

(Goods returned, being not as specified)		Dr.		
May 25	Nihar	10,000		9,800
	To Cash A/c			200
	To Discount Received A/c			
	(Part payment made, Cash Discount received)			
	Dr.		14,000	
May 30	Salaries A/c			14,000
	To Cash A/c			
	(Salary paid to Jiten)			

Illustration 8.

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

2022		Dr.		Cr.
May	3	Sold goods to Yogesh of List Price ₹ 50,000 less 10% Trade Discount	5,000	
May	7	Sold goods to Raman against cash		
		Allowed Cash Discount @ 2%		
May	10	Allowed Rebate to Yogesh for accepting damaged goods	2,500	
May	20	Received cash from Yogesh on account	34,300	
		Allowed him discount		700
May	20	Bought goods from Kabir of List Price ₹ 40,000 less 20% Trade Discount		
May	22	Goods returned to Kabir of List Price ₹ 4,000, not being as per specifications		3,000
		Received Rebate from Kabir for accepting damaged goods		9,800
May	25	Paid to Kabir on account		200
		Received cash discount		
May	30	Amount due from Yogesh was not recoverable. It was to be written off		

JOURNAL OF AKASH & CO.

2. Bad Debts Recovered

Cash or Bank A/c
To Bad Debts Recovered A/c
Bad Debts Recovered Account is shown in the credit side of Profit & Loss Account.

Illustration 9.

Journalise the following transactions:

- (i) ₹ 5,000 due from Ramesh are irrecoverable.
 (ii) Sohan is declared insolvent. Received from his Official Receiver 60 paise in a rupee on a debt of ₹ 10,000.
 (iii) Received cash for a bad debt written off last year ₹ 700.

Solution:

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
(i)	Bad Debts A/c To Ramesh (Bad debts written off)	...	5,000	5,000
(ii)	Cash A/c <u>Bad Debts A/c</u> To Sohan (Cash dividend of 60 paise in a rupee out of his debt of ₹ 10,000 received from Sohan on his insolvency)	...Dr. ...Dr.	6,000 4,000	10,000
(iii)	Cash A/c To Bad Debts Recovered A/c* (Cash received on account of recovery of a bad debt which was previously written off)	...Dr.	700	700

*Recovery of bad debts written off last year is a gain, therefore, it is credited to the Bad Debts Recovered Account.

Illustration 11.
Pass Journal entries for the following transactions of Nidhi:

2022		₹
April	1 Nidhi introduced capital to start a business: in cash; and by cheque	1,00,000 5,00,000
April	1 Purchased goods against cash	25,000
April	2 Purchased goods of ₹ 2,00,000 less Trade Discount 10% from Prabhat Electric Co. on the terms that on payment received within 10 Days, Cash Discount will be allowed @ 5% and on payment received within next 20 days, 2% Cash Discount will be allowed.	1,00,000
April	2 Issued cheque as advance for goods	1,00,000
April	3 Purchased goods of ₹ 2,00,000 less 25% Trade Discount and paid immediately availing Cash Discount of 2%	1,47,000
	Payment was made by Bank Draft paying ₹ 200 as Bank Charges	3,000
April	5 Sold goods against cash	40,000
April	5 Paid amount to Prabhat Electric Co. on account	1,00,000
April	7 Sold goods to Mohit on the terms that Cash Discount shall be allowed @ 5% on payment made within 7 Days and @ 2% on payment made by 30th April, 2022	50,000
April	11 Sold goods to Karan ₹ 25,000 less 10% Trade Discount	
	Amount was received from Mohit after Cash Discount	
April	13 Received cheque from Karan in settlement of his account	21,500
April	14 Paid Balance amount to Prabhat Electric Co.	
April	20 Cheque received from Karan deposited in bank	200
April	25 Bank charged bank charges	2,500
April	30 Insurance premium paid for insuring the goods	20,000
	Paid Salaries to staff by cheque	

Solution:**JOURNAL OF NIDHI**

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2022				
April 1	Cash A/c ...Dr. Bank A/c ...Dr. To Capital A/c (Capital introduced in cash and by cheque)		1,00,000 5,00,000	6,00,000
April 1	Purchases A/c ...Dr. To Cash A/c (Goods purchased for cash)		25,000	25,000
April 2	Purchases A/c ...Dr. To Prabhat Electric Co. (Goods purchased on credit)		1,80,000	1,80,000
April 2	Advance for Purchases A/c ...Dr. To Bank A/c (Advance paid for purchase of goods)		1,00,000	1,00,000
April 3	Purchases A/c ...Dr. Bank Charges A/c ...Dr. To Bank A/c To Discount Received A/c (Purchase of goods at 25% Trade Discount and availed 2% Cash Discount on payment by bank draft)		1,50,000 200	1,47,200 3,000
April 5	Cash A/c ...Dr. To Sales A/c (Goods sold for cash)		40,000	40,000
April 5	Prabhat Electric Co. ...Dr. To Bank A/c To Discount Received A/c (Cheque issued and availed Cash Discount 5%)		1,00,000	95,000 5,000
April 7	Mohit ...Dr. To Sales A/c (Goods sold on credit)		50,000	50,000
April 11	Karan ...Dr. To Sales A/c (Goods sold on credit allowing 10% Trade Discount)		22,500	22,500
April 11	Bank A/c ...Dr. Discount Allowed A/c ...Dr. To Mohit ...Dr. (Cash received from Mohit and allowed 5% Cash Discount)		47,500 2,500	50,000
April 13	Cheques in Hand A/c ...Dr. Discount Allowed A/c ...Dr. To Karan ...Dr. (Cash received from Karan, allowed Cash Discount)		21,500 1,000	22,500

April 13	Prabhat Electric Co. To Bank A/c To Discount Received A/c (Cash paid and availed 2% Cash Discount)	...Dr.	80,000	78,400 1,600
April 14	Bank A/c To Cheques in Hand A/c (Cheque of Karan deposited)	...Dr.	21,500	21,500
April 20	Bank Charges A/c To Bank A/c (Bank charges charged by bank)	...Dr.	200	200
April 25	Insurance Expenses A/c To Bank A/c (Insurance Premium paid for insuring the goods)	...Dr.	2,500	2,500
April 30	Salaries A/c To Bank A/c (Salaries paid to staff)	...Dr.	20,000	20,000

4. Goods Given as Charity or Goods Donated

The amount of purchases is reduced with the purchase cost of goods given as Charity or Donation. Purchases are reduced because the goods are not sold. The Journal entry passed is:

Charity/Donation A/c	...Dr.	[Purchase Cost]
To Purchases A/c		[Purchase Cost]

5. Goods Given as Samples

Goods are given as samples to encourage sales. It is not a sale but part of the advertisement or sales promotion expense, hence, it is debited to the Advertisement (Sales Promotion) Expenses Account or Samples Account and deducted from, i.e., credited to purchases. The Journal entry is:

Advertisement (Sales Promotion) Expenses/Samples A/c	...Dr.
To Purchases A/c	

6. Loss of Stock by Theft or Fire

In both the cases, it is loss of goods and loss to business. The following entry is passed:

Loss of Stock by Theft or Fire A/c	...Dr.
To Purchases A/c	

Loss of Stock by Theft or Fire Account is debited because the loss incurred is an increase in expense and the Purchases Account is credited because it is not a sale.

(i) In case goods were insured and Insurance claim for the amount of loss is lodged:

Insurance Co.	...Dr.
To Loss of Stock by Theft or Fire A/c	

(ii) When the full amount of claim is received from the Insurance Company:

Bank A/c	...Dr.
To Insurance Co.	

(iii) When the Insurance Company does not pay full claim amount:

Bank A/c	...Dr.	[Amount received as claim admitted]
Loss of Stock by Theft or Fire A/c	...Dr.	[Loss, i.e., claim not admitted]
(Profit & Loss A/c)		
To Insurance Co.		[Total claim]

7. Drawings

Drawings means amount or goods withdrawn by the proprietor for personal use.

(i) Drawings in Cash

Cash withdrawn by proprietor or amount paid for personal expenses of the proprietor (say for Life Insurance Premium, Income Tax, purchase of refrigerator etc.) is debited to Drawings Account since it is withdrawn for personal use and not for business.

The Journal entry passed is:

Drawings A/c	...Dr.
To Cash A/c	

(ii) Drawings of Goods

Goods taken by the proprietor for personal use is debited to Drawings Account and credited to Purchases Account at its purchase cost since it is not a sale.

The Journal entry passed is:

Drawings A/c	...Dr.
To Purchases A/c	

Illustration 12.

Journalise the following:

- Cash withdrawn by the proprietor for personal use ₹ 2,000.
- Goods purchased for ₹ 5,000 were taken by the proprietor for personal use.
- Paid ₹ 5,000 as life insurance premium of the proprietor.
- Goods uninsured of ₹ 3,000 (purchase cost) were destroyed by fire.
- Goods costing ₹ 1,000 damaged by fire and Insurance Company accepted claim of ₹ 800 and cheque is received from the Insurance Company.
- Goods costing ₹ 500 given as charity (Sales Price ₹ 600).
- Sold household furniture for ₹ 5,000. The proceeds were invested into business.

Solution:

JOURNAL				
Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
(i)	Drawings A/c			
	To Cash A/c	...Dr.	2,000	2,000
	(Cash withdrawn for personal use)			
(ii)	Drawings A/c			
	To Purchases A/c	...Dr.	5,000	5,000
	(Goods used for personal purpose)			

(iii)	Drawings A/c To Cash A/c (Life insurance premium paid)	...Dr.	5,000	5,000
(iv)	Loss of Stock by Fire A/c To Purchases A/c (Goods destroyed by fire)	...Dr.	3,000	3,000
(v)	Loss of Stock by Fire A/c To Purchases A/c (Loss of goods by fire accounted)	...Dr.	1,000	1,000
	Insurance Company To Loss of Stock by Fire A/c (Insurance claim lodged with the Insurance Company)	...Dr.	1,000	1,000
	Bank A/c Loss of Stock by Fire A/c (Profit & Loss A/c) To Insurance Company (Insurance claim received from Insurance Company)	...Dr. ...Dr.	800 200	1,000
(vi)	Charity/Donation A/c To Purchases A/c (Goods given as charity)	...Dr.	500	500
(vii)	Cash A/c To Capital A/c (Sale of household furniture and the proceeds invested in the business)	...Dr.	5,000	5,000
Explanation: Sold furniture is not an asset of the business but is a personal asset of the proprietor. Hence, Furniture Account is not credited on sale. Cash realised on sale is invested in business. Hence, Capital Account is credited.				

Illustration 13.

Journalise the following transactions in the books of Raja Ram:

- Received ₹ 19,000 from Shyam on his account for ₹ 20,000.
- Received ₹ 19,000 from Bharat in settlement of his account for ₹ 20,000.
- Paid ₹ 9,000 to Mohan on his account for ₹ 10,000.
- Paid ₹ 9,000 to Sohan in settlement of his account for ₹ 10,000.
- Goods costing ₹ 3,000 distributed as sample (Sales Price ₹ 4,000).
- Paid Income Tax ₹ 20,000 by cheque.
- Paid Life Insurance Premium ₹ 5,000 by cheque.
- Goods destroyed by fire (Sales Price ₹ 5,000, Cost ₹ 4,000).

Solution:

JOURNAL				
Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
(i)	Cash A/c To Shyam (Cash received from Shyam on account)	...Dr.	19,000	19,000
(ii)	Cash A/c Discount Allowed A/c To Bharat (Cash received from Bharat in settlement and allowed discount)	...Dr. ...Dr.	19,000 1,000	20,000

(iii)	Mohan	...Dr.	9,000	
	To Cash A/c			9,000
	(Cash paid to Mohan on account)			
(iv)	Sohan	...Dr.	10,000	
	To Cash A/c			9,000
	To Discount Received A/c			1,000
	(Cash paid to Sohan in settlement and received discount of ₹ 1,000)			
(v)	Sales Promotion A/c	...Dr.	3,000	
	To Purchases A/c			3,000
	(Goods distributed as sample)			
(vi)	Drawings A/c	...Dr.	20,000	
	To Bank A/c			20,000
	(Income tax paid)			
(vii)	Drawings A/c	...Dr.	5,000	
	To Bank A/c			5,000
	(Life Insurance premium paid)			
(viii)	Loss due to Fire A/c	...Dr.	4,000	
	To Purchase A/c			4,000
	(Goods destroyed by fire)			

8. Purchase and Sale of Fixed Assets

Fixed assets such as Machinery, Furniture and Fixtures, etc., are purchased to increase the earning capacity of the business and not for resale like goods. Following entries are passed to record purchase and sale of fixed assets:

On Purchase of Fixed Asset:

Fixed Asset A/c	...Dr.	[With Purchase Cost]
To Cash/Bank A/c		[If purchased against immediate payment]
To Supplier's A/c		[If purchased on credit]

On Sale of Fixed Asset:

Cash/Bank A/c	...Dr.	[If sold against immediate receipt]
Purchaser's A/c	...Dr.	[If sold on credit]
Loss on Sale of Fixed Asset A/c*	...Dr.	[Book Value – Sale Value]
To Fixed Asset A/c		[Book Value]
To Gain (Profit) on Sale of Fixed Asset A/c*		[Sale Value – Book Value]

*Either of the two accounts will appear.

9. Expenditure on Installation of Machinery and on Construction of Building

Expenditure incurred to make the asset ready for use is a Capital Expenditure. Expenses such as carriage and installation of machinery, e.g., freight, wages paid for the installation, etc., are necessary expenses to make the asset ready for use. Thus, they are 'capital expenditure' and are debited to Machinery Account. For example, expenditure incurred for the construction of Building such as purchase of construction materials and payment of wages are 'capital expenditure' and debited to the Building Account.

Illustration

Date	Particulars	Debit	Credit
2022			
May 1			
May 1			
May 2			
May 2			
May 2			

Solution

Date	Particulars	Debit	Credit
2022			
May 1			
May 10			
May 15			
May 20			
May 21			
May 25			

10. Miscellaneous

Often pet
a business
Therefore
Journal en

Illustration 14.

Journalise the following transactions in the books of Gopal:

2022			₹
May	1	Purchased building and issued cheque	15,00,000
May	10	Purchased machinery from Remson, Chandigarh on credit	2,00,000
May	15	Bought furniture from Hind Traders, Delhi for cash	10,000
May	20	Bought computers from HP Ltd., Noida (UP) and amount paid by internet transfer	50,000
May	21	Paid in cash for installation of machinery	2,500
May	25	Bricks, cement, etc., for ₹ 1,50,000 and Timber for ₹ 2,00,000 purchased for the renovation of building. Payment was made by cheque.	

Solution:**JOURNAL OF GOPAL**

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2022				
May 1	Building A/c ...Dr. To Bank A/c (Building purchased and cheque issued)		15,00,000	15,00,000
May 10	Machinery A/c ...Dr. To Remson, Chandigarh (Machinery purchased on credit from Remson)		2,00,000	2,00,000
May 15	Furniture A/c ...Dr. To Cash A/c (Furniture purchased in cash)		10,000	10,000
May 20	Computers A/c ...Dr. To Bank A/c (Computer purchased)		50,000	50,000
May 21	Machinery A/c ...Dr. To Cash A/c (₹ 2,500 paid for installation of machinery)		2,500	2,500
May 25	Building A/c ...Dr. To Bank A/c (Bricks, cement, etc., for ₹ 1,50,000 and timber for ₹ 2,00,000 purchased for the renovation of building)		3,50,000	3,50,000

10. Miscellaneous or Sundry Expenses

Often petty expenses such as refreshment, postage, conveyance, etc., are incurred in a business. These expenses involve small amounts that are not material in nature. Therefore, such expenses are recorded as Miscellaneous or Sundry Expenses. The Journal entry passed is:

Miscellaneous or Sundry Expenses A/c ...Dr.
To Cash A/c

(viii)	Capital A/c To Interest on Drawings A/c (Interest charged on drawings)	...Dr.	600	600
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OPENING JOURNAL ENTRY

Enterprises close their books of account at the end of each year due to Accounting Period Concept. In this process nominal accounts (under Traditional Classification) and Expense and Income Accounts (under Modern Classification) are closed by transferring them to Trading Account or Profit & Loss Account. The balances of Personal and Real Accounts (under Traditional classification of accounts) and Asset, liability and Capital Accounts (under Modern classification of accounts) are carried forward to the next year. These balances become the opening balances of the next year.

The first entry in the Journal is passed to record closing balances of the previous year. It is called **Opening Journal Entry**. The Balance Sheet prepared at the end of the year shows the closing balances of each asset and liability and forms the basis for this opening entry. While passing an opening entry, all Assets are debited individually whereas Capital and Liabilities are individually credited. If Capital is not given, it is calculated by applying the accounting equation, i.e.,

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

Or

$$\text{Capital} = \text{Assets} - \text{Liabilities}$$

Following example will make it more clear:

BALANCE SHEET as at 31st March, 2022

Liabilities	₹	Assets	₹
Sundry Creditors	56,000	Cash in Hand	4,300
Capital	2,00,000	Cash at Bank	26,750
		Sundry Debtors	74,950
		Closing Stock	90,000
		Machinery and Equipments	60,000
	2,56,000		2,56,000

Based on the above Balance Sheet, the Opening Entry will be:

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2022 April 1	Cash A/c	...Dr.	4,300	
	Bank A/c	...Dr.	26,750	
	Sundry Debtors A/c	...Dr.	74,950	
	Stock A/c	...Dr.	90,000	
	Machinery and Equipments A/c	...Dr.	60,000	
	To Sundry Creditors A/c			56,000
	To Capital A/c			2,00,000
	(Balances of assets, liabilities and capital brought forward)			

Illustration 16.

Balance Sheet of R.K. & Co. as at 31st March, 2022 is as follows:

Liabilities	₹	Assets	₹
Capital	1,00,000	Land and Building	1,10,000
Bank Loan	50,000	Computers	20,000
Sundry Creditors	90,000	Furniture and Fixtures	10,000
Bills Payable	10,000	Inventory	70,000
Outstanding Expenses	10,000	Sundry Debtors	20,000
		Cash in Hand	5,000
		Cash at Bank	25,000
	2,60,000		2,60,000

Pass the Opening Journal entry.

Solution:

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2022 April 1	Land and Building A/c ...Dr.		1,10,000	
	Computers A/c ...Dr.		20,000	
	Furniture and Fixtures A/c ...Dr.		10,000	
	Sundry Debtors A/c ...Dr.		20,000	
	Inventory A/c ...Dr.		70,000	
	Cash A/c ...Dr.		5,000	
	Bank A/c ...Dr.		25,000	
	To Capital A/c			1,00,000
	To Bank Loan A/c			50,000
	To Sundry Creditors A/c			90,000
	To Bills Payable A/c			10,000
	To Outstanding Expenses A/c			10,000
	(Balances of assets, liabilities and capital brought forward)			

Illustration 17.

On 1st April, 2022 the position of Bhargav Bros., Delhi was as follows:

Cash in Hand ₹ 6,000, Cash at Bank ₹ 25,600, Stock of Goods ₹ 9,000, Machinery ₹ 45,000, Furniture ₹ 18,000, Abdul ₹ 20,500 (Debtor), Neeraj ₹ 26,000 (Debtor), Loan ₹ 50,000, Amit ₹ 6,700 (Creditor).

Pass the Opening Journal entry.

Solution:

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2022 April 1	Cash A/c			
	Bank A/c ...Dr.		6,000	
	Stock A/c ...Dr.		25,600	
	Machinery A/c ...Dr.		9,000	
	Furniture A/c ...Dr.		45,000	
	Abdul ...Dr.		18,000	
	Neeraj ...Dr.		20,500	
	To Loan A/c ...Dr.		26,000	
	To Amit			50,000
	To Capital A/c (Balancing Amount)			6,700
	(Balances of assets, liabilities and capital brought forward)			93,400