It can be shown with the help of the following diagram:

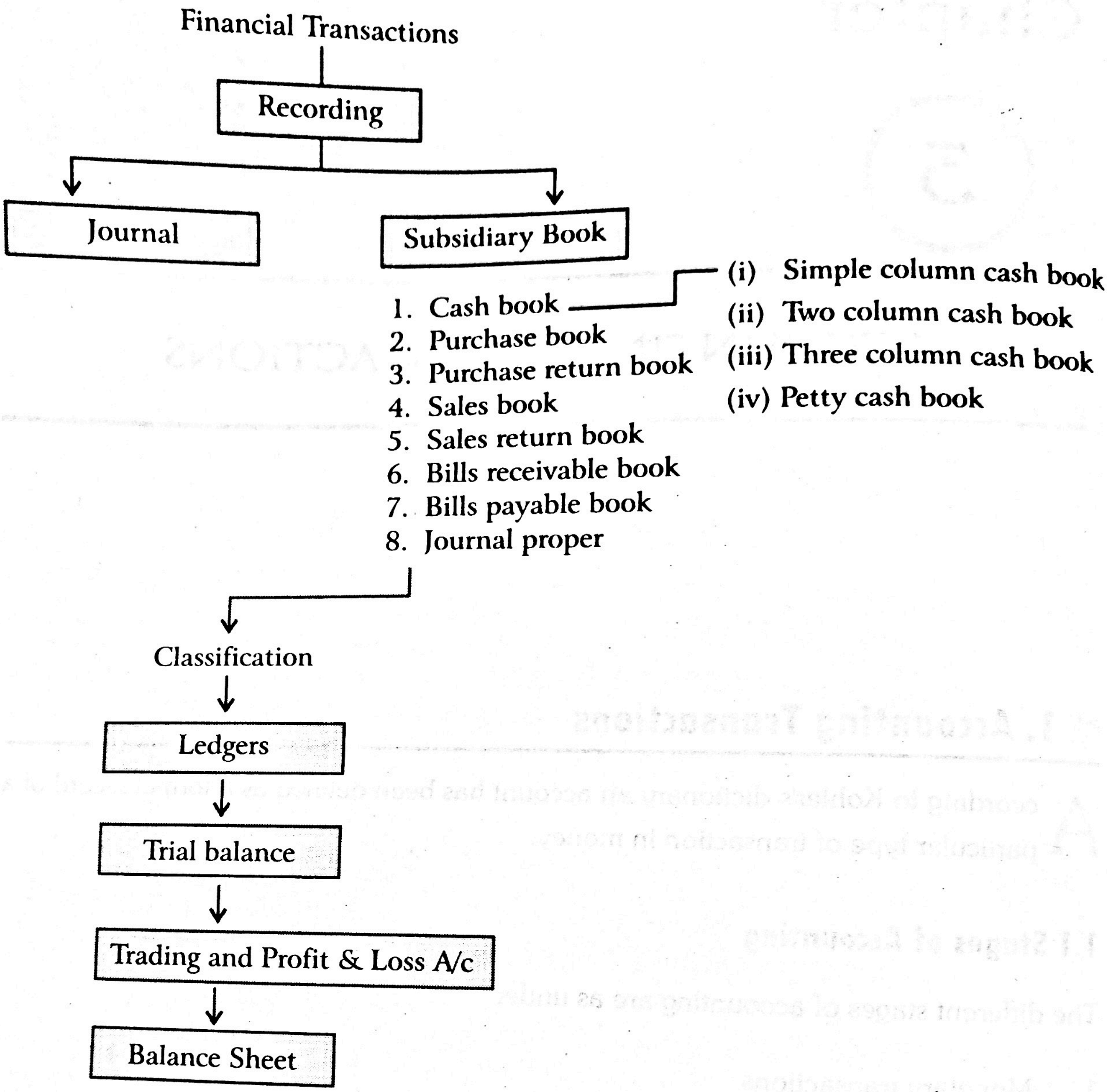

Fig. 1: Financial transactions

2. Concept of Accounts

2.1 Meaning

"An account is a summarised record of all business transactions relating to a particular type of property, person, expenses or income". Account is prepared for each and every item. Hence in order to record and maintain upto date record of all business transactions. It is necessary to have an account of:

(i) Each property

(ii) Each item of revenues & expenditure

(iii) Each natural person, firm or company.

Every account has two sides

(i) Left hand side – debit

(ii) Right hand side – credit

2.2 Debit

Word debit is derived from the word "*Debitum*" of the Latin language. It means "*Due from that*".

2.3 Credit

Word credit is derived from the word "*Credere*" of the Latin language. It means "*Due to that*".

DUAL ASPECTS OF ACCOUNTING

3. Meaning of Double Entry System

The theory of double entry system of book-keeping is based upon the fact that every business transaction has a two-fold effect *i.e.*, two persons of two accounts are affected at one and the same time. In other words, every transaction will involve one account receiving the benefit and the other account giving the benefit.

3.1 Definition

Keller M.J. "*The most common system of accounting data for an enterprises is the double entry system*". As the name implies, the entry made for each transaction is comprised of two parts a '*debit*' and a '*credit*'.

For example: Mr. Ram purchased goods for cash ₹ 500 to Mr. Hari

Dual Aspects for Mr. Ram	Dual Aspects for Mr. Hari
Receipt of goods ₹ 500	Foregoing of goods ₹ 500
Payment of cash ₹ 500	Receipt of cash ₹ 500

3.2 Principles of Double Entry System

The important principles of Double Entry System are as under:

1. **Two Parties or Two Accounts:** A business transaction always requires two parties for performance and means either the receipt of a benefit in the form of cash, goods or services or the imparting of such benefit.
2. **Entry into Two Accounts:** Being two parties in a business transaction two accounts are affected and thus the entry is made in two accounts.

3. **Entry an Opposite Sides of Both the Accounts:** Under this system the entry is made in opposite sides of both the affected accounts, and thus one entry is made on the debit side of one account and the second entry is made on the credit side of another account.

4. **Record of Transaction at Three Stages of Accounting Cycle:** It refers to a complete sequence of accounting procedure which are required to be repeated in the same order during each accounting period accounting cycle includes.

Recording → Classifying → Summarising

3.3 Advantages of Double Entry System

1. **Reliable Information at a Glance:** The system keeps complete records of business transactions in systematic and scientific way so request information can be obtained at a glance. The information supplied by the system is also reliable.

2. **Verification of Information:** The business can verify the value of assets and records. If necessary on the basis of documentary proof as vouchers.

3. **Knowledge of Assets and Liabilities of the Business:** Position statement also known as balance sheet is prepared. It reflects the value of assets and liabilities of the business at the end of accounting year.

4. **Detection of Fraud :** The systematic and scientific recording of business transaction on the basis of this system minimizes the chances of embezzlement and frauds.

5. **Comparative Studies:** Financial statements prepared on the basis of double entry system can be compared with the statements of previous system.

6. **Possible to Verify the Arithmetical Accuracy:** Total debits must be equal to total credits, so it is possible to verify the arithmetical accuracy of the accounts.

3.4 Disadvantages of Double Entry System

The disadvantages of double entry system are as follow:

1. **Costly System:** The double entry system is costly for small traders because there are a number of accounts to be maintained.

2. **Need Practical Knowledge:** Different types of accounts have different rules for their debit and credit. Therefore, proper education, practical knowledge and training is required in order to maintain double entry system.

3. **Time Consuming:** Every transaction is entered twice so it is very time consuming.

4. **Harder to Understand:** Double entry book-keeping is harder to understand and difficult to learn.

4. Classification of Accounts

According to accounting there are three types of transactions:

1. Related to persons
2. Related to properties
3. Related to incomes/expenditures

According to these basis the account is also classified into three categories:

(i) Personal account

(ii) Real account

(iii) Nominal account

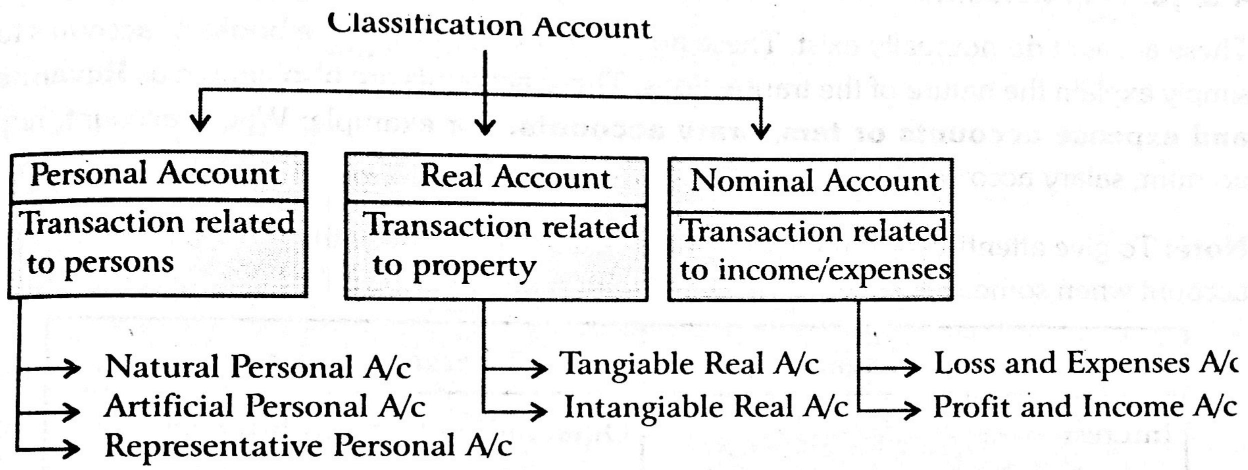

Fig. 2: Classification of accounts

4.1 Personal Accounts

Personal accounts include the accounts of natural persons, firms and companies. For example: Ram's account. Hari Prakash & Sons account, Bhavya Coal Co. Account.

The accounts can be further classified into three categories.

4.1.1 Natural Personal Account

The natural personal account means persons who are creations of God. For example: Ram's account.

4.1.2 Artificial Personal Account

The accounts of companies, firms societies are called artificial accounts. For example: Punjab Bank's Account, Tata (P) Ltd. account Bhavya Coal Co.'s Account.

4.1.3 Representative Personal Account

These are the accounts which represent a certain person or group of person. For example: Outstanding salaries prepaid salaries/outstanding wages, prepaid wages etc.

4.2 Real Account

Account related to the property of business is called real account. Real accounts may be of the following types.

4.2.1 Tangible Real Account

These are those which related to such things which can be touched, felt and measured etc. For example: Machinery account, building account, furniture account, cash account.

4.2.2 Intangible Real Account

These accounts represent such things which cannot be touched, felt. They can be measured in terms of money. For example: goodwill account, patents account.

4.3 Nominal Accounts

These account do not really exist. These accounts are opened in the books of accounts to simply explain the nature of the transactions. These accounts are also known as **Revenue and expense accounts or temporary accounts.** For example: Wages account, rent account, salary account.

Note: To give attention at some special type of account because these are called personal account when some special words attached with nominal account.

Nominal Account	Personal Account
Interest	Outstanding /prepaid interest
Salary	Outstanding/prepaid salary
Wages	Outstanding/prepaid wages
Commission	Outstanding/prepaid commission
Rent	Outstanding /prepaid rent
Insurance	Outstanding/prepaid insurance

5. Rules of Debit and Credit

5.1 Personal Account

DEBIT THE RECEIVER
CREDIT THE GIVER

For example:

(i) Received ₹ 100 from Ram.

Here Ram is giver, so that Ram's account will credit.

(ii) Paid ₹ 100 to Ram.

Here Ram is receiver, so that Ram's account will debit.

5.2 Real Account

DEBIT WHAT COMES IN CREDIT WHAT GOES OUT

For example:

(i) Received ₹ 100 from Ram

Here cash (asset) come into business, so that cash account will debit.

(ii) Paid ₹ 100 to Ram

Here cash (asset) went from business so that cash account will credit.

5.3 Nominal Account

DEBIT ALL EXPENSES AND LOSSES CREDIT ALL INCOMES AND GAINS

For example:

(i) Paid wages ₹ 500

Here wages are the expense of business so that wages account will debit.

(ii) Received rent ₹ 100

Here rent is the income of business, so that rent account will credit.

5.4 Other Important Rules

There is no entry with the name of owner if he transacts with the business whereas it is written as capital account and drawing account.

6. Journal

A journal is a book in which transactions are recorded, in order of their occurrence. A journal is called a **book of original entry**. The process of recording a transaction in journal is known as **journalizing**. An entry made in the journal is called a **'journal entry'**.

Format of a Journal

Date	Particulars	Ledger Folio Number	Amount	
			Debit (₹)	Credit (₹)
1	2	3	4	5

1. **Date:** The date on which the transaction was entered is recorded here.
2. **Particulars:** The two aspects of transaction are recorded in this column, *i.e.*, the details regarding accounts which have to be debited and credited.
3. **Ledger Folio (L.F.):** It means ledger folio. The transactions entered in the journal are later on posted to the ledger.
4. **Amount (Debit):** In this column, the amount to be debited is entered.
5. **Amount (Credit):** In this column, the amount to be credited is entered.

❖ **Narration:** After entering the transaction in the column of 'particular', write the (detail) narration of the transaction.

After narration, draw a line in the column of 'particular'.

Journalise the Following Transactions

Date	Particulars	₹
Jan. 1	Ram started business with a capital of	10,000
Jan. 2	Purchased goods from Mohan	2,000
Jan. 3	Paid cash to Mohan	1,000
Jan. 4	Sold goods to Suresh	2,000
Jan. 5	Received cash from Suresh	500
Jan. 8	Goods returned by Suresh	1,000
Jan. 9	Purchased furniture for cash	3,000
Jan. 11	Sold goods for cash	500
Jan. 12	Purchased goods from Sohan for cash	5,000
Jan. 15	Cash withdraw for personal use	500
Jan. 18	Paid rent	1,000
Jan. 19	Salary paid to Ramprakash	1,500
Jan. 20	Wage paid to Bhondu Ram	200

Journal Entries

Date	Particulars	L.F	Dr. ₹	Cr. ₹
Jan. 1	Cash Account Dr.		10,000	
	To Capital Account			10,000
	(Being the capital invested in cash)			
Jan. 2	Purchases Account Dr.		2,000	
	To Mohan			2,000
	(Being goods purchased on credit)			

Jan. 3	Mohan Dr. To Cash Account (Being cash paid to Mohan against purchase of goods)		1,000	1,000
Jan. 4	Suresh Dr. To Sales Account (Being goods sold on credit)		2,000	2,000
Jan. 5	Cash Account Dr. To Suresh (Being cash received from Suresh)		500	500
Jan. 8	Sale returned Account Dr. To Suresh (Being sale returned by Suresh)		1,000	1,000
Jan. 9	Furniture Account Dr. To Cash Account (Being furniture purchased for cash)		3,000	3,000
Jan. 11	Cash Account Dr. To Sales Account (Being goods sold for cash)		500	500
Jan. 12	Purchases Account Dr. To Cash Account (Being goods purchased for cash)		5,000	5,000
Jan. 15	Drawing Accounting Dr. To Cash Account (Being cash withdraw for personal use)		500	500
Jan. 18	Rent Account Dr. To Cash Account (Being rent paid in cash)		1,000	1,000
Jan. 19	Salaries Account Dr. To Cash Account (Being wages paid in cash)		1,500	1,500
Jan. 20	Wages Account Dr. To Cash Account (Being wages paid in cash)		200	200
	Grand Total		28,200	28,200

7. Compound Journal Entries

If there are a number of journal entries *i.e.*, transaction relating to same account, same nature or the same day, a single journal entry can be passed for such transactions instead of several separate entries, such type of entry is called compound entry.

Solved Examples

Example 1: Pass a compound journal entry for a running business was purchased by Mohan with following assets and liabilities: Cash ₹ 2,000, land ₹ 4,000, furniture ₹ 1,000, stock ₹ 2,000, creditors ₹ 1, 000, Bank overdraft ₹ 2,000.

Solution:

Particulars (Being commencement of business by Mohan by taking over a running business)		L.F.	Dr. ₹	Cr. ₹
Cash A/c	Dr.		2,000	
Land A/c	Dr.		4,000	
Furniture A/c	Dr.		1,000	
Stock A/c	Dr.		2,900	
To Creditor				1,000
To Bank overdraft				2,000
To Capital A/c				6,000

Note: Capital = balancing figure = ₹ (2,000 + 4,000 + 1,000 + 2,000 – 1,000 – 2,000)

= ₹ 6,000

8. Opening Journal Entry

According to going concern concept business is supposed to be carried on indefinitely. At the end of the accounting year different accounts are closed but the business has to be carried on therefore, previous years assets and liabilities are to be brought into account of current year.

The passing of Journal entry in the beginning of the current year with the balances of assets and liabilities of the previous year is cpening Journal entry.

Example 2: Hari starts business with cash ₹ 5,00,000, furniture ₹ 1,00,000 and goods ₹ 2,00,000.

Solution:

Particulars		L.F.	Dr. ₹	Cr. ₹
Cash A/c	Dr.		5,00,000	
Stock A/c	Dr.		2,00,000	
Furniture A/c	Dr.		1,00,000	
To Capital A/c				8,00,000

Example 3: Give Journal entries for the following transactions giving in each case the nature of account the rule applicable and the point of view of business.

1. Ajit started business by investing cash ₹ 5,00,000. He bought goods of ₹ 40,000 and furniture of ₹ 50,000.
2. Purchased building for ₹ 1,00,000
3. Purchased goods for cash ₹ 30,000
4. Purchased goods on credit ₹ 2,500
5. Paid cartage ₹ 200
6. Sold goods for cash ₹ 25,500
7. Sold goods for cash to Avtar ₹ 2,400
8. Sold goods to Mahendra on credit ₹ 4,650
9. Paid freight ₹ 120
10. Deposited cash into bank ₹ 8,000
11. Paid salary ₹ 4,600
12. Withdraw from the bank ₹ 5,000 for office use.
13. Withdraw from the bank ₹ 3,000 for private use.
14. Charged interest on capital ₹ 12,500
15. Mahendra became insolvent. Only ₹ 3,000 could be realised from him.

Solution:

Journal Entry

Date	Particulars	L.F.	Dr. ₹	Cr. ₹	Nature of Account	Rule Applicable
1	Cash A/c Dr.		5,00,00		Real	Dr. What come in
	Stock A/c Dr.		40,000		Real	Dr. What come in
	Furniture A/c Dr.		50,000		Real	Dr. What come in
	To Capital A/c			5,90,000	Personal	Cr. the giver
	(Being business start with cash, stock and furniture)					
2	Building A/c Dr.		1,00,000		Re.	Dr. what comes in
	To Cash A/c			1,00,000	Real	Cr. what goes out
	(Being building purchased for cash)					
3	Purchases A/c Dr.		30,000		Real	Dr. what comes in
	To Cash A/c			30,000	Real	Cr. what comes in
	(Being goods purchased for cash)					
4	Purchases A/c Dr.		2,500		Real	Dr. what comes in
	To Creditors			2,500	Personal	Cr. the giver
	(Being goods purchased for credit)					
5	Cartage A/c Dr.		200		Nominal	Dr. all expenses
	To Cash A/c			200	Real	Cr. what goes out
	(Being paid cartage in cash)					
6	Cash A/c Dr.		25,500		Real	Dr. what comes in
	To Sales A/c			25,500	Real	Cr. what goes out
	(Being goods sold for cash)					
7	Cash A/c Dr.		2,400		Real	Dr. what comes in
	To Sales A/c			2,400	Real	Cr. what goes out
	(Being goods sold for cash)					
8	Mahendra's A/c Dr.		4,650		Personal	Dr. the receiver
	To Sales A/c			4,650	Real	Cr. what goes out
	(Being goods sold to Mahendra)					
9	Freight A/c Dr.		120		Nominal	Dr. all expenses
	To Cash A/c			120	Real	Cr. what goes out
	(Being freight paid in cash)					

10	Bank A/c Dr. To Cash A/c (Being deposited the cash into Bank)		8,000	8,000	Personal Real	Dr. the receiver Cr. what goes out
11	Salaries A/c Dr. To Cash A/c (Being salary paid in cash)		4,600	4,600	Nominal Real	Dr. all expenses Cr. what goes out
12	Cash A/c Dr. To Bank A/c (Being withdraw from bank for office use)		5,000	5,000	Real Personal	Dr. what comes in Cr. the giver
13	Drawings A/c Dr. To Bank A/c (Being withdraw from bank for office use)		3,000	3,000	Personal Personal	Dr. the receiver Cr. the giver
14	Interest A/c Dr. To Capital A/c (Being interest charged on capital)		12,500	12,500	Nominal Personal	Dr. all expenses Cr. the giver
15	Cash A/c Dr. Bad Debts A/c Dr. To Mahendra's A/c (Being received cash from Mahendra but some amount become bad debts)		3,000 1,650	4,650	Real Nominal Personal	Dr. comes in Dr. all losses Cr. the giver
	Grand Total					

Working Note

Amount not received = bad debts

$= 4{,}650 - 3{,}000$

$= ₹\ 1{,}650$

9. Discount

At the time of sale or purchase the business man granted a reductions from the invoice price, is called a discount. There are two type of discounts:

1. Trade discount
2. Cash discount

Distinction between Trade Discount and Cash Discount

S.No.	Basis	Trade Discount	Cash Discount
1.	Purpose	It is allowed to promoted the sales or as a trade practice.	It is allowed to encourage the prompt payment.
2.	Time when allowed	It is allowed on purchase of goods.	It is allowed immediate payment or payment within a specified period.
3.	Variation	It may vary with the quantity purchased.	It may vary with the period within which the payment is made.
4.	Meaning	It is a reduction granted by a supplier from the list price of goods or services on business considerations (such as quantity bought, trade practices etc) other than for prompt payment.	It is allowed to encourage the prompt payment. A reduction granted by a supplier from the invoice price in consideration of immediate payment or payment within a stipulated period.
5.	Ledger account	Trade discount account is not opened in the ledger.	Cash discount account is opened in the ledger.
6.	Disclosure in the invoice	It is shown by way of deduction in the invoice itself.	It is not shown in the invoice.

7.	Example	The price of a book is ₹ 100. The business man sells it @ 5% trade discount. Discount = 100 × 5% = ₹ 5 The cost of book after trade discount = 100 − 5 = ₹ 95 Cash A/c Dr. 95 To Sale A/c 95 (Being goods sold at trade discount @ 5%)	The price of a book is ₹ 100. The business man sells it @ 5% cash discount. Discount = 100 × 5% = ₹ 5 The cost of book = ₹ 100 Payment of book = 100 − 5 = ₹ 95 Cash A/c Dr. 95 Discounts A/c Dr. 5 To Sale A/c 100 (Being goods sold at cash discount@5%)

Example 4: Record the following transactions in the journal of Mr. Agarwal:

Jan. 1	Goods sold of list price of ₹ 2,000 to Ramesh Chand on credit at 10% trade discount.
Jan. 2	Purchased goods of list price of ₹ 2,400 from Ram Krishna at 5% trade discount.
Jan. 7	Sold goods to Suneel worth ₹ 1,000 at 7.5% trade discount for cash.
Jan. 10	Ramesh Chandra returned goods of list price of ₹ 500.
Jan. 12	Sold goods worth ₹ 800 to Mohan Singh on credit at 5% trade discounts and 2% cash discount.
Jan. 15	Paid to Ram Krishna ₹ 2,260 in full settlement of his account.
Jan. 20	Received from Ramesh Chandra ₹ 1,300 in full settlement of our account.
Jan. 25	Sold goods to Harish worth ₹ 4,000 at 5% trade discount and 2% cash discount; cash received from him 40%.
Jan. 30	Bought goods from Rakesh & Co. of the Invoice Price of ₹ 2,000 for cash at 5% trade discount and 2% cash discount.

10. Cash Book

A cash book is a special journal which is used for recording all cash transactions only *i.e.*, all cash receipts and cash payments are recorded in it.

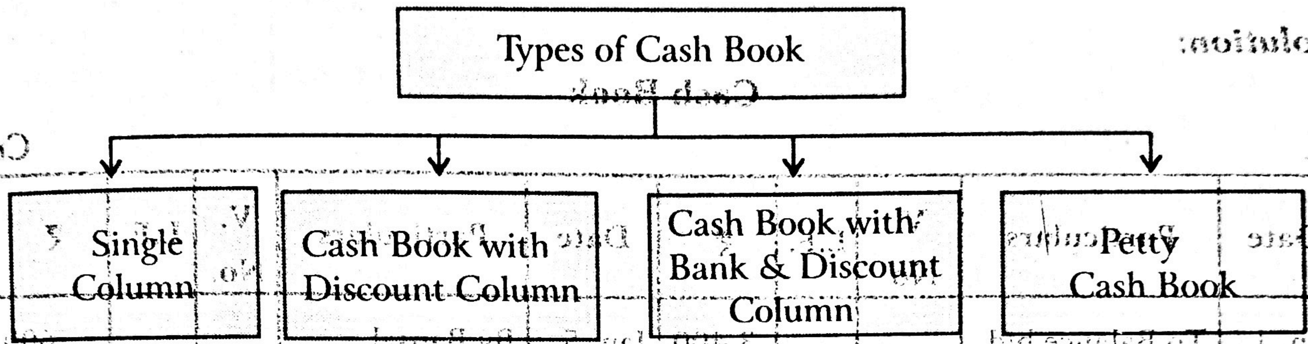

Fig. 3: Types of cash book

10.1 Single Column Cash Book

It is one amount column on each side. All cash receipts are recorded on debit side and all cash payments are recorded on credit side.

Format of Single Column Cash Book

Dr. Cr.

Date	Particulars	V.F.	Amount	Date	Particulars	V.F.	Amount
		No.	₹			No.	₹