

CHAPTER 3

Accounting Books and Records

The purpose of preparation of Trading, Profit and Loss Account and Balance Sheet to ascertain the profit or loss made by business and to know the financial soundness of the concern as a whole. In order to achieve the objectives of the firm, it is essential to maintain several books and records. The number of books and records are maintained by an enterprise for the evidence of the recording business transactions. Cash Receipts, Invoice, Cash Memo, Cheque and other vouchers are the examples of documentary evidence supported for preparation of income statements.

According to double entry system of accounting each transaction is recorded in the books of accounts to ascertain the profits earned during a particular period. "Transaction" of a business refers to an event the recognition of which gives rise to an entry in account records.

While analyzing the review of accounting cycle, the whole process of accounting consists of the following important stages :

- (1) Recording the transactions are done through Journals or Subsidiary Books.
- (2) Classifying the transactions are achieved by Ledger.
- (3) Summarizing the transactions are done through Trial Balance.
- (4) The last stage is concerned with preparing Income Statements (Trading, Profit and Loss Account and Balance Sheet).

JOURNAL

In the first stage of double entry system each transactions are recorded in the 'Journal' or "Subsidiary Books." Journal is the book of "Original Entry or First Entry" which is used for recording of all business transactions in chronological order. Then it is posted to ledger. This process is known as "Entering." In other words record of the each transaction is called as "Journal Entry." The process of recording in the Journal is called as "Journalizing."

Specimen Ruling of Journal

The specimen ruling of Journal is shown below :

Date (1)	Particulars (2)	L.F. (3)	Dr. (4) Rs.	Cr. (5) Rs.
Date, Month a Year	Name of Accounts to be Debited
	Name of Accounts to be Credited

From the above specimen ruling of Journal, we can observe the following points:

- Column 1** : It indicates the date, month and year on which each transaction takes place.
- Column 2** : It represents (a) name of account to be debited; (b) name of account to be credited.
- Column 3** : L.F. Stands for Ledger Folio, i.e., reference to the main book.
- Column 4** : Dr. Stands for Debit, i.e., amount to be debited.
- Column 5** : Cr. Stands for Credit, i.e., amount to be credited.

If two or more transactions of similar nature occur on the same day and either the debit account or credit account is common, such transactions can be conveniently entered in the Journal in the form of a Combined Journal Entry instead of making a separate entry for each transaction. Such type of entry is a "Compound Journal Entry."

Types of Journals

Journals broadly classified into (1) General Journals and (2) Special Journals. Special Journals are subsidiary books which are as follows :

1. Sales Book
2. Purchase Book
3. Purchase Returns Book
4. Sales Returns Book
5. Bills Receivable Book
6. Bills Payable Book
7. Cash Book.

These subsidiary books which are used for recording of each transactions. The following points to be considered before making journal entry :

(1) Capital Account : The initial influx of capital in the form of cash provided by the proprietor is known as "Capital." It may be further converted into plant and machinery, building etc. Hence it should be debited to Cash A/c or Plant & Machinery Property A/c and credited to Proprietor's A/c.

(2) Drawing Account : When proprietors withdrawn money or goods from business for personal use, it should be debited to Drawing A/c and credited Cash A/c or Purchase A/c.

(3) Goods Account : If any transactions relating to purchase or sale of goods, instead of making journal entries in one Goods Account, separate accounts may be maintained as Sales A/c, Purchase A/c, Sales Returns A/c, and Purchase Returns A/c.

- (a) **Sales Account:** is meant for recording sale of goods. It should be credited to Sales A/c.
- (b) **Purchase Account:** is meant for recording purchase of goods. It should be debited to Purchase A/c.
- (c) **Sales Returns Account:** is concerned with recording return of the goods from customers. It should be debited to Sales Return A/c.
- (d) **Purchase Return Account:** is meant for recording purchased goods return to suppliers. It should be credited to Purchase Return A/c.
- (4) While making journal entry, a brief explanation will be given known as "Narration."
- (5) To apply the rule of debit and credit in each type of account such as :
- (a) **Personal Account:** Debit the Receiver, Credit the Giver.
 - (b) **Real Account:** Debit what comes in, Credit what goes out.
 - (c) **Nominal Account:** Debit all Expenses & Losses, Credit all Incomes and Gains.

Illustration: 1

Journalize the following transactions in the books of Nancy Ltd.

2003 March

	Rs. in lakhs
1 Started business with Cash	4,500
1 Paid into bank	2,500
2 Goods purchased for Cash	1,500
3 Purchase of furniture and payment by cheque	500
5 Sold goods for cash	600
8 Sold goods to Rosy	400
10 Goods Purchased from Thomas	700
12 Goods Return to Thomas	100
15 Sold goods to Rahavan for cash	250
18 Cash received from Rosy Rs.396 & discount allowed to her Rs.4	
21 Withdraw from bank for private use	100
21 Withdraw from bank for use in the business	500
25 Paid telephone rent for one year	40
28 Cash paid to Rosy in full settlement of her account	594
30 Paid for Stationery	20
Rent paid	100
Salaries to Staff	250

Journal of Nancy Ltd.

(Rs. in lakhs)

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
2003 March 1	Cash Account To Capital Account (Being cash brought in to start business)	Dr.	4,500	4,500
March 1	Bank Account To Cash Account (Being Cash paid into Bank)	Dr.	2,500	2,500

2	Purchased Account To Cash Account (Being goods purchased for cash)	Dr.	1,500	1,500
3	Furniture Account To Bank Account (Being purchase of furniture and payment made by cheque)	Dr.	500	500
5	Cash Account To Sales Account (Being the goods sold for cash)	Dr.	600	600
8	Rosy Account To Sales Account (Being the goods sold for credit)	Dr.	400	400
12	Thomas Account To Returns Outward Account (Being the goods returned)	Dr.	100	100
15	Cash Account To Sales Account (Being the goods sold for cash)	Dr.	250	250
18	Cash Account Discount Account Dr. To Rosy Account (Being Rs. 396 received from Rosy and Rs. 4 discount allowed to her)	Dr.	396 4	400
21	Drawing Account Cash Account To Bank Account (Being cash withdrawn for both office and personal use)	Dr. Dr.	100 500	600
25	Telephone Rent Account To Cash Account (Being payment of telephone rent)	Dr.	40	40
28	Rosy Account To Cash Account To Discount Account (Being cash paid to Rosy and discount allowed to her)	Dr. Dr.	600	596 4
30	Stationery Account Rent Account Salaries Account To Cash Account (Being payment of stationery, rent and salaries)	Dr. Dr. Dr.	20 100 250	370
	Total		13,060	13,060

Illustration: 2

Journalize the following transactions:

2003 Jan.

	Rs. in lakhs
1 Purchased machinery for cash	5,000
2 Sold goods to Ramesh for cash	2,000
3 Sold goods to Kannan	1,000
4 Cash received from Murugan	700
5 Cash withdrawn from bank	500
6 Paid salaries	800
7 Purchased goods worth of Rs. 1000 less 10% trade discount	
8 The erection charges of machinery amounted to Rs. 500 which were paid in cash	
9 Cash paid to Ramasamy	400
10 Paid interest	400
11 Returned goods to Premkumar	300
12 Returned goods by Periasamy	200
13 Received dividend on shares	500
14 Paid rent	400
15 Old furniture sold for	200

Journal

(Rs. in lakhs)

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
2003 Jan.				
1	Machinery Account To Cash Account (Being Machinery purchased for cash)	Dr.	5,000	5,000
2	Cash Account To Sales Account (Being goods sold for cash)	Dr.	2,000	2,000
3	Kannan Account To Sales Account (Being goods sold for credit)	Dr.	1,000	1,000
4	Cash Account To Murugan Account (Being cash received from Murugan)	Dr.	700	700
5	Cash Account To Bank Account (Being cash withdrawn from Bank)	Dr.	500	500
6	Salaries Account To Cash Account (Being cash paid for salaries)	Dr.	800	800
Jan. 7	Purchase of goods Account To Cash Account To Discount Account (Being goods Purchased and discount allowed for Rs. 100)	Dr.	1,000	900 100

8	Machinery Account To Cash Account (Being the erection charges paid for machinery)	Dr.	500	500
9	Ramasamy Account To Cash Account (Being cash paid to Ramasamy)	Dr.	400	400
10	Interest Account To Cash Account (Being cash paid for Interest)	Dr.	400	400
11	Premkumar Account To Purchase Return Account (Being goods returned to Premkumar)	Dr.	300	300
12	Sales Return Account To Periyasamy Account (Being goods returned by Periyasamy)	Dr.	200	200
13	Cash Account To Dividend on Shares Account (Being dividend received on shares)	Dr.	500	500
14	Rent Account To Cash Account (Being rent paid for cash)	Dr.	400	400
15	Cash Account To Old Furniture Account (Being old furniture sold for cash)	Dr.	200	200
Total			13,900	13,900

Illustration: 3

Journalize the following transactions in the books of Mr. Sharma:

Jan. 2003

- 1 Sharma started business by investing cash of Rs. 40,000. He brought goods of Rs. 10,000, Furniture Rs. 5,000 and Machinery Rs. 10,000
- 2 Purchase building Rs. 5,000
- 3 Sale of goods worth Rs. 7,000 less 10% trade discount
- 4 Purchase of goods worth Rs. 6,000 less 5% cash discount
- 5 Sold goods to William on credit Rs. 2,500
- 6 Amount withdrawn from bank Rs. 800 for office use
- 7 Paid freight Rs. 500
- 8 Sold 50 shares in National Ltd @ Rs. 20 per share and commission paid Rs. 30
- 9 Received cheque from Vijay and deposited in Bank Rs. 5,000
- 10 Paid to Anderson in full settlement of Rs. 1,500
- 11 Amount withdrawn from bank for personal use Rs. 500
- 12 Paid rent Rs. 400 and Salaries Rs. 1,000
- 13 Paid insurance premium Rs. 300
- 14 Dividend received Rs. 300
- 15 Cheque for Rs. 1,000 received from Murgan in settlement of a debt of Rs. 1,250 returned dishonoured

- 16 Bank collected interest on our investments Rs. 1,500
 17 Charge of depreciation on Machinery @ 10% for six months (Machinery Rs. 20,000)
 18 Sold goods to Balu Rs. 2,000

Journal of Mr. Sharma Account

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
2003. Jan. 1	Cash Account Goods Account Machinery Account Furniture Account To Capital Account (Being the cash, goods, furniture and machinery brought to start business)	Dr.	40,000 10,000 10,000 5,000	65,000
2	Buildings Account To Cash Account (Being the buildings purchased)	Dr.	5,000	5,000
3	Cash Account Discount Account To Sales Account (Being the goods sold and discount allowed)	Dr.	6,300 700	7,000
4	Purchase Account To Cash Account To Discount Allowed Account (Being the goods purchased and discount allowed)	Dr.	6,000	5,700 300
5	William Account To Sales Account (Being goods sold on credit)	Dr.	2,500	2,500
6	Cash Account To Bank Account (Being amount withdrawn for office use)	Dr.	800	800
7	Freights Account To Cash Account (Being cash paid for freight)	Dr.	500	500
8	Cash Account To Investment in Shares Account (Being 50 shares in National Ltd. sold @ Rs.20 per share less commission)	Dr.	970	970
9	Bank Account To Vijay Account (Being cheque received and deposited in bank)	Dr.	5,000	5,000

10	Anderson Account To Cash Account (Being the cash paid in full settlement)	Dr.	1,500	1,500
11	Drawing Account To Bank Account (Being amount withdrawn for personal use)	Dr.	500	500
12	Rent Account Salaries Account To Cash Account (Being paid rent and salaries)	Dr. Dr.	400 1,000	1,400
13	Bank Account To Dividend Account (Being Dividend received)	Dr.	300	300
14	Murugan Account To Bank Account To Discount Allowed Account (Being Cheque received from Murugan in settlement of a debt of Rs.1250 dishonoured and discount allowed)	Dr.	1,250	1,000 250
15	Bank Account To Interest on Investment account (Being Bank collected interest on investment)	Dr.	1,500	1,500
16	Depreciation Account To Machinery Account (Being depreciation on machinery charged @ 10% P.a. on Rs. 2000 for six months)	Dr.	1,000	1,000
17	Balu Account To Sales Account (Being goods sold to Balu)	Dr.	2,000	2,000

Illustration: 4

Journalize the following transactions :

Jan. 2003

		Rs.
1	Ravi Commenced business with	42,000
3	Goods purchased for cash	18,400
6	Goods sold to Ramesh on credit	11,200
7	Brought goods from Ram	6,600
10	Cash received from Ramesh	7,200
12	Paid Ram on account	4,200
16	Goods sold to Rajive	7,500
20	Goods sold for cash	15,000
27	Amount paid to Ram	2,400
29	Cash received from Rajive	7,500
31	Paid rent in cash	900
31	Salary paid to office staff	1,400

Solution:**Journal**

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
2003 Jan.1	Cash Account To Capital Account (Being the amount invested in cash)	Dr.	42,000	42,000
3	Purchase Account To Cash Account (Being cash purchased of goods)	Dr.	18,400	18,400
6	Ramesh Account To Sales Account (Being credit sales of goods)	Dr.	11,200	11,200
7	Purchase Account To Ram Account (Being credit purchase of goods)	Dr.	6,600	6,600
10	Cash Account To Ramesh Account (Being cash received from Ramesh)	Dr.	7,200	7,200
12	Ram Account To Cash Account (Being cash paid to Ram)	Dr.	4,200	4,200
16	Rajive Account To Sales Account (Being Credit Sales)	Dr.	7,500	7,500
20	Cash Account To Sales Account (Being Goods sold for cash)	Dr.	15,000	15,000
27	Ram Account To Cash Account (Being amount paid to Ram)	Dr.	2,400	2,400
29	Cash Account To Rajive Account (Being cash received from Rajive)	Dr.	7,500	7,500
31	Rent Account To Cash Account (Being cash paid for rent)	Dr.	900	900
31	Salaries Account To Cash Account (Being cash paid for salaries)	Dr.	1,400	1,400

Illustration: 5

Journalize the transactions given below in the books of Sakesha & Co. :

2003

- Jan.1 Sakesha starts business with Rs. 40,000
 1 Paid in to bank Rs. 36,000
 2 Bought furniture for 1,700 and typewriter for Rs. 3,000, payment made by cheque
 5 Goods purchased from Ramasamy & Co. for 11,200 on credit
 7 Goods purchased from Porwal & Co. for Cash Rs. 2,200
 8 Goods sold on credit to Gupta & Co. Rs. 3,000
 10 Goods sold on credit to Chandra & Co. Rs. 5,600
 11 Paid for office stationery Rs. 500
 12 Paid rent Rs. 400
 14 Brought fixtures for Rs. 2,000
 17 Received cash from Gupta & Co. Rs. 2940; allowed them discount Rs. 60
 20 Issued cheque for Rs. 11,000 in full settlement (i.e., nothing more is due them) to Ramasamy & Co.
 25 Paid in to bank Rs. 2,400
 30 Paid insurance premium Rs. 900 by cheque

Solution:**Journal of Sakesha & Co.**

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
Jan.1	Cash Account To Capital Account (Being commenced with business Rs. 40,000)	Dr.	40,000	40,000
1	Bank Account To Cash Account (Being cash paid in to bank)	Dr.	36,000	36,000
2	Furniture Account Typewriter Account To Bank Account (Being bought furniture & typewriter)	Dr. Dr.	1,700 3,000	4,700
5	Goods Purchased Account To Ramasamy & Co. (Being goods purchased on credit)	Dr.	11,200	11,200
7	Good Purchased Account To Cash Account (Being goods received from Porwal & Co.)	Dr.	2,200	2,200
8	Gupta & Co. Account To Sales Account (Being goods sold on credit)	Dr.	3,000	3,000
10	Chandra & Co. Account To Sales Account (Being goods sold on credit)	Dr.	5,600	5,600
11	Office Stationery Account To Cash Account (Being bought office stationery)	Dr.	500	500

12	Rent Account To Cash Account (Being Rent Paid)	Dr.	400	400
14	Fixtures Account To Cash Account (Being bought fixtures)	Dr.	2,000	2,000
17	Cash Account To Gupta & Co. Account To Discount Allowed A/c (Being cash received in full statement)	Dr.	3,000	2,940 60
20	Ramasamy & Co. Account To Bank Account (Being cheque issued to Ramasamy & Co.)	Dr.	11,000	11,000
25	Bank Account To Cash Account (Being cash paid into bank)	Dr.	2,400	2,400
30	Insurance Premium Account To Bank Account (Being insurance premium paid by cheque)	Dr.	900	900

Illustration: 6

Journalize the following transactions :

2003

- March 1 K. Singh started business with cash Rs. 80,000
 2 Paid in to bank Rs. 4,000
 4 Goods purchased from Prasad & Co. for cash Rs. 30,000
 7 Goods sold for cash Rs. 12,000
 9 Bought furniture from Kapur & Co. for Rs. 10,000 and paid by cheque
 11 Goods sold to Sethi & Co. for Rs. 8000 on credit
 13 Goods purchased from Gupta & Co. Rs. 20,000 on credit
 15 Damaged goods returned to Gupta & Co. Rs. 10,000
 16 Cash received from Sethi & Co. Rs. 7880 in full settlement
 17 Withdraw goods for personal use Rs. 2000
 19 Withdraw cash from business for personal use Rs. 4000
 21 Paid telephone rent Rs. 2000
 24 Paid cash to Gupta & Co. in full settlement of Rs. 9800
 29 Brought stationery Rs. 400
 Paid rent to office building Rs. 1000
 Paid salaries to office staff Rs. 4000
 31 Paid advertisement expenses of Rs. 2000

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