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 Sector : ICT
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Introduction to Accounting

- Basics of Accounting, Accounting Concepts, Double Entry Concept, Golden Rule of Accounting, Voucher Entry, Ledger Posting, Final Account Preparation, Cash Book, Ratio Analysis
- Depreciation, Stock Management
- Analysis of VAT, Cash Flow, Fund Flow

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Chapter 1

May : 01

Introduction to Accounts**LEARNING OBJECTIVES**

- Book keeping → means recording of financial data
- Accounting
- Transaction and Event
- Accounting Terminology
- Accounting Equation

- systematic
- orderly manner

Book-keeping

Book keeping means recording of financial data relating to a business in a systematic and orderly manner.

For example, on 1st January, 2015, you have purchased 10 Nokia mobiles @ ₹ 1,000 from Samir and again on 5th January, 2015, 20 Nokia mobiles @ ₹ 1,200 from him. On 10th January, 2015, you have sold all the mobiles @ ₹ 1,500 to Raju.

(Now if you do not record these transactions or record these transactions in three different places, after one month, it will not be possible to know the exact amount due to Samir or the amount of profit earned during the month. So, you should record these transactions as follows:)

Purchase

On 1.1.2015 from Samir (10 Nokia mobiles @ ₹ 1,000)

₹
10,000

On 5.1.2015 from Samir (20 Nokia mobiles @ ₹ 1,200)

24,000

Sales

On 10.1.2015 to Raju (30 Nokia mobiles @ ₹ 1,500)

₹
45,000

Amount due to Samir

45,000
10,000
24,000

1.1.2015 – 10 Nokia mobiles @ ₹ 1,000

5.1.2015 – 20 Nokia mobiles @ ₹ 1,200

If we do a/c
45000
- 34000
Profit 11000

After recording these transactions, we can say that total amount due to Samir is ₹ 34,000, total purchases during the month is ₹ 34,000 and total sales during the month is ₹ 45,000.

Likewise, you may make several payments at regular intervals like rent, salary to staffs, interest etc. If proper record is not maintained, it is not possible to get details of all these payments in future.

This activity of recording transactions only is termed as book keeping.

Accounting

To understand in simple terms, "Accounting" is drawing conclusion out of a series of activities.

Let us understand this with the help of an example. Suppose, in a month, you have entered into the following transactions:

- Purchased 5 shirts @ ₹ 200;
- Sold all the shirts @ ₹ 250;
- Paid commission to salesman ₹ 50.

Now if you want to understand the net effect of the transactions, what you have to do is 'Accounting':

	₹
Sales (₹ 250 x 5)	1,250
Less: Purchases (₹ 200 x 5)	1,000
	250
Less: Commission	50
Profit	200

So, we can conclude that you have earned a profit of ₹ 200.

→ Function of accounting is recording transactions & drawing conclusions thereof



thereof

Thus, the function of accounting is recording the transactions and drawing conclusion thereof.

In our personal life, we earn income from different sources like salary, business, pension, interest etc and incur different expenses like interest on home/car loans, purchase of investment and other family expenses like food, education, clothing or gift etc. We keep records of these incomes and expenses to know the total savings for the month or year and the cash balance at the end of such period.

The owner of a business also keeps records of different transactions to know the total profit or loss from the business in a particular month or year. Intentionally or unintentionally, we do accounting in every sphere of life; it may be family, business or professional life.

owner keep records to know profit/loss flow the Busi

Distinction between Book-keeping and Accounting

The terms 'Book-keeping' and 'Accounting' are often used synonymously but there is clear distinction between these two. Book-keeping is essentially concerned with the recording of financial transactions. Accounting goes a step further. It includes not only the recording of transactions but also summarizing and drawing conclusion thereof. In the 1st example, recording of purchase, sales and commission on paper or in a computer is book-keeping but accounting is not only recording of these transactions but also calculating the profit for the month which is ₹ 45,000 – ₹ 34,000 (Sales – Purchases) i.e. ₹ 11,000. The difference between Book-keeping and Accounting can be summarized as follows –

Book-keeping	Accounting
➤ Recording phase	➤ Summarizing phase
➤ Person responsible are called book keepers	➤ Person responsible are called accountants
➤ Special skill or knowledge not required	➤ Special skill or knowledge required
➤ Does not give complete picture of the financial condition	➤ Gives complete picture of the financial condition
➤ Does not provide any information for managerial decision making	➤ Provides information for managerial decision making

Objectives of Accounting

The main objectives of accounting are as follows:

- i) to provide a record of all business transactions in a systematic manner;
- ii) to find out the results of all such transactions;
- iii) to ascertain the amounts due to or from others;
- iv) to prevent theft, frauds and errors;
- v) to find out the financial position of a business on a particular day;
- vi) to have valuable information for legal and taxation purposes;
- vii) to provide reports to owners and managers to help them in making decisions for the business.

Users of Accounting Information and their needs

- ① Proprietor – to know the profitability and financial soundness of the business;
- ② Manager – to improve the profitability and financial position of the business;
- ③ Creditors – to know that the business will be able to repay their dues on time;
- ④ Employees – to know the earning capacity of the business since their remuneration depends on it;
- ⑤ Prospective Investors – to know the profitability and safety of their investment;

Government – rely on the financial information for permitting expansion of business, import and export of products, allocation of essential resources for regulating labour and taxation etc.

rely on fin info for permitting expansion of busi & all o regulations

2

Branches

Subfields of Accounting

In order to satisfy needs of different people interested in the accounting information, different branches of accounting have been developed. They can broadly be classified into five categories.

Financial accounting

It is mainly concerned with the recording of information for managers and outsiders including owners, suppliers, customers, employees, government etc. The end product of financial accounting is Profit & Loss Account and the Balance Sheet.

Cost accounting

It deals with recording, classification, allocation and summarizing current and future cost. It includes the design of cost systems and the determination of cost by departments, activities, products, periods and other units.

Management accounting

It is accounting for the management. It provides necessary information to the management for discharging its functions. Management accounting covers various areas such as budgetary control, inventory control etc.

Social accounting

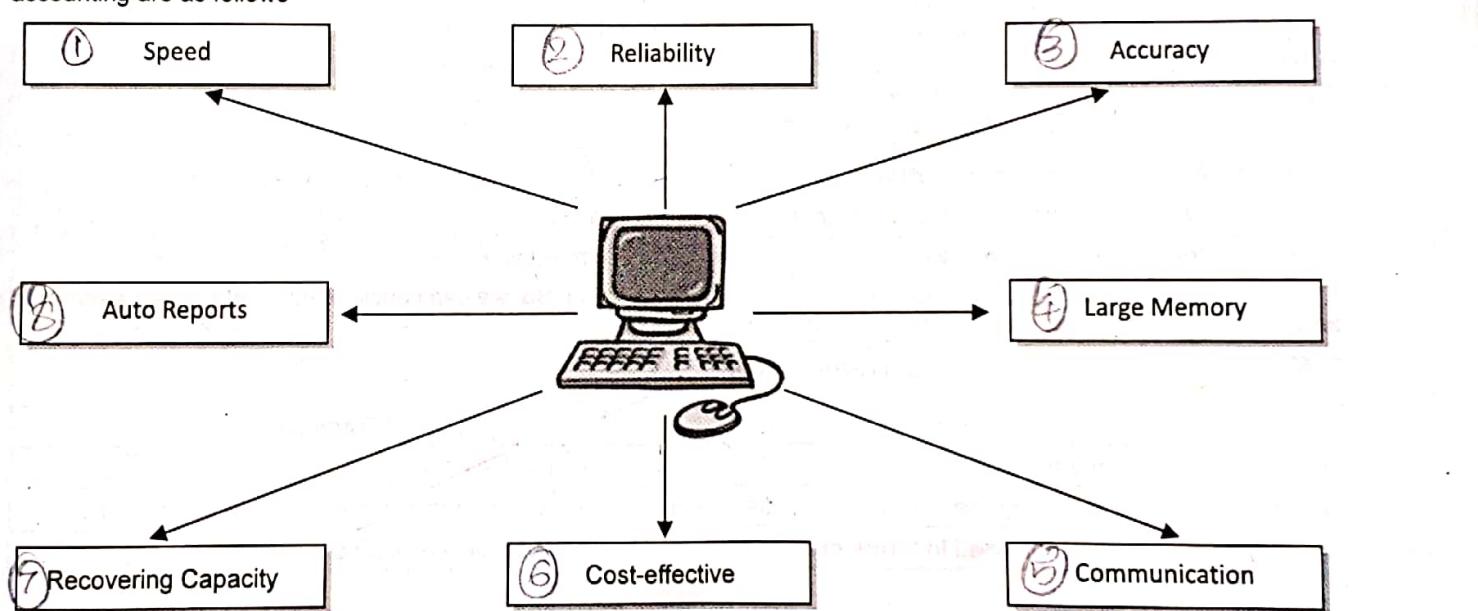
It is concerned with the application of double entry system of book-keeping to socio-economic analysis and analysis of national and international income.

Human Resource accounting

It is the accounting for the human resource of an enterprise. It is the process of identifying, measuring and evaluating the worth of human resources of an enterprise in a systematic manner and presenting to the various users.

Roles of Computer in Accounting

Today's world is revolving around computer. Every business now maintains accounts in computer rather than on paper or books. For this purpose, they use different accounting softwares like Tally, Ace etc. The advantages of using computer in accounting are as follows –



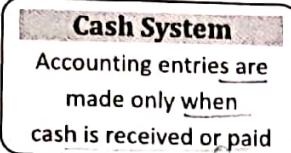
~~* EX TOOK A CHARGE OF 500 OF
OR FIRE TOOK PLACE IN godown~~

~~ica every day is an event but
every event is not a transaction~~

* Systems of Accounting

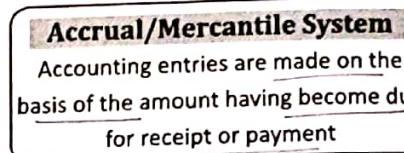
Systems of Accounting

(1)



~~Actual receipt & PPT
of cash~~

(2)



~~Based on amt due for
receipt/PPT (GO-W/O/C cons)~~

Transaction and Event

Accounting means recording of and drawing conclusion from several transactions. But before recording you have to know what a transaction is and how it differs from an event.

~~Event occurrence, happening or Incident may/may not bring change in financial position~~

Event is an occurrence, happening or incident, which may or may not bring any change in the financial position of the business. An event may or may not be expressed in terms of money. For example, you got exam notes from Amar. It does not bring any change in the financial position either of you or of Amar. So, it is an event.

~~Transaction may/may not be expressed in terms of money~~

A transaction may be defined as an economic activity that changes the financial position of a person. For example, you have purchased a shirt of ₹ 1,000. In this case, your cash balance decreases by ₹ 1,000 thus changing your financial position.

~~It is an ECO act that changes the financial position of a person ex! purchase~~

- # Following are the features of a transaction -
- ① It involves an economic activity; ~~Ex! Purchase~~
 - ② There must be at least two parties; ~~2 parties~~
 - ③ It brings about a change in the financial position of the parties; ~~in financial pos~~
 - ④ The change must be capable of being expressed in terms of money. ~~& must be exprd in money~~

The event which has all the above mentioned features is a transaction. So, we can conclude that, "every transaction is an event but every event may not be a transaction".

Difference between Event and Transaction

Event	Transaction
May or may not involve two parties	► Involves two parties
May or may not bring any change in the financial position	► Bring changes in the financial position
May or may not be expressed in terms of money	► Must be expressed in terms of money

Transaction

~~TR~~
Eco non eco than which cash
cash credit involves immediate

~~which does not involve imm PPT~~
~~rect of cash~~

* Cash - A transaction which involves immediate payment or receipt of cash is called cash transaction. For example, goods purchased for cash.

* Credit - A transaction which does not involve immediate payment or receipt of cash is called credit transaction. For example, Goods sold on credit to Radhe.

<u>cash</u>	<u>credit</u>
* Immediate payment of cash	* NOT immediate payment of cash
* for cash/cheque	* Name of person

BOOK KEEPING

Example

1. State whether the following are cash or credit transaction -

Sl No.	Transactions	Answer
a)	Paid rent ₹ 500 <u>cash</u>	Cash
b)	Bought furniture from Gupta Bros. ₹ 3,000 <u>credit</u>	Credit
c)	Purchased goods from Amol ₹ 1,000 for cash <u>cash</u>	Cash
d)	Sold goods to Samir ₹ 2,000 on credit <u>credit</u>	Credit

[May 03]

Accounting Terminology

① Proprietor / Owner

The person who invests money into business bears the risk of business. The person who invests money into the business and bears the risk of the business is the proprietor.

Suppose, you have started a business with ₹ 2,00,000. So, you are the proprietor of the business.



② Capital

In simple word, capital means that amount or asset which is invested in business by businessman or owner of business. When a person starts any business or profession, he brings some money in cash and/or some other assets like building, furniture and machinery. Suppose, you have started a business by investing ₹ 50,000. This amount is the capital of your business.



Asset piece of property or equipment purchased exclusively for business use.

Business assets span many categories, such as vehicles, real estate, computers, office furniture and other fixtures.



④ 5 Liability

A liability is a debt or obligation that a company must pay. For example, you have purchased a monitor of ₹ 5,000 from Sudhir and promised to pay the money after 7 days. So you have a liability of ₹ 5,000 towards Sudhir.

It is an amount of debt or obligation that you must pay at a later date.

Debtor arises due to credit sales/giving loan.

Debtor is a Person or organization who allows others to buy items of goods with credit and to receive payment for such goods at a later date. For example, Tarun has purchased goods valuing ₹ 50,000 from you on credit. Here, Tarun will be your debtor.



Creditor creditor is a person who has lent money to us or given us goods on credit.

A creditor is a person that has lent money or extended credit to another party. In the above example, you are the creditor of Tarun.



Revenue also explain income

Revenue is the total amount of money the business receives from its customers for its products and services. Examples of revenue include Sales, Services provided, Fees Earned, Interest etc.



Revenue is a total amount of money of busi for its sales.

③ Drawing is the proprietor of Busi takes away any amount of money from

Busi for his personal use this is called as Drawing

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expenses is an amount paid to earn a revenue & it's an outflow of money / category of cost
loss is amount lost without any advantage of it

⑨ Expenses & loss

In common usage, an expense is an outflow of money to another person or group to pay for an item or service, or for a category of costs. For a tenant, rent is an expense. For students or parents, tuition fee is an expense. Buying food, clothing, furniture or an automobile is often referred to as an expense.



⑩ Income & gain

Income refers to net profit i.e. what remains after expenses and taxes are subtracted from revenue. In other words-

$$\text{Income} = \text{Revenue} - \text{Expenses}$$

it's an amt actually recd on sale & left after all exp & taxes (NP = Rev - Exp)

* Accounting Equation Bases for Double Entry system

Accounting equation is the basis for double entry system of accounting. It states that every time a transaction takes place, there is always a two-sided effect of the same amount. A transaction may affect either both sides of the equation by the same amount or one side of the equation only by both increasing or decreasing it by equal amounts and thus netting to zero. At any point of time, the assets of any entity must be equal (in monetary terms) to the total of owner's equity and outsider's liabilities. This may be expressed in the form of the following equation:

It states that every transaction has 2 sided effects

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

$$A = C + L$$

Example

Mr. X started a business under the name X & Co. The details of transactions are as follows: (C)

1.	Invested capital in business	↑ in cash → ↑ in capital	₹ 1,00,000
2.	Purchased goods on credit from Mr. Y	↑ in liability → ↑ in goods	₹ 50,000
3.	Sold goods for cash	↑ in cash (A) → ↓ in goods (L)	₹ 80,000
4.	Paid salary	↓ in cash → ↓ in capital	₹ 10,000

Solution

Draw B/S as (A)

In the books of Mr. X & Co.

show effects

Effects of transactions on Assets, Liabilities and Capital

No.	Transactions	Assets	= Liabilities	+ Capital
1	Invested capital in business ₹ 1,00,000	Increase in Cash = (A) + 1,00,000	0	Increase in Capital = (C) + 1,00,000
2	Purchased goods on credit from Mr. Y ₹ 50,000	Increase in Goods = (A) + 50,000	Increase in Creditors = (L) + 50,000	0
	New Equation	1,50,000	50,000	1,00,000
3	Sold goods for cash ₹ 80,000	Increase in cash = (A) + 80,000 Decrease in goods = (A) - 50,000	0	0 Increase in capital(profit) = + 30,000
	New Equation	1,80,000	50,000	1,30,000
4	Paid salary	Decrease in cash = (A) - 10,000	0	Decrease in capital(expense) = - 10,000
	New Equation	1,70,000	50,000	1,20,000

Example

If the liabilities of a business is ₹ 1,50,000 and the capital is ₹ 1,70,000, find out the total assets.

$$L = ₹ 150,000$$

$$6 | \quad C = ₹ 170,000$$

$$A = (?) \rightarrow C + L = 170,000 + 150,000 \\ = ₹ 320,000$$

$A = c + h$ also extended to
Assets + Exp = lab + Revenue

BOOK KEEPING

Solution $A = C + h = 150,000 + 130,000 = \boxed{380,000}$

Total Assets = Liabilities + Capital

or, ₹ 1,50,000 + ₹ 1,70,000 = ₹ 3,20,000.

Example

Example

Ascertain the capital if —

Example Ascertain the capital if - $C = \frac{?}{0}$

✓ Cash - ₹ 20,000	A
✓ Stock - ₹ 30,000	A
✓ Building - ₹ 20,000	A
✓ Machinery - ₹ 3,60,000	A
✓ Debtors - ₹ 90,000	A
✓ Creditors - ₹ 60,000	b

Bal - sheet

	L	A
capital	(<u>460000</u>)	Bldg 20,000
		mach 360,000
ers	60,000	cash 20,000
		stock 30,000
		Debtors 90,000

Solution

Assets – Liabilities = Capital

or, (Cash + Stock + Building + Machinery + Debtors) – Creditors = Capital

$$\text{or } ₹(20,000 + 30,000 + 20,000 + 3,60,000 + 90,000) - ₹60,000 = ₹4,60,000$$

Example Same as (1)

Use accounting equations to show the effect of the following transactions:

$$\begin{aligned}
 A &= C + L \\
 520000 &= C + 60000 \\
 C &= \underline{\underline{520000 - 60000}} \\
 &\equiv 460000
 \end{aligned}$$

1.	Started business with cash	₹ 75,000
2.	Deposited cash into bank	₹ 50,000
3.	Purchased goods for cash	₹ 15,000
4.	Sold goods costing ₹ 6,000 for cash	₹ 8,000
5.	Purchased goods on credit	₹ 10,000

Solution

Effects of transactions on Assets, Liabilities and Capital

No.	Transactions	Assets	=	Liabilities	+ Capital
1	Started business with cash ₹ 75,000	75,000			75,000
2	Deposited cash into bank ₹ 50,000	+ 50,000 - 50,000			
	New Equation	75,000			75,000
3	Purchased goods for cash ₹ 15,000	+ 15,000 -15,000			
	New Equation	75,000			75,000
4	Sold goods costing ₹ 6,000 for cash ₹ 8,000	+ 8,000 -6,000			+ 2,000
	New Equation	77,000			77,000
5	Purchased goods on credit ₹ 10,000	+ 10,000	+ 10,000		
	New Equation	87,000	10,000		77,000

Class Exercise

Day : 021. State whether the following events are transactions or not:

- T a) Invested cash to start a business ₹ 1,00,000;
T b) Purchased furniture for cash ₹ 5,000;
 c) Employed Ramesh as an assistant at a monthly salary of ₹ 4,000;
T d) Purchased goods on credit ₹ 10,000;
 e) Sent price-list to prospective customers;
 f) Received an order from a customer for supply of goods ₹ 20,000;
T g) Supplied goods to the customer as per order;
T h) The customer returned part of the goods due to some defects ₹ 1,000;
T i) Payments received from the customer ₹ 8,000;
T j) Paid assistant's wages ₹ 1,500;
 k) Sent an order to a supplier for delivery of goods next month;
 l) Dismissed the assistant from his job;
T m) The proprietor withdraws goods from the business for his personal use ₹ 2,500;
 n) A prospective employee is interviewed;
T o) Borrowed money for business use ₹ 5,000;
 p) Goods destroyed by flood ₹ 3,000;
 q) Sudden death of the owner of the business.

Day : 022. State which of the following events may be recorded as transactions with reasons:

- a) Sent a price list to Garg & Co.;
 b) Received an order for supply of goods worth ₹ 1,000 from Abir;
T c) Delivered on credit goods for ₹ 1,000 to Abir;
 d) Dispatched a letter of appointment to Chirayu appointing him as cashier on a monthly salary of ₹ 3,000;
T e) Out of goods supplied to Abir those for ₹ 100 were returned;
T f) Paid bakshis to ^{Notice} durwan ₹ 50;
 g) Chirayu, the cashier, left the service after defalcating ₹ 500 from the cash box;
 h) Took ₹ 50 in coins in exchange for a fifty rupee note;
 i) Fire destroyed goods worth ₹ 400;
 j) Borrowed ₹ 500 from Naren for business.

Day : 023. State whether the following events are transactions or not:

- T a) Purchased machinery worth ₹ 7,000;
 b) Appointed Saikat as an accountant;
 c) Furniture has been depreciated by ₹ 500;
T d) Paid rent ₹ 600;
 e) Decided to purchase shares of ITC Ltd;
T f) Sold old newspapers for ₹ 50;
T g) Sold a machinery for ₹ 5,000 on credit to Sri Raja Mukherjee;
 h) Goods lost by fire ₹ 1,000;
 i) Submitted a tender for a work of ₹ 10,000;
Quotation

~~1~~ j) Received an order for supply of goods to Sen & Co. ₹ 25,000;

T k) Took a loan from Swarup ₹ 1,000;

T l) Deposited cash into bank ₹ 3,000;

T m) Supplied goods to Dey Bros. ₹ 5,000 as per their order;

T n) Distributed free samples ₹ 400;

~~2~~ o) Received free samples ₹ 200;

~~2~~ p) Appointed Sujata as Front Office Executive in the scale ₹ 3,000 – 500 – 5,000;

~~2~~ q) Sent a fax message to a supplier.

~~Day 02~~

4. State whether the following are cash or credit transactions:

~~cash~~ a) Paid wages ₹ 500;

~~cash~~ b) Received rent ₹ 300;

~~credit~~ c) Bought machinery from Ghosh & Co. ₹ 1,500;

~~cash~~ d) Bought a table from D & Co. for cash ₹ 700;

~~cash~~ e) Paid salary to Samir in cash ₹ 150;

~~credit~~ f) Sold old machinery to Bikash ₹ 750;

~~cash~~ g) Paid electric bill by cheque ₹ 70;

~~credit~~ h) Purchased utensils from Sashank & Co. ₹ 500;

~~credit~~ i) Sold shares of UniTech to Mahabir ₹ 1,200;

~~cash~~ j) Paid salary to Rahim in cash.

~~Day 02~~

5. State whether the following are cash or credit transactions:

~~cash~~ a) Souvik commenced business with ₹ 10,000;

~~cash~~ b) Paid rent in advance ₹ 500;

~~credit~~ c) Purchased mobile for ₹ 2,000 from Mobile Store;

~~credit~~ d) Bought furniture from M/s Furniture World ₹ 3,000;

~~cash~~ e) Purchased goods from Kumar Brothers for cash ₹ 3,000;

~~credit~~ f) Sold goods to Ravi ₹ 2,500;

~~credit~~ g) Bought goods from Rafiq ₹ 2,000;

~~cash~~ h) Paid rent ₹ 1,000;

~~cash~~ i) Paid salary to staff ₹ 4,000.

~~Day 03~~

6. Classify the following items into Assets and Liabilities:

Machinery, Debtors, Building, Bank Overdraft, Loan from P, Furniture, Trade Mark, Investments, Salary owing to staff, Stock of goods, Cash in hand, Freehold Land, Capital, Bills receivable, Creditors.

7. Classify the following items into Income and Expenditure:

Staff Salary, Worker's wages, Discount Allowed, Interest on Investment, Dividend on Shares, Rent of office, Interest on Bank Deposits, Discount Received, Electric charges, Rent from tenant, Purchases, Sales, Advertisement, Cartage, Travelling, Telephone expenses, Repairs, Commission paid, Interest on Investments, Delivery charges, Postage.

8. Classify the following items into Assets and Liabilities:

Plant, Machinery, Bills Payable, Books, Capital, Secured Loans, Building, General Reserve, Closing Stock, Vehicles, Goodwill, Cash at Bank, Motor Van, Bills Receivable, Bank Overdraft, Deposit from customers, Loan to P. Mahato, Deposit with Mr. Kamal, Loan to Salil, Patents, Investment in shares, Leasehold Land, Cash in Hand, Fixed Deposit with Bank, Investment in Govt. Securities.

Day: 03 9. Classify the following items into Income and Expenditure:

Printing charges, Carriage Inward, Carriage Outward, Rent, Advertisement, Interest paid, Bad Debts, Sales, Purchases, Freight, Taxes paid, Income from Investments, Discount Received, Discount allowed, General Expenses, Audit fees, Insurance, Traveling Expenses, Interest paid on loan, Telegram, Salaries, Bad Debts, Rent and Rates, Commission received, Trade Expenses.

Day: 03 10. Correct the following showing reasons, if they are wrong:

- Capital is an asset;
- Salary is an asset;
- Investment is a liability;
- Sundry Debtors is an asset;
- Machinery is a liability.

Day: 03 11. Classify the following items into asset, liability, expense or revenue:

Buildings, Carriage on purchases, Creditors, Insurance, Interest received, Advertising, Discount allowed, Debtors, Telephone, Electricity, Sales, Cash, Bank overdraft, Discount received, Carriage on sales, Furniture & Fittings, Rates & Taxes.

Day: 03 12. Classify the following items into asset, liability, expense or revenue:

Land and Building, Loans taken, Capital, Machinery, Bank overdraft, Royalty paid, Profit on sale of furniture, Reserve and surplus, Stock in trade, Rates, Interest on bank overdraft, Creditors, Bad debts, Interest on loan received, Bills payable, Sub-rent received.

Day: 03 13. Classify the following items into asset, liability, expense or revenue:

Cash at SBI, freight, Debtors, Loan to Pritam, Computer, Consultancy Services provided, Security Deposit received, Cheque in transit, Dividend paid, Staff welfare expenses, Tally software, Books & periodicals, Vehicles, Salary, Conveyance, Subscription received.

Day: 03 14. Correct the following showing reasons, if they are wrong:

- Rent paid is an asset;
- Capital is an expense;
- Loan given is income;
- Salary paid is a liability;
- Drawings is an expense;
- Furniture is an income;
- General reserve is an asset;
- Dividend received is an asset;
- Purchases of goods is an expense;
- Sale of goods is an income.

Day: 04 15. Find out the missing information in the following table:

Based on A = C + L

Assets (₹)	=	Liabilities (₹)	+	Capital (₹)
65,000		30,000		?
50,000		?	15,000	35,000
?		35,000		60,000
95,000				35,000

50,000	10,000	40,000
68,000	40,000	21,000
135,000	45,000	90,000

~~Day: 04~~ 16. Show the dual effect of the following transactions on assets, liabilities and capital of the business –

SL No.	Transactions
a)	Introduced capital into the business ₹ 1,00,000;
b)	Purchased goods for cash ₹ 80,000;
c)	Purchased delivery van on credit ₹ 4,00,000;
d)	Paid ₹ 50,000 to a supplier of goods on credit;
e)	The proprietor withdrew ₹ 20,000 from business for personal expenses;
f)	Purchased goods from Timir on credit ₹ 50,000

~~Day: 04~~ Total assets of Aviram on 31st December, 2010 were ₹ 56,000. His liabilities were: Creditors ₹ 7,000, Bank Overdraft ₹ 5,000, Bills Payable ₹ 8,000.

Calculate his capital as on that date.

~~Day: 04~~ 18. Find out the missing information in the following table:

Assets (₹)	+	Expenses (₹)	=	Capital (₹)	+	Revenue (₹)	
25,000		10,000		?	3000	12,000	
22,000		12,000		24,000		?	10,000
?	3000	8,000		16,000		15,000	
25,000		?	10,000	18,000		17,000	

[Hints: Assets + Expenses = Liabilities + Revenue]

~~Day: 04~~ 19. Show the effect of the following transactions on assets, liabilities and capital of Mr. A through accounting equation -

SL No.	Transactions
a)	Started business with cash ₹ 2,00,000;
b)	Purchased goods for cash ₹ 1,00,000;
c)	Purchased goods on credit from Mr. Mahajan ₹ 80,000;
d)	Sold goods for cash costing ₹ 80,000 for ₹ 1,00,000;
e)	Withdrew ₹ 10,000 from business for personal use;
f)	Electricity bills paid ₹ 1,000;
g)	Sold goods costing ₹ 50,000 on credit to Mr. Saibal for ₹ 60,000;
h)	Rent received ₹ 4,000;
i)	Borrowed ₹ 50,000 from Mr. Lal;
j)	Purchased goods for cash ₹ 20,000.

~~Day 04~~

20. Show accounting equation on the basis of the following transactions –

SL No.	Transactions
a)	Started business with cash ₹ 2,00,000;
b)	Purchased goods on credit ₹ 80,000;
c)	Sold goods for cash ₹ 25,000 for ₹ 30,000;
d)	Purchased furniture for cash ₹ 20,000;
e)	Sold goods to Paran costing ₹ 4,000 for ₹ 7,000 on credit;
f)	Received cash from Paran towards payment of the price of the goods;
g)	Received interest on securities ₹ 2,000;
h)	Paid LIC premium on the life of the proprietor ₹ 4,000;
i)	Purchased goods from Manoj for cash ₹ 30,000

21. Show accounting equation on the basis of the following transactions –

SL No.	Transactions
a)	Started business with cash ₹ 1,00,000;
b)	Purchased goods on credit ₹ 80,000;
c)	Plant purchased from Mr. Plantation ₹ 2,00,000 on credit;
d)	Sold goods costing ₹ 10,000 for ₹ 15,000 for cash;
e)	Sold goods on credit to Mukesh costing ₹ 8,000 for ₹ 12,000;
f)	Drew for personal use ₹ 5,000;
g)	Rent paid ₹ 3,000;
h)	Received cash from Mukesh ₹ 7,000.

Chapter 2

Accounting Concepts

LEARNING OBJECTIVES

- Materiality Concept
- Separate Entity Concept
- Money Measurement Concept
- Going Concern Concept
- Accrual Concept
- Matching Concept
- Dual Aspect Concept
- System of Book-keeping

In order to maintain uniformity and consistency in preparing and maintaining books of accounts, certain rules or principles have been evolved. These rules/principles are classified as concepts and conventions. These are foundations of preparing and maintaining accounting records.

Let us take an example. In India there is a basic rule to be followed by everyone that one should walk or drive on his/her left hand side of the road. It helps in the smooth flow of traffic. Similarly, there are certain rules that an accountant should follow while recording business transactions and preparing accounts. These may be termed as accounting concept. Thus, this can be said that: "**Accounting concept refers to the basic assumptions and rules and principles which work as the basis of recording of business transactions and preparing accounts**".

Following are the various accounting concepts that have been discussed in the following sections:

- ✓ Materiality Concept
- ✓ Separate Entity Concept
- ✓ Money Measurement Concept
- ✓ Going Concern Concept
- ✓ Accrual Concept
- ✓ Matching Concept
- ✓ Dual Aspect Concept

Materiality Concept

The concept of materiality is a threshold for recognition of a transaction in accounting process. In the accounting sense an item is only recorded when it is considered to be useful or important to the users of a financial statement. An accountant in the manner of recording those transactions, which are significant or material, follows rigidity. For example a brand new pen and a car, both are assets of the business unit. Any time the pen or the car is used, a part of the asset is used – up. Although the pen still is in use at the year-end, its original cost is so insignificant that it would be waste of time.

Separate Entity Concept

This concept assumes that, for accounting purposes, the business enterprise and its owners are two separate independent entities. Thus, the business and personal transactions of its owner are separate. For example, when the owner invests money in the business, it is recorded as liability of the business to the owner. Similarly, when the owner takes away from the business cash/goods for his/her personal use, it is not treated as business expense. Thus, the accounting records are made in the books of accounts from the point of view of the business unit and not the person owning the business. This concept is the very basis of accounting. Let us take an example. Suppose Mr. Ratan started business investing ₹ 2,00,000. He purchased goods for ₹ 80,000, Furniture for ₹ 40,000 and plant and machinery of ₹ 60,000. ₹ 20,000 remains in hand. These are the assets of the business and not of the owner. According to the business entity concept ₹ 2,00,000 will be treated by business as capital i.e. a liability of business towards the owner of the business.

Money Measurement Concept

This concept assumes that all business transactions must be in terms of money that is in the currency of a country. In our country such transactions are in terms of rupees (₹).

Thus, as per the money measurement concept, transactions which can be expressed in terms of money are recorded in the books of accounts. For example, sale of goods worth ₹ 4,00,000, purchase of raw materials ₹ 2,00,000, Rent Paid ₹ 25,000 etc. are expressed in terms of money, and so they are recorded in the books of accounts. But the transactions which cannot be expressed in monetary terms are not recorded in the books of accounts. For example, sincerity, loyalty, honesty of employees are not recorded in the books of accounts because these cannot be measured in terms of money although they do affect the profits and losses of the business concern.

Going Concern Concept

This concept states that a business firm will continue to carry on its activities for an indefinite period of time. It means that every business entity has continuity of life. Thus, it will not be dissolved in the near future. This is an important assumption of accounting, as it provides a basis for showing the value of assets in the balance sheet; For example, a company purchases a plant and machinery of ₹ 1,00,000 and its life span is 10 years. According to this concept every year some amount will be shown as expenses and the balance amount as an asset. Thus, if an amount is spent on an item which will be used in business for many years, it will not be proper to charge the amount from the revenues of the year in which the item is acquired. Only a part of the value is shown as expense in the year of purchase and the remaining balance is shown as an asset.

Accrual Concept

The accrual concept under accounting assumes that revenue is realised at the time of sale of goods or services irrespective of the fact when the cash is received. For example, a firm sells goods for ₹ 5,00,000 on 5th March 2014 and the payment is not received until 15th April 2014. The amount is due and payable to the firm on the date of sale i.e. 5th March 2014. It must be included in the revenue for the year ending 31st March 2014. Similarly, expenses are recognised at the time services are provided, irrespective of the fact when actual payment for these services are made. For example, if the firm purchased goods costing ₹ 2,00,000 on 9th March 2014 but the payment is made on 12th April 2014 the accrual concept requires that expenses must be recorded for the year ending 31st March 2014 although no payment has been made until 31st March 2014.

Matching Concept

The matching concept is an accounting practice whereby expenses are recognized in the same accounting period when the related revenues are recognized. For example, a salesman earns 5% commission on sales of ₹ 1,00,000 made in March, 2014. The commission of ₹ 5,000 was paid in April, 2014. The commission expenses should be charged in the year 2013-14.

Dual Aspect Concept

Dual aspect is the foundation or basic principle of accounting. It provides the very basis of recording business transactions in the books of accounts. This concept assumes that every transaction has a dual effect, i.e. it affects two accounts in their respective opposite sides. Therefore, the transaction should be recorded at two places. It means, both the aspects of the transaction must be recorded in the books of accounts. For example, goods purchased for cash has two aspects which are (i) Giving of cash (ii) Receiving of goods. These two aspects are to be recorded.

The duality concept is commonly expressed in terms of fundamental accounting equation:

$$\text{Assets (A)} = \text{Liabilities (L)} + \text{Capital (C)}$$

System of Book-keeping

Single Entry System	Double Entry System
<ul style="list-style-type: none"> • No fixed rules or principles • Incomplete recording of transactions • Records only details of Cash and Personal Accounts 	<ul style="list-style-type: none"> • Dual aspect of every transaction • Every business transaction affects two accounts • Based upon accounting concepts

Chapter 3

Account

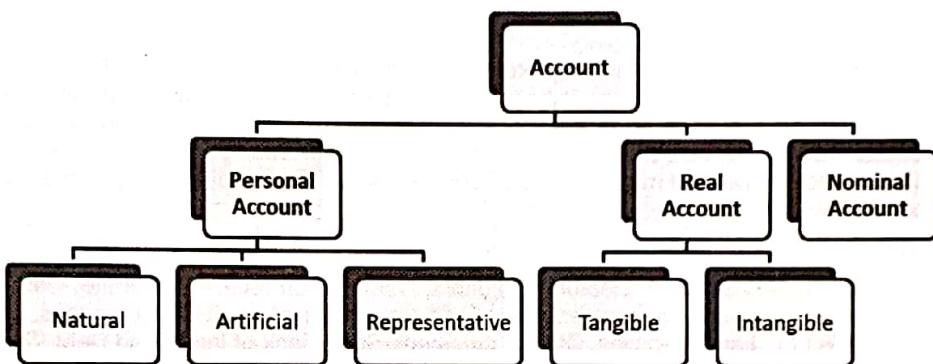
LEARNING OBJECTIVES

- Account
- Classification of Accounts
- Difference between Personal, Real and Nominal Account

Account

In double entry system, complete record of all the transactions relating to a business unit are maintained systematically. Here, the total records of transactions are divided into different sections. Suppose you have 20 to 25 transactions with Ravi in a month. Instead of recording these 20 to 25 transactions in different places, these can be recorded in only one section i.e. Ravi. This one section is called "Account". So, an account is a section of the ledger in which all the transactions relating to the same activity/person that have taken place during a particular period are kept.

Classification of Accounts



Personal Account

This account records the transactions with customers, suppliers, banks, owners etc. E.g. Sachin, State Bank of India etc. Personal account is of three types:

- a) **Natural Personal Account:** Relate to individuals or natural persons made of flesh and bones. For example – Sachin, Rahul, Raj etc.
- b) **Artificial Personal Account:** Relate to artificial persons recognized by law as persons. For example – State bank of India, RBI, Reliance industries Ltd.
- c) **Representative Personal Account:** Represents a certain person or group of persons. For example – Outstanding Rent, Prepaid Insurance.

Real Account

Accounts relating to property or possessions are termed as real accounts. E.g. Building, machinery, cash etc. Real account is of two types:

- a) **Tangible Real Account:** Relate to things which are tangible, i.e. which can be seen, touched or felt physically.
- b) **Intangible Real Account:** Relate to things which cannot be touched. For example – goodwill, trademarks, patent rights etc.

Nominal Account

Accounts relating to expenses, losses, gains or revenue are termed as nominal accounts. E.g. Salary, rent, interest etc.

Difference between Personal, Real and Nominal Account

Personal	Real	Nominal
➤ Relates to any person.	➤ Relates to assets and properties.	➤ Relates to expenses, losses, incomes and gains.
➤ Balance of this account represents the amount due to or from an outsider	➤ Balance of this account represents the value of an asset	➤ Balance of this account represents expense or income.
➤ Balance transferred to Balance Sheet	➤ Balance transferred to Balance Sheet	➤ Balance transferred to Trading and Profit & Loss Account

Class Exercise

1. Classify the following ledger accounts under a) Personal account, b) Real account and c) Nominal account –
Capital, Building, Machinery, Rent, Mr. Ajit, Salaries, Bad Debt, Drawings, Stock-in-trade, Purchases, Cash at Bank, Depreciation, Bank Overdraft, Goodwill.
2. Classify the following accounts under a) Personal account, b) Real account and c) Nominal account –
Insurance, Loose tools, Patents, Carriage Inward, Stationery, Sales, Office Expenses, Advertisement, Loan from Singh, Conveyance, Fixtures, Investment, Unsecured loan, Copyright.
3. Classify the following accounts:
Cash, Capital, Wages, Bills Receivable, Building, Rent, Interest, Bills payable, Investment, Raja & Sons, Drawings, Stock, Plant & Machinery, Motor Car, Repairs, Subscription, Discount, Furniture, Cash at Bank, Loan, Bank Overdraft, Carriage Inward, Sales, Salary to staff, M. Roy & Co, Creditors, Insurance, Interest received, Advertising, Telephone charges, Bad Debts, Rates and Taxes, Loose Tools, Copyright, Premises, Conveyance, Depreciation, Leasehold Property, Periodicals, Security Deposit made with WBSEB, Audit fees, Outstanding Rent, Prepaid Insurance, Accrued Interest, Pre received subscription.
4. Classify the following accounts under a) Personal account, b) Real account and c) Nominal account –
Capital, Stock in hand, Patent, Goodwill, Debtors, Creditors, Commission received, Rebate, Carriage on purchases, Carriage on sales, Discount allowed, Discount received, Cash in hand, Furniture, Rent, Purchases, Sales, Noor Hassan, Electricity charges, TATA Ltd., Land, Vehicles, Office Equipment, State Bank of India, Bad Debt, Stationery, Postage & Telephone, Office Expenses, Proprietor's Account, Salaries, Fixtures, Income Tax, Fuel, Mr. John, Accounting charges, Outstanding Salary, Prepaid Rent, Accrued Commission, Pre received Rent.

Chapter 4**Debit & Credit****LEARNING OBJECTIVES**

- Debit & Credit

Debit & Credit

An account has two sides – when an amount is entered in the left-hand side of an account, it is a debit and the account is said to be debited and when an amount is entered in the right-hand side, it is a credit and the amount is said to be credited.

Rules of Debit and Credit

- On the basis of Accounting Equation:**

	Normal Balance	To increase	To decrease
Asset	Debit (Dr)	Debit (Dr)	Credit (Cr)
Expense	"	"	"
Liability	Credit (Cr)	Credit (Cr)	Debit (Dr)
Income	"	"	"

- On the basis of classification of Accounts (i.e. Golden Rules)**

Personal Accounts	:	Debit the receiver Credit the giver
Real Accounts	:	What comes in Debit What goes out Credit
Nominal Accounts	:	All the expenses and losses are debit All the incomes and gains are Credit

Example

Rent paid in cash ₹ 10,000

Two Related accounts, which are getting affected, are:

- Rent A/c – An expense, therefore rule of nominal account will be applicable.
- Cash A/c – An asset, therefore rule of Real Account will be applicable.

As Rent A/c is an example of expense and as per nominal account – all the Expenses and Losses are debit, Rent A/c shall be debited.

As Cash A/c is an example of Asset, and as per Real account – What goes out credit, Cash A/c shall be credited.

① **Example Go by solution**

Ascertain debits and credits in the above mentioned transactions:

- Started business with cash;
- Purchased goods for cash;
- Paid cash to Pradip;
- Purchased goods on credit from Nilgiri;
- Sold goods for cash;
- Sold goods to Arun on credit;

Sl.	Debit	Credit
(a)	CASH (Dr)	Capital (P)
(b)	CASH (N)	CASH (Dr)
(c)	Pradip (P)	CASH (R)
(d)	CASH (N)	Nilgiri (P)
(e)	CASH (R)	Sales (N)
(f)	Arun (P)	Sales (N)
(g)	Saiyogni (N)	CASH 17 (R)
(h)	Bank (P)	DIV (N)

P = Personal A/C

R = Real A/C

N = Nominal A/C

g) Paid salary to cashier;

h) Received Dividend;

Solution

Sl No.	The two accounts concerned	Classification of accounts	Debit / credit
a	Cash A/c Capital A/c	Real A/c – Cash comes in Personal A/c – Giver	Debit Credit
b	Purchases A/c Cash A/c	Nominal A/c – Expenses Real A/c – Goes out	Debit Credit
c	Pradip A/c Cash A/c	Personal A/c – Receiver Real A/c – Goes out	Debit Credit
d	Purchases A/c Nilgiri A/c	Nominal A/c – Expenses Personal A/c – Giver	Debit Credit
e	Cash A/c Sales A/c	Real A/c – Comes in Nominal A/c – Income	Debit Credit
f	Arun A/c Sales A/c	Personal A/c – Receiver Nominal A/c - Income	Debit Credit
g	Salary A/c Cash A/c	Nominal A/c – Expenses Real A/c – Goes out	Debit Credit
h	Cash A/c Dividend A/c	Real A/c – Comes in Nominal A/c – Income	Debit Credit

Class Exercise

1. For each transaction listed below, state the names of the account to be debited and credited –

SL No.	Transactions	debit	credit
a)	Started business with cash	CASH (B)	CAPITAL (P)
b)	Purchased goods for cash	PUR (N)	CASH (P)
c)	Paid rent	Rent (N)	CASH (P)
d)	Purchased machinery from Saha & Co. on credit	MACH (R)	SAHA & CO (P)
e)	Paid salaries	Sal (C/P)	CASH (P)
f)	Received commission	CASH (P)	COM (C/P)
g)	Purchased motor car	Motor (R)	CASH (P)
h)	Paid insurance by cheque	INS (N)	BANK (P)
i)	Paid electricity bill by cheque	E-BILL (N)	BANK (P)
j)	Sold goods for cash	CASH (P)	SALES (N)

2. Name the two accounts involved in each of the following transactions:

- a) Received cash from A. Dhar;
- b) Bought goods from K. Agarwal;
- c) Paid S. Mohanty;
- d) Sold goods for cash;
- e) Paid salary;
- f) Received interest;
- g) Bought furniture from Furniture World;
- h) Sold goods to A. Harlalka;

	debit	credit
(a)	CASH (CR)	A. Dhar (P)
(b)	PUR (N)	K. Agarwal (P)
(c)	S. Moh (P)	CASH (CR)
(d)	CASH (R)	Sal (C/N)
(e)	Sal (C/N)	CASH (R)
(f)	CASH (R)	INT (C/N)
(g)	FUR (P)	Furniture (P)
(h)	A. Har (P)	SALES (N)
(i)	TAX & C.N	BANK (P)
(j)	CASH (R)	B. Bod (P)

A ↑ ↓ C
 L ↓ ↑ D
 I ↓ ↑ E
 C ↑ ↓ F

BOOK KEEPING

- i) Paid taxes;
- j) Received cash from B. Badani.

* 3. Indicate whether each of the following is a debit or credit:

- a) Increase of cash (A) D ✓ e) Decrease of cash (A) C ✓
- b) Increase of equipment (A) D ✓ f) Increase of expense (E) D ✓
- c) Decrease of capital (L) D ✓ g) Increase of revenue (I) C ✓
- d) Decrease of equipment (A) C ✓ h) Increase of capital (L) C ✓

4. In the following transactions, state with reasons, the accounts to be debited and credited:

- a) Paid wages to Raju;
- b) Received interest from Manoj;
- c) Bought goods from Nilesh;
- d) Cash sales to Shyam;
- e) Sold goods to Vikash.

	D ✓	C ✓
(a)	wages	cash
(b)	cash	Int
(c)	Pvz	Nilesh
(d)	Shyam	Sales
(e)	Vikas	Sales

5. For each transactions noted below, state the names of the accounts to be debited and credited:

- a) Invested cash in business; D ✓ C ✓
- b) Paid rent for the month; CASH CAPITAL
- c) Purchased machinery from Subal & Co. on credit; RENT CASH
- d) Paid salaries; MACH SUBAL & CO
- e) Purchased stationery for cash; SAL CASH
- f) Received commission in cash; STATIONERY CASH
- g) Withdraw cash for personal use; CASH COMMISSION
- h) Borrowed money from Fullerton Credit Company Ltd.; DRAWING CASH
- i) Paid the amount due for purchase of machinery; CASH LOAN FROM B
- j) Purchased motor car for cash; SUBAL & CO CASH
-

6. Complete the following table showing which accounts to be debited and which is to be credited -

SL No.	Transactions	Dr.	Cr.
a)	Introduced capital in cash	CASH	CAPITAL
b)	Bought furniture for cash	FURN.	CASH
c)	Bought machinery on credit from Raj & Co.	MACH	RAJ & CO
d)	Bought goods for cash	P.U.K.	CASH
e)	Sold goods to Ram	RAM	SALES
f)	Ram pays us cash	CASH	RAM
g)	Deposited cash into bank	BANK	CASH
h)	Paid salary	SALARY	CASH
i)	Received cash from Ram	CASH	RAM
j)	Paid cash to Raj & Co.	RAJ & CO	CASH

7. For each transaction listed below, state the names of the account to be debited and credited –

SL No.	Transactions	Debit	Credit
a)	Cash introduced by proprietor	Cash	Capital
b)	Cash sales to customers	Cash	Sales
c)	Purchased machinery for cash	Mach	Cash
d)	Bought goods from D. Dandapat	Pur.	D. Dandapat
e)	Paid wages in cash	Wages	Cash
f)	Paid rent to landlord	Rent	Cash
g)	Sold goods to Amir	Amir	Sales
h)	Received dividend by cheque from Motilal & Co	Bank	Dividend
i)	Gave loan by cheque to Samir	Samir	Bank
j)	Paid P. Mahato ₹ 10,000 by cash	P. Mahato ₹ 10,000	Cash ₹ 10,000

8. For each transaction listed below, state the names of the accounts to be debited and which is to be credited –

- a) Paid wages in cash;
- b) Paid insurance by cheque;
- c) Received commission in cash;
- d) Paid motor expenses in cash;
- e) Bought stationery on credit from stationery suppliers;
- f) Received by cheque rebate of insurance previously paid;
- g) Paid rent by cheque;
- h) Sold surplus stationery for cash;
- i) Paid electricity bill by cheque;
- j) Received rent in cash;
- k) Paid rates by cheque;
- l) Received refund of rates by cheque.

(a)	Wages	Cash
(b)	Ins	Bank
(c)	Cash	Com
(d)	m. exp	Cash
(e)	Stationery	St. Supp
(f)	Bank	Rebate of ins
(g)	Rent	Bank
(h)	Cash	Stationery
(i)	E-Bill	Bank
(j)	Cash	Rent
(k)	Rates	Bank
(l)	Bank	Rates

9. From the following transactions, determine the accounts to be debited and credited:

- a) Bought goods for cash ₹ 500;
- b) Sold goods for cash ₹ 700;
- c) Bought goods from J. Karkar ₹ 1,000;
- d) Sold goods on credit to P. Deolankar ₹ 1,500;
- e) Paid cash to J. Karkar ₹ 600;
- f) Received interest on loan ₹ 150;
- g) Paid salary to manager ₹ 300;
- h) Paid rent to landlord ₹ 400.

10. From the following transactions, name the accounts involved indicating debits and credits:

- a) Bought machinery on credit from Gupta & Co.;
- b) Bought office furniture for cash from Monn Bros. & Co.;
- c) Sold some of the office furniture on credit to Sanjay Sethia;
- d) Returned part of the machinery to Gupta & Co. due to some defects;
- e) Paid the amount due to Gupta & Co. by cheque;
- f) Received the amount due from Sanjay Sethia in cash.

11. From the following transactions, name the accounts involved indicating debits and credits:

- a) Purchased machinery for ₹ 2,000 on credit from Perera;
- b) Purchased goods for ₹ 1,000 on credit from Promod;
- c) Sold goods to Samir for cash ₹ 500;
- d) Invested additional cash ₹ 5,000 in the business;
- e) Paid salary to staff ₹ 1,500 for the month of January;
- f) Gave loan to Manoranjan ₹ 500;

12. For each transaction listed below, state the names of the account to be debited and credited –

- a) Cash introduced by proprietor ₹ 50,000;
- b) Premises bought for cash ₹ 25,000;
- c) Goods bought for cash ₹ 3,000;
- d) Equipment bought on credit ₹ 5,600;
- e) Goods bought on credit ₹ 7,500;
- f) Cash sales to customers ₹ 3,800;
- g) Sales to customers on credit ₹ 5,200;
- h) Paid assistant's salary ₹ 1,200;
- i) Cash received from customers ₹ 4,900;
- j) Cash paid to suppliers in payment for goods supplied previously on credit ₹ 7,500;
- k) Cash drawings by proprietor ₹ 500;
- l) Goods taken by proprietor for personal use ₹ 300;
- m) Proprietor brings his own car into the business valued ₹ 15,000.

Chapter 5

Journal Entries

LEARNING OBJECTIVES

- Journal Entries
- Some specimen transactions
- Billing Terms

Journal is the book of original entry. It is the first place where the transactions are recorded. Suppose, you have purchased a calculator for ₹ 500. At first you have to record the transactions in a paper or in a computer. This process of recording the transaction is called journal. Specimen of a journal is as follows:

In the books of.....

Journal

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
2015 01.01	Purchases A/c Dr. To Cash A/c (Being goods purchased for cash)		500	500

Each entry in Journal normally contains the following six parts:

1. Date
2. Title of accounts to be debited
3. Debit amounts
4. Title of accounts to be credited
5. Credit amounts
6. Explanation or Narration

Some specimen transactions

1. Capital

Started business with cash of ₹ 50,000 on Jan 1, 2015

Cash is debited as it comes in. On the other hand, the owner is the giver, and owner's share in business is Capital. So, Capital Account should be credited.

Journal

Date	Particulars		L.F.	Dr. Amount	Cr. Amount
2015 Jan. 1	Cash A/c	Dr.		50,000	50,000

2. Purchase

This account is meant for recording all purchases of goods.

Purchased goods from Sunil for ₹ 14,000 on Jan. 3, 2015

Goods come in and Sunil is the giver. Purchases A/c is, therefore, debited and Sunil is credited.

Date	Particulars		L.F.	Dr. Amount	Cr. Amount
2015 Jan. 3	Purchases A/c	Dr.		14,000	14,000

3. Purchase Return

If after purchase of goods, the purchaser returned the goods for any reason like, defect, excess than ordered or not according to sample, it is purchases return. The purchaser sends a debit note to the supplier for adjustment. The supplier's account is debited in the books of the purchaser. So, debit note is a document notifying a supplier that a debit has been made to his account. It is generally sent when a bill is overcharged for the amount of difference. It is prepared after the supplier agrees to grant a price reduction. The debit note records the adjustments being requested. One copy of the Debit note is sent to the supplier. For example, **Out of goods purchased from Sunil on 3rd Jan, 2015, goods valuing ₹ 2,000 is returned on 5th Jan, 2015 because of inferior quality.** Here, Sunil is receiving the returned goods. So, *Sunil A/c will be debited and Purchases Return A/c will be credited* by the amount of the value of returned goods. The journal entry will be –

Date		Particulars	L.F	Dr. Amount	Cr. Amount
2015 Jan.	5	Sunil A/c Dr. To Purchases Return A/c (Being goods returned because of inferior quality)		2,000	2,000

4. Sale

This account is meant for recording of sale of goods.

Sold goods to Amitabh for ₹ 5,000 on Jan 4, 2015.

Amitabh is the receiver, therefore his account has to be debited, Goods go out, and hence *Sales A/c is credited*.

Date		Particulars	L.F	Dr. Amount	Cr. Amount
2015 Jan.	4	Amitabh A/c Dr. To Sales A/c (Being sale of Goods on credit to Amitabh)		5,000	5,000

5. Sales Return

The seller after receiving the goods returned, will credit the account of the purchaser in his books. He will issue a credit note to the purchaser for adjustment to be made in his books. So, Credit note is an evidence that a credit entry has been made to a debtor's account. When goods are supplied to a customer, a bill is sent. If the customer requests for a correction in the bill for any discrepancy, a credit note may be issued. A transaction is complete when a party issues a credit note against a debit note and vice versa. Suppose, **out of the goods sold to Amitabh on 4th Jan, 2015, goods valuing ₹ 1,000 was returned by Amitabh on 6th Jan being excess of order.** The journal entry will be –

Date		Particulars	L.F	Dr. Amount	Cr. Amount
2015 Jan.	6	Sales Return A/c Dr. To Amitabh A/c (Being goods received from Amitabh, because of excess of order)		1,000	1,000

6. Receipt

Received cash from Amitabh ₹ 5,000 on Jan. 10, 2015.

Cash comes in, hence Cash A/c is debited, Amitabh is the giver, and hence Amitabh A/c is credited.

Date		Particulars	L.F	Dr. Amount	Cr. Amount
2015 Jan.	10	Cash A/c Dr. To Amitabh A/c (Being receipt of cash from Amitabh)		5,000	5,000

7. Payment

Paid cash to Sunil ₹ 4,800 on Jan. 12, 2015.

Sunil is the receiver and hence his account is debited and cash goes out, hence this account is credited.

Date	Particulars	L.F	Dr. Amount	Cr. Amount
2015 Jan. 12	Sunil A/c Dr. To Cash A/c (Being payment of cash to Sunil)		5,000	5,000

8. Contra

Deposited cash into bank ₹ 49,000 on Jan. 12, 2015.

When the amount is deposited into bank, the bank becomes the receiver as it receives cash. Bank is, therefore, debited. Cash goes out. Cash A/c is, therefore, credited.

Date	Particulars	L.F	Dr. Amount	Cr. Amount
2015 Jan. 2	Bank A/c Dr. To Cash A/c (Being cash deposited into bank)	◎	49,000	49,000

Example

Journalize the following transactions in the books of Mr. Sethi.

2015 April	1	Sethi commenced business with cash	25000
	1	He opened account with bank by cash brought in by him	20000
	2	Purchased goods on credit from Mohan	2500
	3	Purchased machinery for cash	4000
	4	Withdrew from Bank	5000
	5	Purchased office equipment for cash	1000
	6	Purchased goods for cash from Shyamal	2000
	9	Purchased goods for cash	600
	10	Sold goods on credit to Ram	3000
	12	Purchased stationery for cash	100
	14	Paid insurance premium	500
	15	Withdrew from Bank	1500
	17	Paid to Mohan	2500
	19	Sold goods for cash to Ravinder	2000
	20	Deposited Cash into Bank	1000
	25	Paid rent of April	100
	30	Drew cash from business for private use	500
	30	Paid salaries to clerks	350
	30	Paid telephone charges	350

Solution

In the books of Mr. Sethi

JOURNAL

Date		Particulars	L.F	Dr. Amount	Cr. Amount
2015 April	1	Cash A/c Dr. To Capital A/c (Being business started with cash)		25,000	25000
April	1	Bank A/c Dr. To Cash A/c (Being bank A/c opened and cash deposited)		20000	20000
April	2	Purchases A/c Dr. To Mohan A/c (Being goods purchased on credit from Mohan)		2500	2500
April	3	Machinery A/c Dr. To Cash A/c (Being machinery purchased for cash)		4000	4000
April	4	Cash A/c Dr. To Bank A/c (Being cash withdrawn from Bank)		5000	5000
April	5	Office Equipment A/c Dr. To Cash A/c (Being office equipment purchased for cash)		1000	1000
April	6	Purchases A/c Dr. To Cash A/c (Being goods purchased for cash)		2000	2000
April	9	Purchases A/c Dr. To Cash A/c (Being goods purchased for cash)		600	600
April	10	Ram A/c Dr. To Sales A/c (Being goods sold on credit to Ram)		3000	3000
April	12	Stationery A/c Dr. To Cash A/c (Being stationery purchased for cash)		100	100
April	14	Insurance Premium A/c Dr. To Cash A/c (Being insurance premium paid)		500	500
April	15	Cash A/c Dr. To Bank A/c (Being cash withdrawn from bank)		1500	1500
April	17	Mohan A/c Dr. To Cash A/c (Being cash paid to Mohan)		2500	2500
April	19	Cash A/c Dr. To Sales A/c (Being goods sold for cash to Ravinder)		2000	2000

April	20	Bank A/c To Cash A/c (Being cash deposited into bank)	Dr.		1000	1000
April	25	Rent A/c To Cash A/c (Being rent for April paid)	Dr.		100	100
April	30	Drawings A/c To Cash A/c (Being cash Withdrawn for personal use)	Dr.		500	500
April	30	Salaries A/c To Cash A/c (Being salaries paid)	Dr.		350	350
April	30	Telephone Charges A/c To Cash A/c (Being telephone charges paid)	Dr.		350	350
Total					72,000	72,000

Simple and Compound Journal Entries

A journal entry, which contains only one debit and one credit entry, is called a simple journal entry. If it contains more than one debit or more than one credit entries or both, the entry is a compound or a combined journal entry.

Journal

Date		Particulars	L.F	Dr. Amount	Cr. Amount
2015	Aug	Rent A/C	Dr.	1,000	
		Wages A/c	Dr.	2,000	
		Salary A/c	Dr.	3,000	
		To Cash A/c (Being payment of expenses)			6,000

Actually a compound journal entry is a combination of two or more simple journal entries. The journal entry on August 11 is a combination of the following three simple journal entries.

Date		Particulars	L.F	Dr. Amount	Cr. Amount
2015	Aug.	Rent A/c To Cash A/c (Being payment of rent in cash)		1000	1,000
		Wages A/c To Cash A/c (Being payment of wages in cash)		2,000	2,000
		Salary A/c To Cash A/c (Being payment of salary in cash)		3,000	3,000

Two or more simple journal entries can be combined into one compound journal entry if

- a. The entries occur on the same day, and
- b. One aspect of these entries is common.

Class Exercise**1. Journalise the following transactions -**

SL No.	Transactions
a)	Mr. Ravi started business with cash ₹ 55,000;
b)	He bought Furniture of ₹ 10000 & Machinery of ₹ 25000;
c)	Opened a current account with SBI (A/C No. 001100250400) ₹ 20,000
d)	Deposited ₹ 5,000 into bank
e)	Paid rent to land lord ₹ 1,500
f)	Purchased a new chair for ₹ 800 by cash.
g)	Purchased stationery for ₹ 500 by cash.
h)	₹ 710 paid in cash for printing.
i)	Loan received from Ashis of ₹ 19000 by cash
j)	Received a cheque of HDFC (Ch No:445500) amounting to ₹ 30000 as loan from JB Finance Pvt. Ltd.
k)	Cheque of HDFC has been deposited to SBI.
l)	Purchased goods for ₹ 12500 in cash.
m)	Sold goods for ₹ 19000 in cash.
n)	Paid selling expenses ₹ 1,000
o)	Purchased machinery for ₹ 9210.
p)	Carriage paid for the above machinery ₹ 50
q)	Installation charges for the machinery ₹ 100.
r)	Deposited ₹ 5000 for new telephone connection at BSNL as security deposit
s)	₹ 1000 paid to land lord as electric charges.
t)	₹ 10000 paid for purchase of delivery van by cheque.
u)	Paid salary to marketing Executive ₹ 6000 and Office Executive ₹ 5200
v)	Purchased goods from Ratan & Co on credit for ₹ 19250
w)	General Expenses amounting to ₹ 820 paid
x)	₹ 1001 paid to local club as donation
y)	Paid audit fees ₹ 20,000 by cheque
z)	Received interest from Bank ₹ 1,000

2. Journalize the following transactions –

SL No.	Transactions
a)	Paid salary to Office executive ₹ 10,000 after adjusting advance of ₹ 2,000.
b)	Paid 3 months' rent @ ₹ 10,000 p.m.
c)	₹ 25500 received from APC Enterprises in full settlement of his dues of ₹ 26,000 through cheque (Ch no. - 410411).
d)	Goods costing ₹ 2000 distributed as free sample.
e)	Stationery purchased for ₹ 1,000.
f)	Telephone charges paid for ₹ 1,100
g)	Electricity charges paid for ₹ 950.
h)	Goods purchased for ₹ 10,000 from Sanjay.
i)	Advance received from Kumar & Co (Debtors) ₹ 1,500.
j)	Rs. 9,500 paid to Sanjay in full settlement of ₹ 10,000.
k)	Goods sold to Kumar & Co. for ₹ 6500 in cash at a trade discount of 10%
l)	Interest paid of ₹ 10,000 alongwith penalty of ₹ 500
m)	Purchased machinery for cash ₹ 10000 after adjusting discount @10%.
n)	Sold old furniture to A for cash ₹ 200;
o)	Purchased goods from B on credit of ₹ 1500 and trade discount of 10% received.
p)	Sold goods ₹ 560 and cash discount allowed ₹ 40;
q)	Purchased building from C ₹ 2,00,000;
r)	Purchased paper for ₹ 50 at a trade discount of 20%;
s)	Purchased goods from D for cash ₹ 100 – trade and cash discount @10% received ;
t)	Purchased typewriter from S & Co. on credit ₹ 160000
u)	Purchased stationery from Roy and sons ₹ 60;
v)	Penalty ₹ 1,000 paid by cheque to the Sales Tax Department.
w)	Paid E, his salary for the month of April'15 ₹ 400;
x)	Received from G ₹ 250 by demand draft;

3. Journalize the following transactions in the Books of Amarnath & Bros.:

Date		Particulars	₹
2015 Jan.	1	Started business with cash	20000
	2	Brought in business household furniture	3000
	3	Purchased goods in cash	4000
	4	Paid carriage in cash	500
	5	Purchased furniture on credit from Asbaspatra	2100
	6	Purchased a machine in cash	1900
	7	Sold goods in cash	6300
	8	Sold goods on credit	4500
	9	Paid cash to customer	3200
	10	Received cash from a customer	4700
	12	Purchased stationery in cash	910

4. Journalise the following transactions –

SL No.	Transactions
a)	Repairing charges for building paid ₹ 5400
b)	₹ 15000 paid for purchase of plant and ₹ 3000 paid for installation.
c)	₹ 10,000 paid as salary
d)	₹ 1200 paid to land lord as rent
e)	Goods sold for ₹ 21000 to Ray & Ray Associates.
f)	Goods sold for cash ₹ 950.
g)	₹ 1110 paid for advertisement expenses.
h)	Purchased goods from AKJ Pvt. Ltd. for ₹ 11000
i)	General expenses amounting to ₹ 140 paid
j)	Purchased machinery for ₹ 1,00,000
k)	₹ 750 paid as advance to Rajiv, marketing executive for his tour.
l)	Salary paid to office executive ₹ 5,000
m)	₹ 19000 paid to Ratan & Co. through SBI. (Ch no. - 123456)
n)	Further capital invested ₹ 54000
o)	Electricity bill comes for ₹ 950 paid immediately.
p)	Rajiv submitted tour bill for ₹ 600 and paid the balance amount in cash

q)	40% due has been received from Ray & Ray Associates.
r)	Telephone bill paid ₹ 2100.
s)	Goods amounting ₹ 5550 was returned from Ray & Ray Associates.
t)	Rent paid ₹ 1,000
u)	Salary paid ₹ 10,000
v)	Goods purchased from Salil ₹ 25000
w)	Electricity bill paid for ₹ 1010
x)	General expenses paid for ₹ 150
y)	Old machinery sold for ₹ 5000, which costs ₹ 5500
z)	Paid interest on Bank Overdraft ₹ 1,500

5. Journalise the following transactions in the books of Paranjit-

- a) Sold goods to Naranjit for ₹ 780 against cheque;
- b) Paid ₹ 2,400 for equipment by cheque;
- c) Received as commission ₹ 300;
- d) Withdraw ₹ 500 for personal expenses;
- e) Birbal gave a loan of ₹ 4,500 to Paranjit by cheque;
- f) Life Insurance premium paid by bank under standing instruction ₹ 290;
- g) Purchased stationery by cheque ₹ 80;
- h) Cash deposited into bank ₹ 1,000.

6. Journalise the following transactions-

- a) Purchased machinery for cash ₹ 10,800;
- b) Sold old furniture to Ashim for cash ₹ 250;
- c) Purchased goods from Biplab on credit ₹ 2,300;
- d) Sold goods ₹ 700;
- e) Purchased building from Chote ₹ 75,000;
- f) Purchased stationery ₹ 98;
- g) Purchased goods from Dipak for cash ₹ 1,320;
- h) Purchased a computer from Satyam ₹ 20,000;
- i) Purchased stationery from Ismail ₹ 67;
- j) Paid landlord office rent ₹ 1,000;
- k) Paid Darpan, his salary for the month ₹ 3,000;
- l) Received from Hiralal ₹ 420 on account;
- m) Received ₹ 250 interest on investment;
- n) Paid wages to factory staff ₹ 430;
- o) Deposited ₹ 600 into bank for office use;
- p) Paid Chandranath ₹ 590 on account;
- q) Paid carriage on purchase of goods ₹ 175;
- r) Paid commission to Jojo ₹ 320;

- s) Paid carriage on sale of goods ₹ 120;
- t) Returned goods to Biplob ₹ 870;
- Received goods returned by Kallol;
- v) Taken loan from Ishan ₹ 1,600.

7. Journalise the following transactions—

- a) Sold goods to Dayaram ₹ 900;
- b) Withdrawn from bank ₹ 600;
- c) Loaned ₹ 875 to Kalicharan by cheque;
- d) Received as rent from tenant ₹ 200;
- e) Paid commission to agent ₹ 300;
- f) Purchased goods on credit ₹ 700;
- g) Purchased factory premises for ₹ 80,000 by paying cheque;
- h) Withdrawn from bank for household expenses ₹ 400;
- i) Received from Kalicharan ₹ 50 as interest on loan;
- j) Paid ₹ 75 by cheque as office electric bill.

8. Journalise the following transactions—

- a) B. B. Garg started business with ₹ 10,000 in cash, machinery worth ₹ 15,000 and stock ₹ 5,000;
- b) Received a loan of ₹ 18,000 from S. Gill by cheque and opened a bank account with this cheque;
- c) Bought office furniture on credit from Raj Furniture for ₹ 1,800;
- d) Bought goods for cash ₹ 4,000;
- e) Withdrawn cash ₹ 1,500 from bank for office use;
- f) Sold goods to Mr. Kamal Singh for cash ₹ 6,000;
- g) Paid wages and salaries in cash ₹ 2,500;
- h) Paid amount owing to Raj Furniture by cheque;
- i) Repaid part of S. Gill's loan by cheque ₹ 8,000;
- j) Paid cash into bank ₹ 2,000;
- k) Loaned ₹ 1,000 in cash to A. Samanta;
- l) Paid commission to agent ₹ 500;
- m) Bought goods for cash ₹ 3,500;
- n) Returned defective goods worth ₹ 500 and received payment;
- o) Sold goods for cash ₹ 700;
- p) Deposited cash into bank ₹ 500;
- q) Paid by cheque ₹ 350 for office electric bill;
- r) Withdrawn from bank for household expenses ₹ 600;
- s) Paid office rent ₹ 750;
- t) Purchased stationery ₹ 150.



9. Asit started a business on 1st April, 2015 with Plant and Machinery ₹ 40,000, Furniture ₹ 10,000, Building ₹ 50,000 and Cash ₹ 80,000.

Journalise the following transactions for the month of April –

	₹
April 1 Purchased goods for cash from Rajiv	35,000
3 Purchased goods from Nalini	40,000
6 Sold goods for cash	70,000
11 Cash deposited into bank	80,000
12 Purchased machinery for cash	10,000
15 Sold goods to Jamil	30,000
17 Returned goods to Nalini	2,000
19 Paid to Nalini by cheque	20,000
21 Withdrawn from bank for personal use	10,000
24 Received cheque from Jamil and deposited into bank	20,000
27 Paid salary for the month of April	5,000
30 Received bank interest	400
30 Purchased stationery for cash	1,000

10. Journalise the following transactions—

- a) Started business with cash ₹ 15,000;
- b) Bought furniture for cash ₹ 1,000;
- c) Bought stationery for cash ₹ 150;
- d) Bought goods for cash ₹ 2,500;
- e) Sold goods for cash ₹ 4,200;
- f) Paid rent in cash ₹ 700;
- g) Paid wages in cash ₹ 250;
- h) Opened a Bank account ₹ 2,500;
- i) Paid cash to Raju ₹ 600;
- j) Received cash from Anand ₹ 1,400;
- k) Received commission in cash ₹ 120;
- l) Deposited cash into bank ₹ 750;
- m) Sold goods to Kishore on credit ₹ 1,200.

11. Journalise the following transactions—

- a) Started business with ₹ 20,000;
- b) Opened a bank account and deposited ₹ 8,000;
- c) Bought furniture for cash ₹ 800;
- d) Bought goods for ₹ 2,500 for cash and paid carriage on purchase ₹ 70;
- e) Sold goods for ₹ 4,800 for cash and paid carriage on sale ₹ 85;
- f) Bought office equipment for ₹ 1,200 from Bharat Equipment on credit;
- g) Bought goods from India Stores for ₹ 3,500 on credit;
- h) Returned goods worth ₹ 450 to India Stores;
- i) Sold goods to Chouhan Bros. for ₹ 4,200 on credit;
- j) Chouhan Bros. returned goods worth ₹ 500;
- k) Paid to India Stores ₹ 1,500 by cheque on account;
- l) Received cash from Chouhan Bros. ₹ 2,500 on account;

- m) Paid electric bill ₹ 250;
- n) Paid for advertisement charges ₹ 200;
- o) Deposited cash into bank ₹ 6,000;
- p) Interest and commission received ₹ 350;
- q) Sold goods for cash ₹ 2,500;
- r) Bought goods worth ₹ 3,000 from Dutta & Co. on credit;
- s) Paid to India Stores on account;
- t) Sold to Dipak Lal goods worth ₹ 4,000 on credit;
- u) Withdrawn from bank for private use ₹ 750;
- v) Bought an office furniture for ₹ 3,000 and paid by cheque;
- w) Paid wages and salaries to office staff ₹ 1,800;
- x) Paid office rent ₹ 400;
- y) Paid to Bharat Equipment by cheque ₹ 1,100 in full settlement of their account.
- z) Salary paid to Raktim ₹ 2,000.

12. Journalise the following transactions—

- a) Started business with cash of ₹ 7,500;
- b) Paid commission to A – ₹ 200;
- c) Purchased goods from Dhar & Co. for ₹ 500;
- d) Paid Dhar & Co. by cheque ₹ 500;
- e) Deposited cash into bank ₹ 1,000;
- f) Sold old furniture for cash ₹ 750;
- g) Paid interest ₹ 100;
- h) Taken loan from Mr. Koushik ₹ 1,000;
- i) Received interest on Investment ₹ 50;
- j) Paid interest on loan taken from Mr. Koushik ₹ 150;
- k) Withdraw cash for household expenses ₹ 400;
- l) Paid rent to the landlord ₹ 900;
- m) Purchased one machine for cash ₹ 1,000;
- n) Purchased one computer from Computer World ₹ 12,000.

13. Journalise the following transactions—

- a) Started business with a capital of ₹ 5,000 in cash;
- b) Opened a bank account with SBI ₹ 2,000;
- c) Bank directly paid insurance premium ₹ 300;
- d) Sold goods and received a cheque which was directly deposited into bank ₹ 500;
- e) Cash deposited into bank ₹ 500;
- f) Sold goods for cash ₹ 1,000;
- g) Sold goods to Mr. Dayal on credit ₹ 1,000;
- h) Mr. Dayal returned goods amounting to ₹ 250;
- i) Received cash from Mr. Dayal in full settlement ₹ 700;
- j) Purchased goods from Ms. Zarin ₹ 2,000;
- k) Goods returned to Ms Zarin amounting to ₹ 500;
- l) Paid to Ms Zarin in full settlement ₹ 1,400.