

(IV) **Sales Return A/c** :— This account is also named as 'Return Inward'. It is a nominal account and should always be debited because incomes *i.e.* sales are reduced.

(V) **Stock A/c**

In the transactions relating to the purchase and sale of goods, it has to be decided whether a transaction is for cash or for credit, because the entry is passed accordingly. If, in the transactions relating to purchase and sale of goods the word 'Cash' is stated clearly, only then will it be a cash transaction otherwise it will be taken as a credit transaction. Such as :—

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| I. Goods for ₹10,000 sold for cash : | It will be taken as cash transaction |
| II. Goods for ₹10,000 sold to Anil for cash: | It will be taken as cash transaction |
| III. Goods for ₹10,000 sold to Anil : | It will be taken as credit transaction |

ILLUSTRATION 1.

Enter the following transactions in the Journal of Siya Ram :—

2012		₹
April 1	Siya Ram started business with cash	50,000
2	Purchased goods for cash	20,000
4	Purchased goods from Subhash	12,000
5	Purchased Furniture for cash	6,000
7	Sold goods for cash	13,000
9	Sold goods to Mahesh	15,000
10	Paid cash to Subhash	8,000
12	Received cash from Mahesh	10,000
16	Purchased goods from Ravi for cash	7,500
17	Purchased goods from Ravi	5,000
18	Sold goods to Suresh for cash	12,600
19	Sold goods to Suresh	7,000
20	Bought Machinery for cash	8,000
24	Withdrew cash from office for personal use	2,500
27	Paid rent	400
29	Paid wages	450
30	Paid salary to Gopal	1,200
30	Received Commission	200

ILLUSTRATION 2.

Record the following transactions in the Journal of Vishal :—

2011		₹
May 1	Commenced business with cash	5,00,000
2	Goods purchased from Mohan for cash	50,000
3	Goods purchased from Ajay	1,20,000
4	Goods returned to Ajay	5,000
8	Goods sold to Rajiv	40,000
12	Rajiv returned 10% of goods	

ILLUSTRATION 3.

Record the following transactions in the Journal of Naresh :

2005		₹
June 1	Paid cash to Mahesh and discount received from him	9,600 400
June 4	Received cash from Arun and discount allowed to him	4,900 100
June 10	Goods sold to Harish	30,000
June 12	Harish returned goods	2,000
June 14	Received cash from Harish ₹27,500 in full settlement of his account.	
June 20	Sold goods to Gopal of the list price of ₹60,000 at 10% trade discount.	
June 23	Purchased goods from Ravi of the list price of ₹20,000 at 15% trade discount.	

ILLUSTRATION 4.

Give Journal entries for the following transactions in the books of Partap Rai :—

2012		₹
April 1	Started business with Cash	1,00,000
April 2	Cash purchases	48,000
April 3	Sold goods to Vasudev	10,000
April 6	Returned defective goods by Vasudev	1,000
April 8	Received cash from Vasudev and Discount allowed	8,800 200
April 9	Chanderkant sold goods to us	20,000
April 10	Pritam purchased goods from us	12,000
April 10	Paid insurance premium	500
April 12	Paid for Life Insurance Premium of Sh. Partap Rai	2,000
April 15	Paid Cash to Chanderkant and Discount allowed by him	13,780 220
April 18	Bought goods from Pawan, list price ₹15,000 less 20% trade discount	
April 22	Paid to Pawan	8,000
April 26	Received Cash from Pritam	6,000
April 30	Paid wages ₹2,000, Advertisement Expenses ₹2,500 and Salaries paid ₹9,000	
April 30	Received Interest	500
April 30	Received Commission	2,000

ILLUSTRATION 10.

The following balances appeared in the books of Vishal Stores on 1st April, 2011:

Assets :— Cash ₹15,000; Bank balance ₹5,000; Stock ₹40,000; Furniture ₹3,600; Debtors ₹24,000 (X ₹6,000; Y ₹8,000 and Z ₹10,000).

Liabilities : Bank Loan ₹10,000; Creditors ₹12,500 (Ajay ₹5,000, Vijay ₹7,500).

Following transactions took place during April 2011 :

April 2 Bought goods from Kailash for ₹20,000 at a trade discount of 10% and cash discount of 2%. Paid 60% amount immediately.

April 4 Sold goods to X for ₹9,000.

April 5 Received ₹14,800 from X in full settlement of his account.

April 6 Cash deposited into bank ₹10,000.

- April 8 Cheque received from Y for ₹7,850 in full settlement of his account. This cheque was immediately deposited into bank.
- April 10 Received a cheque from Z ₹2,000.
- April 12 Cheque received from Z deposited into bank.
- April 15 Cheque received from Y dishonoured.
- April 16 Cash sales ₹15,000; Out of this amount ₹12,000 deposited into bank.
- April 16 Amount due to Ajay paid by Cheque.
- April 18 Old newspapers sold ₹50.
Old furniture sold ₹750
- April 20 Z became insolvent and 40 paise in a rupee could be received from his estate.
- April 22 Purchased goods from Gopal and paid by cheque ₹8,000.
- April 24 Sold half of the above goods to Chanderkant at a profit of 30% on cost.
- April 25 Proprietor withdrew for private use ₹2,000 from office and ₹3,000 from bank.
- April 30 Paid salary to Motilal by Cheque ₹2,000.
- April 30 Paid Rent by cheque ₹1,500.
- April 30 Paid trade expenses ₹500.

Some Special Entries

(1) **Bad Debts Recovered** :— Sometimes, it so happens that the bad debts previously written off are subsequently recovered. In such cases, the following entry is passed :—

Cash A/c	Dr.	
To Bad Debts Recovered A/c		

Care should be taken that the personal account of the debtor should not be credited because the Debtor's account must have been credited while passing the entry for bad debts.

(2) **Outstanding Expenses** :— It is quite common for a business enterprise to be left with some expenses which are yet to be paid at the end of the accounting year due to one reason or the other. Such expenses are termed as outstanding expenses. These are the expenses which should have been paid during the current year but which have not been paid. For example, if an employee is paid salary @ ₹1,000 per month, and if during the year only 11 months' salary amounting to ₹11,000 has been paid to him, ₹1,000 for one month will be the outstanding salary. The entry will be :—

Salary A/c	Dr.	1,000	
To Outstanding Salary A/c			1,000

Outstanding Salary Account is a liability. It has been credited because it is a representative personal account, representing the employees to whom salaries are to be paid.

(3) **Prepaid Expenses** :— There are certain expenses which are related to the next year but have been paid during the current year in advance. These are called prepaid expenses. The benefit of such expenses will be received during the next accounting year. For example, insurance premium amounting to ₹1,200 is paid on 1st July, 2011 for one year. Entry on 1st July, 2011 will be made as under :—

Insurance Premium A/c	Dr.	1,200	
To Cash A/c			1,200

When the books will be closed on 31st March, 2012, insurance premium for 3 months, i.e., from 1st April, 2012 to 30th June 2012 will be treated as prepaid insurance and the following entry will be passed for it on 31st March, 2012 :—

Prepaid Insurance A/c	Dr.	300	
To Insurance Premium A/c			300

Prepaid Insurance Account is an asset. It has been debited because it is a representative personal account and represents those persons to whom payment has been made in advance.

(4) **Depreciation** :— It is the permanent and continuing decrease in the value of an asset on account of wear and tear and passage of time. It is a business expense though it is not paid in cash. Depreciation is a nominal account since it represents a loss and hence is debited. Asset account will be credited as its value is reduced due to depreciation. Journal Entry will be :

Depreciation A/c
To Asset A/c

Dr.

(5) **Interest on Capital** :— In order to ascertain the true efficiency of the business it is a normal practice to charge business with interest on proprietor's capital. Profits left after charging the amount of such interest are the real profits earned by the business. Such interest is a loss from the point of view of the business and therefore according to the rule of nominal accounts Interest A/c is debited in the Journal entry. The amount of such interest is a gain from the point of view of the proprietor. His capital is increased by the amount of interest and therefore the capital account is credited in the Journal entry.

(6) **Interest on Drawings** :— If the firm allows interest on capital it should also charge interest on drawings made by the proprietor. Such an interest is an expense for the proprietor and a gain to the business. Hence an entry is made by debiting the drawings account and crediting interest account.

ILLUSTRATION 11.

Pass Journal Entries for the following :—

- (1) Received ₹20,000 from Subhash, which were written off as bad-debts in the previous year.
- (2) Salaries due to clerks ₹50,000.
- (3) Out of the rent paid this year, ₹10,000 is related to next year.
- (4) Provide 10% depreciation on furniture costing ₹50,000.
- (5) Provide 12% interest on capital amounting to ₹10,00,000.
- (6) Charge interest on drawings ₹8,000.

ILLUSTRATION 15.

Journalise the following transactions in the books of Dr. Chandan :

- (i) Received ₹38,000 from Krishan Swaroop in full settlement of his account for ₹40,000.
- (ii) Received ₹38,000 from Dushyant on his account for ₹40,000
- (iii) Biroo who owed us ₹15,000 is declared Insolvent and 65 paise in a rupee is received as final dividend from his estate.
- (iv) Sold goods to Kitty list price ₹20,000, trade discount 10% and cash discount 5%. He paid the amount on the same day and availed the cash discount.
- (v) Supplied goods costing ₹6,000 to Shakuntla, issued invoice at 10% above cost less 5% trade discount.

Special transactions relating to goods

(1) **Drawings in Goods** :— Sometimes the proprietor withdraws goods from the business for his personal use. The entry for recording this transaction will be :—

Drawings A/c

Dr.

To Purchases A/c

(Goods taken for personal use)

Purchase account is credited because as a result of the transaction the net amount of purchases of the business is reduced. Sales account should not be credited since the sale has not taken place. Also when the goods go out of business at cost price, purchase account should be credited and not Sales account.

(2) **Goods given away as charity** :— Charity is an expense of the business, as such charity account will be debited. Goods are going out of the business at cost price,

hence purchases are reduced to that extent and as such, purchases account will be credited. The entry will be :—

Charity A/c	Dr.
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To Purchases A/c	
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(Goods given away as charity)

(3) **Goods distributed as free sample** :— Sometimes the goods are distributed as free samples to the potential buyers in order to promote sales. As such, free samples can legitimately be treated as expenses on advertisement. The entry will be :—

Advertisement Expenses A/c	Dr.
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To Purchases A/c	
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(Goods distributed as free samples)

(4) **Loss of goods by theft or loss by fire** : The entry will be :—

Loss by Theft A/c	Dr.
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Loss by Fire A/c	Dr.
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To Purchases A/c	
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(Goods lost by theft and goods destroyed by fire)

In Case goods were insured :

Insurance Company	Dr.
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To Loss by Theft or Loss by Fire	
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If the full amount of claim is received from the Insurance Company :

Bank A/c	Dr.
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To Insurance Company	
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If the Insurance Company does not admit full claim :

Bank A/c	Dr.	(Amount received for claim admitted)
Profit and Loss A/c	Dr.	(Claim not admitted)

To Insurance Company A/c	
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ILLUSTRATION 16.

Pass Journal Entries for the following :—

- (1) Proprietor withdrew for his personal use cash ₹20,000 and goods worth ₹10,000.
- (2) Goods for ₹50,000 were given away as charity. (Sale price ₹60,000)
- (3) Goods worth ₹25,000 were distributed as free samples.
- (4) Goods worth ₹50,000 and cash ₹20,000 were stolen by an employee.
- (5) Goods worth ₹1,00,000 were destroyed by fire. Insurance Company admitted and paid claim for 60% amount.