

Simple and Compound Journal Entries

Journal entries are of two types:

1. Simple (Journal) Entry, and
2. Compound (Journal) Entry.

1. Simple (Journal) Entry

Simple (Journal) entry is a Journal entry in which one account is debited and another account is credited with an equal amount. For example, purchase of goods of ₹ 5,000 in cash. It affects two accounts, i.e.,

Purchases A/c	Expense A/c	Purchases A/c to be debited by ₹ 5,000.
Cash A/c	Real A/c	Cash A/c to be credited by ₹ 5,000.

Journal entry is:

Purchases A/c		...Dr.	₹ 5,000
	To Cash A/c		₹ 5,000

2. Compound (Journal) Entry

Compound (Journal) entry is a Journal entry in which one or more accounts are debited and/or one or more accounts are credited or *vice versa*. For example, sale of goods to Satish for ₹ 5,000. ₹ 2,000 is received in cash and balance to be received later.

This transaction of sale has effect on three accounts as follows:

Cash or Bank A/c	Asset A/c	Cash or Bank A/c to be debited by ₹ 2,000, it being received. Increase in asset is debited.
Satish's A/c	Asset A/c	Sale to Satish is of ₹ 5,000, against which ₹ 2,000 is received and balance ₹ 3,000 is receivable.
Sales A/c	Revenue A/c	Sales A/c to be credited by ₹ 5,000 because it is revenue.

Entry for the transaction is a compound entry as follows:

Cash/Bank A/c	...Dr.	₹ 2,000
Satish's A/c	...Dr.	₹ 3,000
		₹ 5,000
To Sales A/c		

Let us now take few Journal entries for more clarity.

(i) *Capital Introduction: Amit started business with ₹ 50,000 as Capital, in Cash.*

Cash A/c	...Dr.	₹ 50,000	Rule Applicable Debit what comes in. Credit the giver.
To Capital A/c		50,000	
(Capital introduced in cash)			

(ii) *Capital Introduction: Amit introduced further capital of ₹ 1,00,000 by cheque.*

Bank A/c	...Dr.	1,00,000	Debit the receiver. Credit the giver.
To Capital A/c		1,00,000	
(Capital introduced by cheque)			

- (iii) *Capital Introduction: Amit started business introducing capital of ₹ 50,000 in cash and ₹ 2,00,000 by cheque.*

	₹	₹	Rule Applicable
Cash A/c	...Dr. 50,000		Debit what comes in.
Bank A/c	...Dr. 2,00,000		Debit the receiver.
To Capital A/c		2,50,000	Credit the giver.

(Capital introduced in cash and by cheque)

- (iv) *Deposited ₹ 10,000 in bank.*

Bank A/c	...Dr. 10,000		Debit the receiver.
To Cash A/c		10,000	Credit what goes out.

(Cash deposited in bank)

- (v) *Purchased goods of ₹ 15,000 in cash.*

<u>Purchases A/c</u>	...Dr. 15,000		Debit all expenses.
To Cash A/c		15,000	Credit what goes out.

(Goods purchased in cash)

- (vi) *Purchased goods of ₹ 75,000 against cheque.*

<u>Purchases A/c</u>	...Dr. 75,000		Debit all expenses.
To Bank A/c		75,000	Credit the giver.

(Goods purchased against cheque)

- (vii) *Purchased goods of ₹ 5,000 in cash from Ramesh.*

Purchases A/c	...Dr. 5,000		Debit all expenses.
To Cash A/c		5,000	Credit what goes out.

(Goods purchased against cash)

Explanation: It is a cash transaction. Name of the seller is not relevant.

- (viii) *Purchased goods of ₹ 75,000 from Ramesh.*

Purchases A/c	...Dr. 75,000		Debit all expenses.
To Ramesh		75,000	Credit the giver.

(Goods purchased on credit)

Explanation: It is a credit transaction since name of the seller is given and it is not stated whether cash or cheque is given or not.

- (ix) *Goods costing ₹ 7,500 returned to Ramesh.*

Ramesh	...Dr. 7,500		Debit the receiver.
To Purchases Return/ Returns Outward A/c		7,500	Credit all incomes and gains.

(Goods purchased returned)

Explanation: Goods purchased from Ramesh are returned to him. It means liability towards Ramesh has reduced. Since goods purchased have been returned, Purchases Return or Returns Outward Account is credited.

(xi)

(xii)

(xiv)

(xv)

(x) Sold goods for ₹ 25,000 in cash.

Cash A/c	...Dr.	₹ 25,000	₹ 25,000
To Sales A/c			

Rule Applicable

Debit what comes in.
Credit all incomes
and gains.

(Goods sold in cash)

(xi) Sold goods for ₹ 50,000 against cheque.

Bank A/c	...Dr.	50,000	50,000
To Sales A/c			

Debit the receiver.
Credit all incomes
and gains.

(Goods sold against cheque)

(xii) Sold goods to Bikram for ₹ 10,000 against cash.

Cash A/c	...Dr.	10,000	10,000
To Sales A/c			

Debit what comes in.
Credit all incomes
and gains.

(Goods sold against cash)

Explanation: It is a Cash transaction. Name of the purchaser (Bikram) is not relevant.

(xiii) Sold goods to Ashutosh for ₹ 20,000.

Ashutosh	...Dr.	20,000	20,000
To Sales A/c			

Debit the receiver.
Credit all incomes
and gains.

(Goods sold on credit)

Explanation: It is a credit transaction since it is not stated whether sale is made against cash or cheque and name of the person to whom goods are sold is given.

(xiv) Ashutosh returned goods of ₹ 5,000.

Sales Return/ Returns Inward A/c	...Dr.	5,000	5,000
To Ashutosh			

Debit all expenses
and losses.

Credit the giver.

(Sold goods returned)

Explanation: Goods sold to Ashutosh are returned by him. It means less amount is receivable from him. Therefore, Ashutosh's Account is credited. Since goods sold are returned, Sales Return or Returns Inward Account is debited.

(xv) Paid Salaries ₹ 20,000, in cash.

Salaries A/c	...Dr.	20,000	20,000
To Cash A/c			

Debit all expenses.

Credit what goes out.

(Salaries paid in cash)

(xvi) Paid Electricity Expenses ₹ 2,000 in cash.	₹	₹	Rule Applicable Debit all expenses. Credit what goes out.	(xx)
Electricity Expenses A/c ...Dr.	2,000	2,000		
To Cash A/c (Electricity bill paid)				
(xvii) Withdraw cash ₹ 5,000 for personal expenses.			Debit the receiver. Credit what goes out.	(xv)
Drawings A/c ...Dr.	5,000	5,000		
To Cash A/c (Cash withdrawn for personal use)				
Explanation: Amount withdrawn or goods taken by the proprietor for personal use is debited to Drawings Account. Business Entity Concept prescribes that transactions be recorded in the books from the business point of view. Amount withdrawn by proprietor is amount taken against anticipated profits, while goods taken for personal use is not a sale for the firm. Hence, Drawings Account is debited.				
(xviii) Travelling Bill of ₹ 2,500 paid.			Debit all expenses. Credit what goes out.	(x)
Travelling Expenses A/c ...Dr.	2,500	2,500		
To Cash A/c (Travelling expenses paid)				
(xix) Advance (say, Travelling) ₹ 5,000 given to Rajiv.			Debit the receiver. Credit what goes out.	
Travelling Advance A/c ...Dr.	5,000	5,000		
To Cash A/c (Travelling advance given)				
(xx) Rajiv submitted travelling bill of ₹ 4,750, balance received.			Debit all expenses. Debit what comes in. Credit the giver.	(xx)
Travelling Expenses A/c ...Dr.	4,750			
Cash A/c ...Dr.	250			
To Travelling Advance A/c (Travelling expenses adjusted against travelling advance)	5,000			
(xxi) Rajiv submitted travelling bill of ₹ 5,500, balance paid.			Debit all expenses. Credit what goes out. Credit the giver.	(xx)
Travelling Expenses A/c ...Dr.	5,500			
To Cash A/c To Travelling Advance A/c (Travelling expenses adjusted against travelling advance)	500	5,000		
(xxii) Advance for machine ₹ 25,000 by cheque to Kiran Machines.			Debit the receiver. Credit the giver.	(xxii)
Kiran Machines/ Advance for Machine A/c ...Dr.	25,000			
To Bank A/c (Advance given for machine)		25,000		

(xxiii) Paid ₹ 5,000 to Raman, a creditor on account.

Raman	...Dr.	₹ 5,000	Rule Applicable
To Cash A/c (Cash paid to creditor)		5,000	Debit the receiver. Credit what goes out.

Explanation: The transaction does not specify that payment is by cheque therefore, it is accounted as cash transaction.

(xxiv) Issued cheque of ₹ 39,000 to Param, a creditor in settlement of his account of ₹ 40,000.

Param	...Dr.	₹ 40,000	Debit the receiver.
To Bank A/c		39,000	Credit the giver.
To Discount Received A/c		1,000	Credit all incomes and gains.

(Paid to Creditor by cheque, cash discount received)

Explanation: Cheque is given for ₹ 39,000 in settlement of his account of ₹ 40,000. Since no amount is due to Param after payment, ₹ 1,000 is a gain (profit) for the firm. Hence, it is credited to Discount Received Account.

(xxv) Received cheque of ₹ 29,500 from Surender, a debtor in settlement of his account of ₹ 30,000.

Bank A/c	...Dr.	₹ 29,500	Debit the receiver.
Discount Allowed A/c	...Dr.	500	Debit all expenses.
To Surender		30,000	Credit the giver.

(Cheque received from Surender in settlement, cash discount allowed)

Explanation: Cheque is received for ₹ 29,500 in settlement of his account of ₹ 30,000. Since no amount is due from Surender after payment, ₹ 500 is a loss for the firm. Hence, it is debited to Discount Allowed Account.

(xxvi) Paid Telephone Bill of ₹ 1,000 in cash.

Telephone Expenses A/c	...Dr.	1,000	Debit all expenses.
To Cash A/c		1,000	Credit what goes out.

(Telephone bill paid)

(xxvii) Withdrew goods costing ₹ 5,000 for personal use.

Drawings A/c	...Dr.	₹ 5,000	Debit the receiver.
To Purchases A/c		5,000	Credit what goes out.

(Drawings of goods made)

(xxviii) Goods costing ₹ 2,500 given as samples.

Sales Promotion Expenses			
Sample Expenses A/c	...Dr.	₹ 2,500	Debit all expenses.
To Purchases A/c		2,500	Credit what goes out.

(Goods given as samples)

		₹	₹	Rule Applicable
(xxix)	Goods costing ₹ 2,500 given as donation.	2,500	2,500	Debit all expenses. Credit what goes out.
	Donation A/c ...Dr.			
	To Purchases A/c			
	(Goods donated)			
(xxx)	Rebate of ₹ 2,000 allowed to Raman on goods sold.	2,000	2,000	Debit all expenses. Credit the giver.
	Rebate Allowed A/c ...Dr.			
	To Raman			
	(Rebate allowed)			
(xxxi)	Rebate of ₹ 3,000 received from Kapil on goods purchased.	3,000	3,000	Debit the receiver. Credit all incomes and gains.
	Kapil ...Dr.			
	To Rebate Received A/c			
	(Rebate received)			

Illustration 3.

Pass the Journal entries for the following transactions:

2022			₹
April	1	Nitin started business with cash	1,00,000
April	2	Purchased office furniture in cash	5,000
April	3	Purchased goods in cash	20,000
April	4	Purchased goods from Hari & Co.	1,00,000
April	5	Sold goods against cash	20,000
April	6	Sold goods to Ramesh & Co.	75,000
April	7	Paid salary to staff in cash	15,000
April	8	Paid electricity bill	2,000
April	9	Paid telephone bill	500
April	10	Purchased stationery in cash	250

Solution:

JOURNAL OF NITIN

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2022				
April 1	Cash A/c To Capital A/c (Capital introduced by Nitin)	...Dr.	1,00,000	1,00,000
April 2	Furniture A/c To Cash A/c (Furniture purchased)	...Dr.	5,000	5,000
April 3	Purchases A/c To Cash A/c (Goods purchased)	...Dr.	20,000	20,000
April 4	Purchases A/c To Hari & Co. (Goods purchased on credit)	...Dr.	1,00,000	1,00,000

Journal Date	Debit Side (Dr.)	Credit Side (Cr.)
April 5	Cash A/c To Sales A/c (Goods sold for cash)	...Dr. 20,000
April 6	Ramesh & Co. To Sales A/c (Goods sold on credit)	...Dr. 75,000
April 7	Salary A/c To Cash A/c (Salary paid)	...Dr. 15,000
April 8	Electricity Expenses A/c To Cash A/c (Electricity bill paid)	...Dr. 2,000
April 9	Telephone Expenses A/c To Cash A/c (Telephone bill paid)	...Dr. 500
April 10	Stationery A/c To Cash A/c (Stationery purchased)	...Dr. 250

Illustration 4.

Pass the Journal entries for the following transactions:

Date	Particulars	₹
2022 April 1	Pawan started business with cash	1,00,000
April 2	Opened Bank Account with cheque from Savings Account	50,000
April 3	Purchased computer against cash	20,000
April 4	Paid for repairs of office	2,500
April 5	Purchased goods in cash	10,000
April 6	Purchased goods from Prasad & Co.	1,00,000
April 7	Sold goods against cash	20,000
April 8	Sold goods to Dev & Co.	75,000
April 9	Dev & Co. returned goods, they being defective	15,000
April 10	Goods returned to Prasad & Co.	8,000
April 11	Paid salaries	15,000

Solution:**JOURNAL OF PAWAN**

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2022 April 1	Cash A/c To Capital A/c (Capital introduced by Pawan)	...Dr.	1,00,000	1,00,000
April 2	Bank A/c To Capital A/c (Bank account opened with personal cheque)	...Dr.	50,000	50,000
April 3	Computer A/c To Cash A/c (Computer purchased)	...Dr.	20,000	20,000

		...Dr.	2,500	2,500
April 4	Repairs A/c To Cash A/c (Repair expenses paid)	...Dr.	10,000	10,000
April 5	Purchases A/c To Cash A/c (Goods purchased for cash)	...Dr.	1,00,000	1,00,000
April 6	Purchases A/c To Prasad & Co. (Goods purchased on credit)	...Dr.	20,000	20,000
April 7	Cash A/c To Sales A/c (Goods sold for cash)	...Dr.	75,000	75,000
April 8	Dev & Co. To Sales A/c (Goods sold on credit)	...Dr.	15,000	15,000
April 9	Sales Return A/c <i>[Signature]</i> To Dev & Co. (Goods returned by Dev & Co.)	...Dr.	8,000	8,000
April 10	Prasad & Co. To Purchases Return A/c (Goods returned to Prasad & Co.)	...Dr.	15,000	15,000
April 11	Salaries A/c To Cash A/c (Salaries paid)	...Dr.		

Solution:	
Date	Par
2022 April 1	Cash Bank
April 1	(A/c Re
April 2	(C/Ba
April 3	(G/Pu
April 4	(C/Ca
April 13	(C/Pi
April 13	(C/C
April 20	K/C
April 24	C/C
April 28	S/C
April 29	
April 30	
Note: Led	

Illustration 5.

Transactions of Ramesh for April, 2022 are given below. Journalise them.

2022		₹
April 1	Ramesh started business with cash ₹ 50,000 and cheque ₹ 1,00,000	10,000
April 1	Paid for repair of premises	70,000
April 2	Cash deposited into bank	5,000
April 3	Bought goods for cash	1,000
April 4	Drew cash from bank for office <i>[Again]</i>	22,500
April 13	Bought goods from Shyam	500
April 13	Paid cartage on goods purchased	15,000
April 20	Sold goods to Krishna	10,000
April 24	Received from Krishna on account	22,500
April 28	Paid to Shyam by cheque	3,000
April 29	Placed an order for goods with Daruwala & Co. <i>[11]</i>	8,000
April 30	Cash sales	3,000
April 30	Paid salary to Ram	250
April 30	Paid for stationery	
April 30	Received balance payment from Krishna	

Solution:**JOURNAL OF RAMESH**

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2022 April 1	Cash A/c Bank A/c To Capital A/c (Amount invested by Ramesh as capital)	1 5 4	50,000 1,00,000	1,50,000
April 1	Repairs A/c To Cash A/c (Cash paid for repairs)	3 1	10,000	10,000
April 2	Bank A/c To Cash A/c (Cash deposited in the bank)	5 1	70,000	70,000
April 3	Purchases A/c To Cash A/c (Goods purchased for cash)	7 1	5,000	5,000
April 4	Cash A/c To Bank A/c (Cash withdrawn from the bank)	1 5	1,000	1,000
April 13	Purchases A/c To Shyam (Goods bought from Shyam on credit)	7 10	22,500	22,500
April 13	Carriage Inwards A/c To Cash A/c (Cartage paid on purchases)	12 1	500	500
April 20	Krishna To Sales A/c (Goods sold to Krishna on credit)	9 8	15,000	15,000
April 24	Cash A/c To Krishna (Cash received from Krishna on account)	1 9	10,000	10,000
April 28	Shyam To Bank A/c (Paid to Shyam by cheque)	10 5	22,500	22,500
April 29	Placing of an order is not a transaction, hence no entry is passed.			
April 30	Cash A/c To Sales A/c (Goods sold for cash)	1 8	8,000	8,000
April 30	Salaries A/c To Cash A/c (Salary paid)	11 1	3,000	3,000
April 30	Stationery A/c To Cash A/c (Stationery purchased)	13 1	250	250
April 30	Cash A/c To Krishna (Balance payment received)	1 9	5,000	5,000
	Total		3,22,750	3,22,750

Note: Ledger folios are imaginary.

DISCOUNT AND REBATE

Discount is an allowance given by the seller of goods and can be of three types:

1. Trade Discount;
2. Cash Discount; and
3. Rebate.

TRADE DISCOUNT

Trade Discount is a discount allowed by the seller at the time when goods are sold in large quantity. It is normally allowed by the seller to the purchaser who sells the goods further. It is deducted in the invoice from List Price (also called categories Price).

Accounting of Trade Discount

Trade Discount is not recorded in the books of account separately. Sale is recorded at the net value, i.e., sale price less trade discount.

For example, Amit sells goods to Vikas of ₹ 10,000 allowing him trade discount of 20%. The invoice will be prepared as follows:

	₹
List Price	1,00,000
Less: Trade Discount (20%)	20,000
Sale Value	<u>80,000</u>

Amit will pass following Journal entry in his books of account:

Vikas	...Dr.	₹ 80,000
To Sales A/c (Goods sold to Vikas)		80,000
Vikas	...Dr.	₹ 80,000
Purchases A/c To Amit (Goods purchased from Amit)		80,000

Advantages of Trade Discount

1. It improves sales by encouraging the purchaser to buy large quantities.
2. It reduces the purchase cost of the purchaser and thus, increases profit margin.
3. A change in the rate of trade discount may be used as a tool to face competition.
4. Different prices can be charged from regular customers and occasional customers.
5. It enables the retailer to sell at the 'list price' and earn better profit.

Remember

Trade Discount is not shown separately but purchases or sales is recorded at value after trade discount.

CASH DISCOUNT

Cash Discount is allowed by the seller of goods to encourage prompt or early payment. Thus, it is allowed if the payment is received within the specified time. It is allowed on the amount received normally as a percentage, say 2%. Cash discount is allowed after allowing trade discount from the invoice price.

For example, Param sells goods of ₹ 1,00,000 allowing 10% Trade Discount and 2% Cash Discount. Cash Discount will be calculated as follows:

	₹
List Price	1,00,000
Less: Trade Discount (10%)	<u>10,000</u>
Sale Value	<u>90,000</u>
Less: Cash Discount (2% of ₹ 90,000)	<u>1,800</u>
Amount Received	<u>88,200</u>

Cash discount is allowed on receipt of amount in cash or by cheque. It is an expense for the business allowing it and gain for the business receiving it.

Accounting of Cash Discount

It is recorded separately in the books of both the parties. Cash discount allowed is debited to 'Discount Allowed Account' by the party receiving the amount and cash discount received is credited to 'Discount Received Account' by the party making the payment. Discount received or discount allowed is related to payment and thus, they are recorded in the books of account along with the entry recorded for payment and receipt of amount, in cash or by cheque. The accounting entries for cash discount are passed as follows:

(i) When Cash Discount is received:

Creditors' A/c	...Dr.
To Cash or Bank A/c	...Dr.
To Discount Received A/c	...Dr.

(ii) When Cash Discount is allowed:

Cash or Bank A/c	...Dr.
Discount Allowed A/c	...Dr.
To Debtors' A/c	...Dr.

Advantages of Cash Discount

1. Seller of goods realises the sales amount promptly. Cash discount is allowed to encourage a debtor to pay within a specified period.
2. The possibility of bad debts is reduced for the seller.
3. It improves cash inflow of the business which can be better utilised.
4. Early payment results in higher cash discount, thus, increases income.
5. Better cash discount earning enables selling of goods at lower prices.

REBATE

Rebate is also a discount allowed by the seller of goods but for the reasons other than for which trade discount and cash discount are allowed. For example, rebate may be allowed for poor quality of goods, goods sold being not as per specification, etc. It is different from Trade Discount as trade discount is allowed on higher volume of goods purchased by the purchaser and rebate is allowed for reasons other than higher volume of goods purchased.

Accounting of Rebate

Rebate, like trade discount, reduces the sale value of goods for the seller and for the purchaser it reduces cost of goods purchased.

Continuing the above example for trade discount. Goods sold by Amit to Vikas were of poor quality and therefore, Amit allowed him rebate of ₹ 5,000.

Amit will pass following entry for rebate allowed:

Rebate Allowed A/c	...Dr.	5,000
To Vikas		5,000
(Rebate allowed on goods sold to Vikas)		

Rebate allowed will be deducted by the seller from Sale Value in the Trading Account.

Vikas will pass following Journal entry for rebate received:

Amit	...Dr.	5,000
To Rebate Received A/c		5,000
(Rebate received from Amit)		

Rebate received is deducted by the Purchaser from Purchases in the Trading Account.

Illustration 6.

Bina Watch Co., Delhi purchased 25 pieces of "Time Star" brand watches from "Pioneer Watches", Delhi at list price of ₹ 2,000 per piece less 10% Trade Discount and Cash Discount of 2% on payment within 15 days from the date of the transaction. Bina Watch Co. settled the payment in 15 days time. Pass the Journal entries in the books of both the parties.

Solution:

ACCOUNTING TREATMENT

<i>Bina Watch Co., Delhi</i>		<i>Pioneer Watches, Delhi</i>	
(i) On Purchase:			
Purchases A/c	...Dr.	₹ 45,000	₹
To Pioneer Watches, Delhi		45,000	
(Purchases of 25 "Time Star" watches @ ₹ 2,000 each at a Trade Discount of 10%)			
(ii) On Making Cash Payment:		(ii) On Receiving Cash Payment:	
Pioneer Watches, Delhi	...Dr.	₹ 45,000	₹
To Cash A/c		44,100	
To Discount Received A/c		900	
(Cash paid in settlement of dues at a discount of 2%)			
		(Cash received in settlement of a bill at a discount of 2%)	

Difference between Trade Discount, Rebate and Cash Discount

Basis	Trade Discount	Rebate	Cash Discount
1. Nature	It is allowed on sale or purchase of certain quantity.	It is allowed because of reasons other than those for which trade discount and cash discount are allowed. Say because of poor quality.	It is allowed on payment being made on or before the due date.
2. Nature of Transaction	It is allowed on both cash and credit sales or purchases.	It is allowed on both cash and credit sales.	It is allowed only on payment.
3. Recording	Trade discount is not recorded separately in the books of account.	It is recorded separately in the books of account because it is allowed after the sale is made.	Cash discount is recorded separately in the books of account.
4. Deduction from invoice	The amount of the trade discount is deducted from the invoice.	It is not deducted from the invoice but, it is deducted from sales/purchases in Trading Account.	It is not deducted from the invoice.
5. Consideration	The consideration for allowance is purchases.	The consideration for allowance is other than for which Trade Discount and Cash Discount are allowed.	The consideration for allowance is payment.
6. Relation	It is related to sale and purchase of goods.	It is related to sale and purchase of goods.	It is related to payment.

Accounting Entries of Some Specific Transactions

1. Bad Debts

If an amount, say of credit sales, is not recoverable or is partially recoverable then the amount not recoverable is Bad Debt. It being a loss for the business, is debited to the Bad Debts Account and credited to the personal account of the debtors. The Journal entries passed are:

- (i) When the total due amount is not recoverable:

Bad Debts A/c ...Dr.
To Debtor's (Personal) A/c

- (ii) When a part of the debt is recovered:

When a debtor pays a part of due amount in settlement, the amount not realised is a loss to the business. The Journal entry passed is:

Cash or Bank A/c	...Dr. [With the amount received]	[With the amount which is not recovered]
Bad Debts A/c	...Dr.	[Total amount of debtor]
To Debtor's (Personal) A/c		

Illustration 7.

Pass the Journal entries for the following transactions of Ashish Traders:

2022	May	1	Paid cash to Maira against dues Received cash discount	₹ 9,750 250
	May	3	Sold goods to Hemant of List Price ₹ 20,000 less 10% Trade Discount	2,500
	May	7	Sold goods in cash	
	May	10	Goods returned by Hemant of List Price ₹ 2,000	
	May	20	Received cash from Hemant in settlement of his account	15,700
	May	20	Bought goods from Nihar of List Price ₹ 30,000 less 15% Trade Discount	
	May	22	Goods returned to Nihar of List Price ₹ 5,000, not being as per specifications	
	May	25	Paid to Nihar on account Received cash discount	9,800 200 14,000
	May	30	Paid salary to Jiten	

Solution:**JOURNAL OF ASHISH TRADERS**

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2022 May 1	Maira To Cash A/c To Discount Received A/c (Amount paid to Maira, availed Cash Discount)	...Dr.	10,000	9,750 250
May 3	Hemant To Sales A/c (Goods sold on credit allowing 10% Trade Discount)	...Dr.	18,000	18,000
May 7	Cash A/c To Sales A/c (Goods sold against cash)	...Dr.	2,500	2,500
May 10	Sales Return A/c To Hemant (Goods returned by Hemant of ₹ 1,800 (i.e., ₹ 2,000 – ₹ 200))	...Dr.	1,800	1,800
May 20	Cash A/c Discount Allowed A/c To Hemant (Cash received from Hemant in Settlement)	...Dr. ...Dr.	15,700 500	16,200
May 20	Purchases A/c To Nihar (Goods purchased from Nihar of List Price ₹ 30,000 less 15% Trade Discount)	...Dr.	25,500	25,500
May 22	Nihar To Purchases Return A/c (Goods returned, being not as specified)	...Dr.	4,250	4,250
May 25	Nihar To Cash A/c To Discount Received A/c (Part payment made, Cash Discount received)	...Dr.	10,000	9,800 200
May 30	Salaries A/c To Cash A/c (Salary paid to Jiten)	...Dr.	14,000	14,000

Illustration 8.

Pass the Journal entries for the following transactions of Akash & Co.:

2022	May 3	Sold goods to Yogesh of List Price ₹ 50,000 less 10% Trade Discount	₹
	May 7	Sold goods to Raman against cash Allowed Cash Discount @ 2%	5,000
	May 10	Allowed Rebate to Yogesh for accepting damaged goods	2,500
	May 20	Received cash from Yogesh on account Allowed him discount	34,300
	May 20	Bought goods from Kabir of List Price ₹ 40,000 less 20% Trade Discount	700
	May 22	Goods returned to Kabir of List Price ₹ 4,000, not being as per specifications Received Rebate from Kabir for accepting damaged goods	

transactions should be equal to the amounts credited. Thus, totals of debit column and credit column should match.

Important Considerations for Determining Cash and Credit Transactions

1. If a transaction is of sales or purchases of goods giving the name of the seller or purchaser and it is not stated that cash is transacted, it is accounted as a credit transaction. For example, 'Goods sold to Mohan' means that goods are sold to Mohan on credit.
Accordingly, Mohan's Account is debited and Sales Account is credited.
2. If a transaction is of sales or purchases giving the name of seller or purchaser stating that cash is transacted, it is accounted as a cash transaction. For example, 'Goods sold to Mohan for cash or against cheque means goods are sold in cash.'
Accordingly, Cash/Bank Account is debited and Sales Account is credited.
3. If a transaction is of sales or purchases and the name of the seller or purchaser is not given, it is accounted as a cash transaction. For example, goods sold for ₹ 10,000.
4. In Expense Accounts, even if the name of the party receiving or making payment is given, it is accounted as expense incurred in cash. Personal Account of the person receiving the amount is not debited. For example, if salary of ₹ 5,000 is paid to Ranjan, the transaction will not be recorded in the account of Ranjan, instead Salary Account is debited and Cash/Bank Account is credited.
5. Introduction of capital in the business by the proprietor is credited to his/her Capital Account whereas withdrawal of cash or goods for his/her personal use is debited to Drawings Account.

Recording in Journal

Transactions are recorded in Journal from the viewpoint of business because of 'Business Entity Concept'. Transactions are recorded on the basis of accounting