500 on credit, supported by purchase invoice/bill
3. Cash sales worth Rs 1,000, supported by cash memo
4. Cash purchase of goods worth Rs 400, supported by cash memo

5. Goods worth Rs 100 returned by customer, supported by credit note
6. Return of goods purchased on credit worth Rs 200, supported by debit note
7. Payment worth Rs 1,200 through bank, supported by cheques
8. Deposits into bank worth Rs 500, supported by pay-in slips.

Out of the above events, only those events that can be expressed in monetary terms, are recorded in the books of accounts. However, the non-monetary events are **not** recorded in accounts; for example, promotion of manger **cannot** be recorded but increment in salary can be recorded at the time when salary is paid or due.

Source document in accounting is important because of the below given reasons.

1. It provides evidence that transaction has actually occurred.
2. It provides information about the date, amount and parties involved and other details of a particular transactions.
3. It acts as an evidence in the court of law.
4. It helps in verifying the transaction during the auditing process.

Answer needs Correction? [Click Here](#)

**Q2 :**

**Describe how debits and credits are used to analyse transactions.**

**Answer :**

Debit originated from the Italian word *debito*, which in turn is derived from the Latin word *debeo*, which means 'owed to proprietor' and credit comes from the Italian word *credito*, which is derived from the Latin word *credo*, which means belief, i.e., 'owed by proprietor'.

According to the dual aspect concept, all the business transactions that are recorded in the books of accounts, have two aspects- debit and credit. The dual aspect can be better understood by the help of an example; bought goods worth Rs 500 on cash. This transaction affects two accounts with the same amount simultaneously. As goods are brought in exchange of cash, so the cash balances in the business reduce by Rs 500, i.e. why the cash account is credited. Simultaneously, the amount of goods increases by Rs 500, so purchases account will be debited. Debit and credit depend on the nature of

accounts involved; such as assets, expenses, income, liabilities and capital. There are five types of Accounts.

1. **Assets-** These include all properties or legal rights owned by a firm for its operations, such as cash in hand, plant and machinery, bank, land, building, etc. All assets have debit balance. If assets increase, they are debited and if assets decrease, they are credited.

For example, furniture purchased and payment made by cheque. The journal entry is:

Furniture A/c  
    To Bank A/c

Here, furniture and bank balance, both are assets to the firm. As furniture is purchased, so furniture account will increase, and will be debited. On the other hand, payment of furniture is being made by cheque that reduces the bank balance of the business, so bank account will be credited.

2. **Expense-** It is made to run business smoothly and to carry day to day business activities.

All expenses have debit balance. If an expense is incurred, it must be debited.

For example, rent paid. The journal entry is:

Rent A/c  
    To Cash A/c

Here, rent is an expense. All expenses have debit balance. Hence, rent is debited. On the other hand, as rent is paid in cash that reduces the cash balances, so cash account is credited.

3. **Liability-** Liability is an obligation of business. Increase in liability is credited and decrease in liability is debited.

For example, loan taken from bank. The journal entry is:

Bank A/c  
    To Bank Loan A/c

Here, loan from bank is a liability to the firm. As all liabilities have credit balance, so loan from bank has been credited because it increases the liabilities.



4. **Income-** Income means profit earned during an accounting period from any source. Income also means excess of revenue over its cost during an accounting period. Income has credit balance because it increases the balance of capital.

For example, rent received from tenant. The journal entry is:

Cash A/c  
    To Rent A/c

Here, rent is an income; hence, rent account has been credited and cash has been debited, as rent received increases the cash balances.

5. **Capital-** Capital is the amount invested by the proprietor in the business. Capital has credit balance. Increase in capital is credited and decrease in capital is debited.

For example, additional capital introduced by owner. The journal entry is:

Cash A/c  
    To Capital A/c

As additional capital is introduced, so the amount of capital will increase, i.e. why, capital account is credited. On the other hand, as capital is introduced in form of cash, so the cash balances decrease, i.e. why, cash account is debited.

[Answer needs Correction? Click Here](#)

**Q3 :**

**Describe how accounts are used to record information about the effects of transactions?**

**Answer :**

Every transaction is recorded in the original book of entry (journal) in order of their occurrence; however, if we want to know that how much we receive from our debtors or how much to pay to the creditors, it is **not** possible to determine at a single movement. Hence, we prepare accounts to know the position of business activities in the meantime.

There are some steps to record transactions in accounts; it can be easily understood with the help of an example.

Sold goods to Mr A worth Rs 50,000 on 12<sup>th</sup> April and received payment Rs 40,000 on 25<sup>th</sup> April. The following journal entries will be recorded:

	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
Apr.12	A's A/c	Dr. 22	50,000	
	To Sales (Goods sold on credit to Mr. A)	18		50,000
Apr.25	Cash A/c	Dr. 13	40,000	
	To A's A/c (Cash received from Mr. A)	22		40,000

**Step 1-** Locate the account in ledger, i.e., Mr A's Account.

**Step 2-** Enter the date of transaction in the date column of the debit side of Mr A's Account.

**Step 3-** In the 'Particulars' column of the debit side of Mr A's Account, the name of corresponding account is to be written, i.e., 'Sales'.

**Step 4-** Enter the page number of the ledger in the Journal Folio (J.F.) column of Mr A's Account.

**Step 5-** Enter the amount in the 'Amount' column.

**Step 6-** Same steps are to be followed to post entries in the credit side of Mr A's Account.

**Step 7-** After entering all the transactions for a particular period, balance the account by totalling both sides and write the difference in shorter side, as 'Balance c/d'.

**Step 8-** Total of account is to be written on either sides.

Answer needs Correction? [Click Here](#)

**Q4 :**

**What is a journal? Give a specimen of journal showing at least five entries.**

**Answer :**

Journal is derived from the French word *Jour*, means daily records. In this book, transactions are recorded in 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.

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

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

**Date-** Date of transaction is recorded in the order of their 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 account when entry is posted.

**Debit Amount-** Amount of debit account is written.

**Credit Amount-** Amount of credit account is written.

**Recording of a Journal Entry**

- 1) Started business with cash Rs 1,00,000
- 2) Open a bank account Rs 20,000
- 3) Purchase goods for cash Rs 25,000
- 4) Goods sold for cash Rs 30,000
- 5) Goods sold to Mr. X Rs 2,000

**Books of Mr A  
Journal**

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
April	Cash A/c <span style="float: right;">Dr.</span> To Capital A/c (Started business with cash)		1,00,000	1,00,000

April 3	Bank A/c To Cash A/c (Bank account opened with cash)	Dr.	20,000	20,000
April 4	Purchase A/c To Cash (Goods purchased for cash)	Dr.	25,000	25,000
April 5	Cash A/c To Sales A/c (Goods sold for cash)	Dr.	30,000	30,000
April 6	Mr. X's A/c	Dr.	2,000	

Answer needs Correction? [Click Here](#)

**Q5 :**

**Differentiate between source documents and vouchers.**

**Answer :**

Basis of Difference	Source Documents	Vouchers
Meaning	It refers to the documents in writing, containing the details of events or transactions.	When source document is converted into a voucher, it is called a voucher.
Purpose	It is used for preparing accounting vouchers.	It is used for analysing the transactions.
Recording	It acts as a basis for preparing accounting voucher that helps in recording.	It acts as a basis for recording transactions.
Preparation	It is prepared at the time when an event or a transaction occurs.	It can be prepared either when a transaction occurs, or later on.
Legality/Validity	It can be used as evidence in the court of law.	It can be used for assessing the validity of transactions.
Prepared By	It is prepared by the persons who are directly involved in the transactions, or who are authorised to prepare or approve these documents.	It is prepared by the authorised accountants.
Examples	Cash memo, invoice, and pay-in-slip, etc.	Cash memo, invoice, pay-in-slip (which is not a source document), debit note, credit note, transfer vouchers, etc.

Answer needs Correction? [Click Here](#)

**Q6 :**

**Accounting equation remains intact under all circumstances. Justify the statement with the help of an example.**

**Answer :**

According to the dual-aspect concept, every transaction simultaneously, has two effects of equal amount, i.e. debit and credit. However, in any case, the equality of total assets with the total claims of business (sum of capital and liabilities) is not disturbed. This equality is algebraically represented as:

$$\boxed{\text{Assets} = \text{Total Claims}}$$

Or

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

or, Liabilities = Asset - Capital

or, Capital = Assets - Liabilities

In any circumstance the above equation cannot be changed. For example,

- Business started with cash Rs 1,00,000**

Cash A/c Dr.  
 To Capital A/c

Assets	=	Liabilities	+	
Cash (1,00,000)				

Assets decrease, as cash is invested into the business and capital increases. Thus the equality between LHS and RHS remains intact.

- Goods purchased on credit Rs 20, 000**

Assets	=	Liabilities	
Cash      Stock		Creditors	

1,00,000	20,000	=	20,000
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Assets increase as well as liability increases, without disturbing the equality.

3. **Goods purchased with cash 25000**

Assets		=	Liabilities
Cash 1,00,000 (25,000)	Stock 20,000 25,000	=	20,000

As goods are purchased for cash, so cash balance reduces by Rs 25,000, but on the other hand, stock balance increases by Rs 25,000. Thus the total balance of LHS remains equal to the total claims.

Answer needs Correction? [Click Here](#)

**Q7 :**

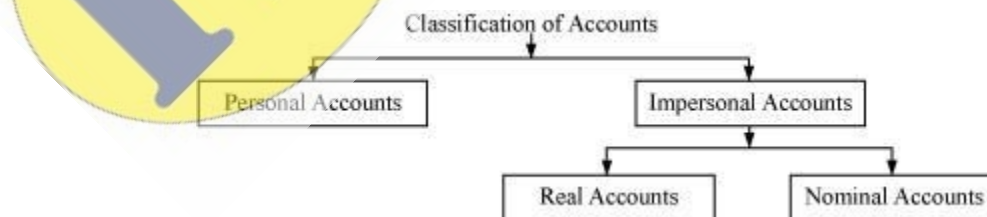
**Explain the double entry mechanism with an illustrative example.**

**Answer :**

Double entry system is based on the dual aspect concept. It means every transaction has two-sided effects, i.e., every debit has its credit.

This system is explained by Luca Pacioli in his book *Summade Arithmetica Geometria Proportioni et Proportionalita*, 1494. He said if one is receiver, then the other should be the giver.

In double entry system, accounts are classified as shown below.



1. **Personal Accounts:** It includes individual persons, firms, companies, and other institutions, such as Mr. A, M/s ABC & Co. etc.

Rule of double entry system for personal accounts:

- Debit the receiver.
- Credit the giver.

For example:

- Cash paid to Mr. A.

A's A/c

Dr.

To Cash

- Cash received from Mr. X

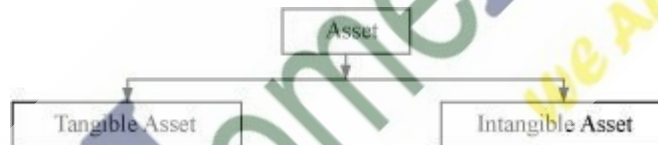
Cash A/c

Dr.

To Mr. X

2. **Impersonal Accounts:** It relates to non living things. Impersonal accounts are further classified as real accounts and nominal accounts.

1. **Real Account-** It includes all types of assets.



- Tangible assets that can be seen and touched; for example, machinery, building, etc.
- Intangible assets that **cannot** be seen and touched; for example, goodwill, patent, etc.

Rule of double entry system for real accounts:

- Debit what comes in.
- Credit what goes out.

For example:

Furniture purchased for cash

Furniture A/c

Dr.

To Cash A/c

2. **Nominal Account:** It includes all expenses, losses, incomes and gains.

Rule of double entry system for nominal accounts:

- Debit all losses and expenses.
- Credit all gains and incomes.

For example:

- i. Rent paid

Rent A/c

Dr.

To Cash A/c

- ii. Commission received.

Cash A/c

Dr.

To Commission A/c



Home Delivery

WE ARE WITH YOU.....