

**BA**

(i) Journal - Book Keeping - Journal meaning & purpose; - Numerical Problems on Journals

& Accounts explanation

- Types of Accounts & Golden Rules;

Book-Keeping: Book keeping is the branch of knowledge which tells us how to keep record of business transactions. It is often routine & clerical in nature. It is important to note that only those transactions related to business which can be expressed in terms of money are recorded. The activities of book-keeping include recording in journal, posting to the ledger and balancing of accounts. R.N. Carter says, "Book-keeping is the science & art of correctly recording in the books of accounts all those business transactions that result in the transfer of money or money's worth".

Objectives of Book-Keeping are -

- (i) To have permanent record of all the business transactions.
- (ii) To keep records of income & expenses in such a way that the net profit or loss may be calculated.
- (iii) To keep records of assets & liabilities in such a way that the financial position of business may be ascertained.
- (iv) To keep control on expenses with a view to minimise the same in order to maximise profit.
- (v) To know the names of the customers & the amount due from them.
- (vi) To know the names of suppliers & the amount due to them.
- (vii) To have important information for legal & tax purposes.

Accounting: Book-Keeping doesn't present a clear financial picture of the state of affairs of a business. When one has to make a judgement regarding the financial position of the firm, the information contained in these books of accounts has to be analysed & interpreted. It is with the purpose of giving such info.

that accounting came into being.

Accounting is considered as a system which collects & processes financial information of a business. These informations are reported to the users to enable them to make appropriate decisions.

American Accounting Association defines accounting as "the process of identifying, measuring and communicating economic info; to permit informed judgments & decisions by users of the information".

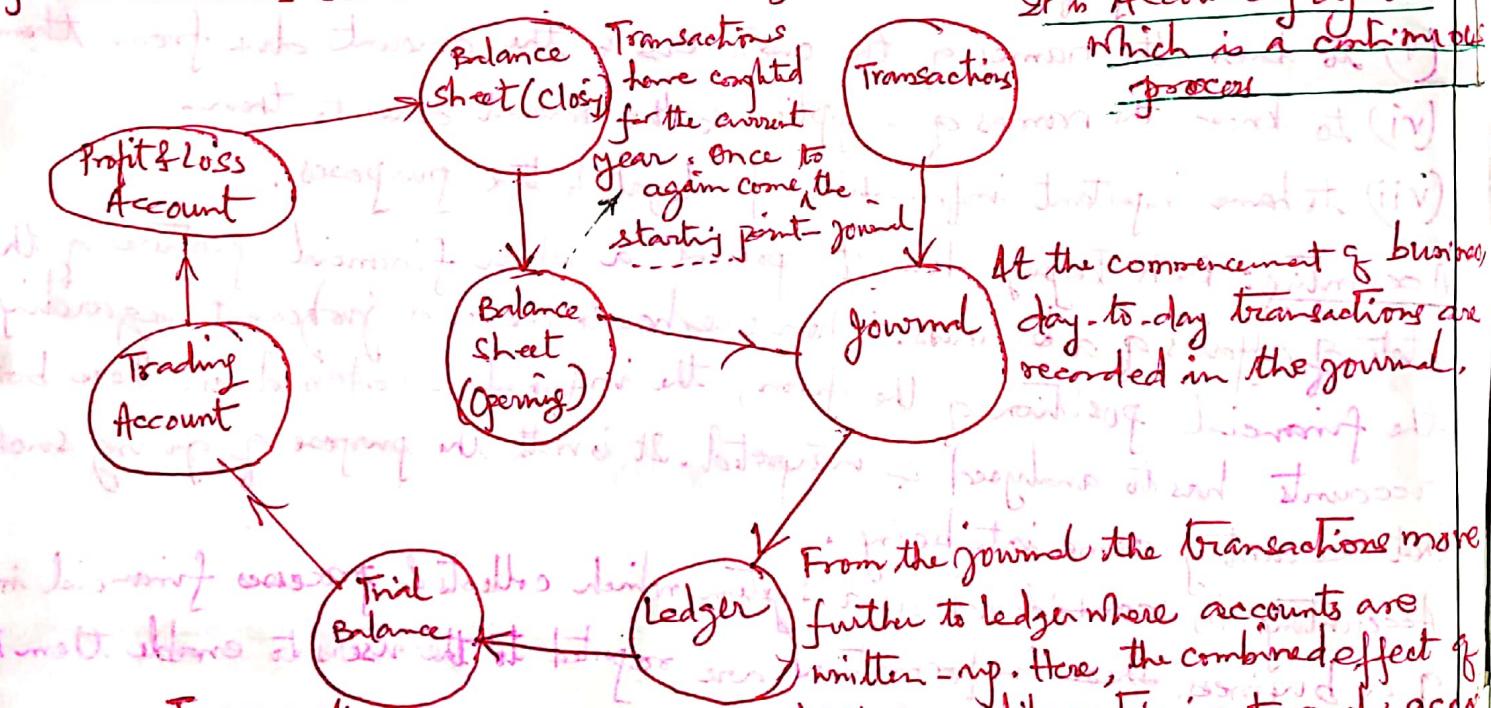
Objectives - Main objectives of accounting are -

- (i) To maintain accounting records.
- (ii) to calculate the result of operations.
- (iii) to ascertain the financial position.
- (iv) to communicate information to users.

Process of Accounting as per the above definition is given below -



Accounting cycle - Is a complete sequence of accounting process, that begins with the recording of business transactions and ends with the preparation of final accounts as shown in the diagram below -



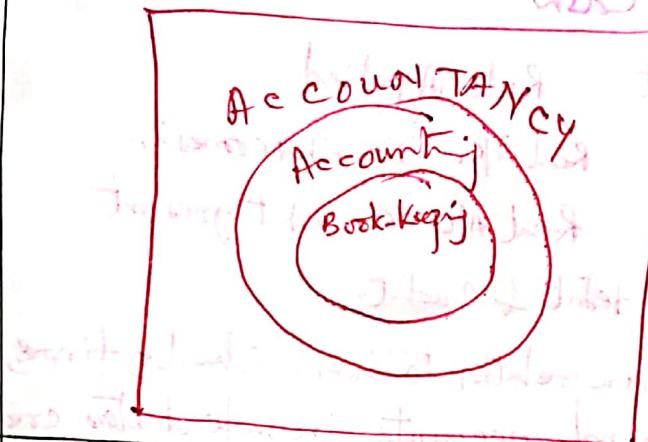
To prove the accuracy

of the work done, these balances are transferred to a statement called

Profit and Loss Account. It is a statement showing the result of business activities for a particular period of time.

To know the financial position of business concern balance sheet is prepared at the end.

# Accountancy - Accounting and Book Keeping relation -



Users of Accounting Information are -

## INTERNAL

- Owners
- Mgmt

Employees & Trade Unions.

## EXTERNAL

- Creditors, Banks & other lending institutions
- Present Investors (Share Holders)
- Potential Investors
- Govt. & Tax authorities
- Regulatory Agencies
- Researchers.

Branches of Accounting - Increased scale of business has made the mgmt function more complex. This has given rise to specialised branches in accounting — FINANCIAL ACCOUNTING, COST A/cg. and MANAGEMENT ACCOUNTING.

Financial Accounting - It is concerned with recording of business transactions in the books of accounts in such a way that operating result of a particular period & financial position on a particular date can be known.

Cost Accounting - It relates to collection, classification & ascertainment of the cost of production or job undertaken by a firm.

Management Accounting - It relates to the use of accounting data collected with the help of financial A/cg. & Cost A/cg. for the purpose of policy formulation, planning, control and decision making by the management.

Types of Accounts - 1. Real Accounts 2. Personal Account & 3. Nominal A/c.

1. Real Account - All assets of a firm, which are tangible or intangible, fall under Real Account'.

① Tangible Real Accounts are related to things that can be touched & felt physically e.g., - building, machinery, stock, land etc.

② Intangible real Accounts are related to things that can't be touched & felt physically e.g., - goodwill, patents, trademarks (Intellectual Property Rights-IPR).

Golden Rule for Real Accounts — Debit what comes in Credit what goes out.

Example : Transaction below shows the introduction of 2 different real accounts. One is furniture & the other is cash, both of them are assets of the

Company & hence classified as real accounts.		
Accounts Involved	Debit / Credit	Rule Applied
Furniture Account	Debit	Real A/c - Dr. what comes in
To Cash Account	Credit	Real A/c Cr. what goes out

Amount will be Rs. 10,000 in both debit & credit.

2. Personal Account - These accounts are related to individuals, firms, companies, etc. A few examples of personal accounts include debtors, creditors, banks, outstanding / prepaid accounts, accounts of credit customers, accounts of goods suppliers, capital, drawings, etc.

(a) Artificial Personal Accounts are created artificially by law; such as corporate bodies & institutions, are called Artificial personal accounts eg - Pvt. Ltd. Cos. (PLCs), Limited Liability Cos. (LLCs), Limited liability partnerships (LLPs), clubs, schools, etc.

(b) Representative Personal Accounts represents a certain person or group directly or indirectly eg - let's say that wages are paid in advance to an employee - a wage prepaid account will be opened in the books of accounts. This wage prepaid account is a representative personal a/c indirectly linked to the person.

Golden Rule for personal Accounts - Debit the Receiver  
Credit the giver

Example: The transaction below demonstrates the interaction between 2 diff. personal a/cs - one of which is a PLC & other one is bank.

(a) Unreal Pvt. Ltd., Rs. 24,000 by cheque

Accounts Involved	Debit / Credit	Rule Applied
Unreal Pvt. Ltd. A/c	Debit	Artificial Personal A/c - Dr.
To Bank A/c	Credit	Artificial Personal A/c - Cr. the given

Amount will be Rs. 24,000 in both debit and credit.

3. Nominal Accounts - Accounts which are related to expenses, losses, incomes or gains are called Nominal accounts. The dictionary meaning of the word "Nominal" is "existing in name only" and the meaning remains absolutely true in accounting sense too, because nominal accounts do not really

exist in physical form, but behind every nominal account money is involved

e.g. - Purchase A/c, Salary A/c, Sales A/c, Commission recd A/c, etc.

The final result of all nominal a/c. is either profit or loss which is then transferred to the capital a/c.

Golden Rule for nominal Accounts — Debit all expenses & losses  
credit all incomes & gains.

Example: Following example shows a transaction where a nominal account deals with a real a/c.

Purchased goods for Rs. 15,000/- in Cash

Accounts Involved      Debit / Credit

Purchase A/c.              Debit

To Cash A/c              Credit

Rule Applied

Nominal A/c. - Dr. all expenses

Real A/c. - Cr what goes out

The amount will be Rs. 15,000/- in both debit & credit.

### Numerical Problems on Journal

Ex 1: Journalise the following transactions in the books of proprietor business of Kamal.

Jan 1, 2016      Bought goods for cash Rs. 30,000

Jan 5, 2016      Sold goods for cash Rs. 55,000

Jan 9, 2016      Bought goods for credit from Sohan Rs. 22,000

Jan 11, 2016      Sold goods on credit to John Rs. 9,000

Jan 14, 2016      Recd from John Rs. 7,000

Jan 17, 2016      Paid to Sohan Rs. 12,000

Jan 20, 2016      Bought tools for cash Rs. 13,000

Ex 2: Journalise the following transactions for Mr. Kharat's business

2014      Purchased Goods on Credit from Mr. Soni Rs. 25,000

2nd March      Sold Goods for cash Rs. 33,000

5th Mar      Sold Goods for cash Rs. 11,000

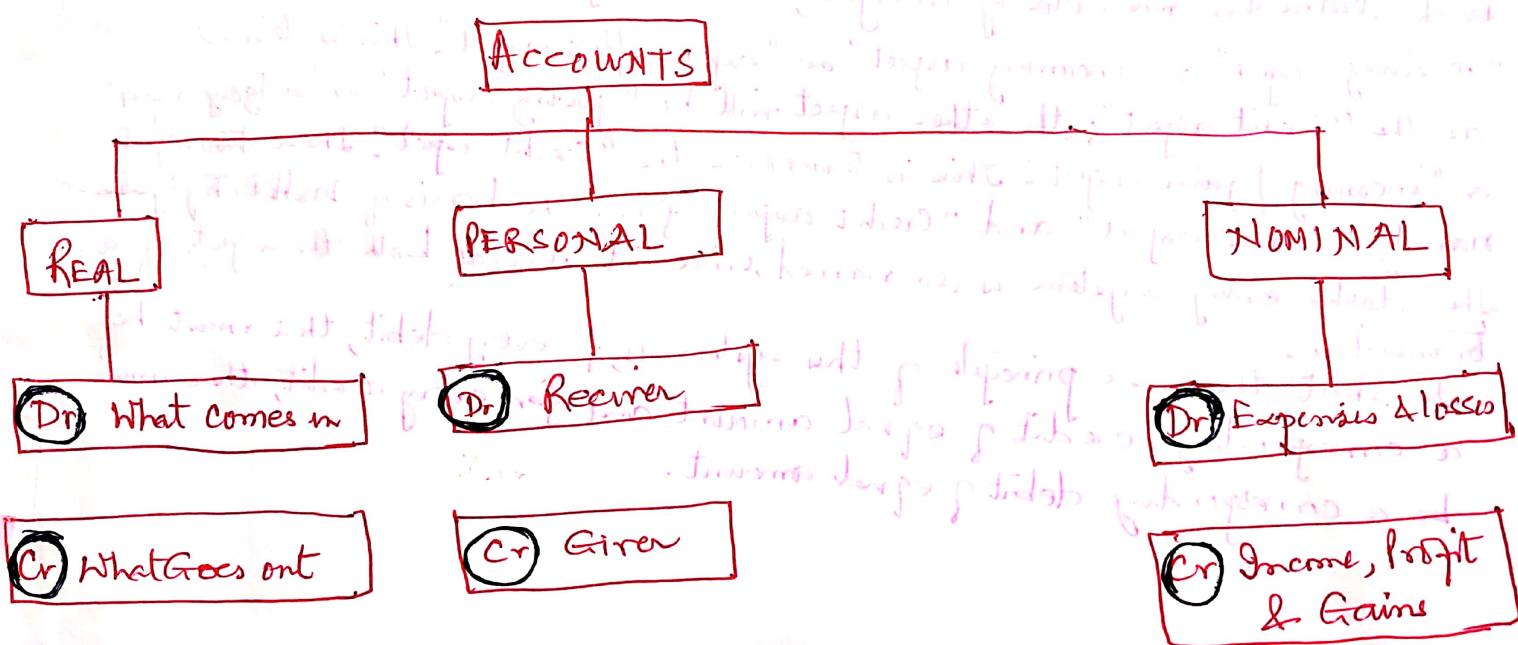
10th Mar      Bought furniture for Rs. 5,000

14th Mar      Withdraw for personal expenses Rs. 5,000

18th Mar      Paid Rs. 11,000 to Mr. Soni towards part payment for goods purchased

30th Mar      Paid office electric bill Rs. 11,000

## GOLDEN RULES of Accounting



Double Entry System: There are numerous transactions in a business concern. Each transaction when closely analysed, reveals 2 aspects - one aspect will be "receiving aspect" or "incoming aspect" or "expenses / loss aspect". This is termed as the "Debit aspect". The other aspect will be "giving aspect" or "outgoing aspect" or "inconing / gain aspect". This is termed as the "Credit aspect". These two aspects namely "Debit aspect" and "Credit aspect" form the basis of Double Entry System. The double entry system is so named since it records both the aspects of a transaction.

In short the basic principle of this system is, for every debit, there must be a corresponding credit of equal amount and for every credit, there must be a corresponding debit of equal amount.

word (3)

Two words (3)

Real A/C - Credit go

Solution 1:

Journal of Proprietary Business of Kamal

Date	PARTICULARS	Dr.	DEBIT Rs. 30,000 31,000 55,000 22,000 9,000 7,000 12,000 13,000 00	CREDIT Rs. 30,000 55,000 22,000 9,000 7,000 12,000 13,000 00
Jan 1, 2016	Purchases A/c (2) (Cash Purchase) ① To Cash A/c	Dr.	30,000	00
Jan 5, 2016	① Cash A/c (3) To Sales A/c (Cash Sales)	Dr.	55,000	00
Jan 9, 2016	Purchase A/c (2) (Credit Purchase) ⑤ To Soham A/c	Dr.	22,000	00
Jan 11, 2016	John A/c (6) ③ To Sales A/c (Credit Sales)	Dr.	9,000	00
Jan 14, 2016	① Cash A/c (7) To John A/c (6) (Cash received)	Dr.	7,000	00
Jan 17, 2016	Soham A/c (8) ① To Cash A/c (Cash Paid)	Dr.	12,000	00
Jan 20, 2016	Tools A/c (4) ① To Cash A/c (Tools Purchase)	Dr.	13,000	00
(1) - 5 Entries	000,11	(5) - 2	000,11	00
(2) - 2	000,11	(6) - 1	000,11	00
(3) - 1				

(3A) ii)

(IF / JF in Journal & Ledger except)

Ledger - Meaning & Purpose - Refer A/c cycle done under (i)

Ex-1: Post the transactions of earlier ex-1 in the Ledger.

Solution: There are six accounts involved - Cash, Purchases, Sales, Tool, Sohan and John. Hence 6 accounts are to be opened in the ledger.

### Ledger of Kamal's Business

Dr.	① Cash Account			Credit	
Date	Particulars	Amount	Date	Particulars	Amount
Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
2016			2016		
Jan 5	To Sales A/c	55,000	Jan 1	By Purchase A/c	30,000
Jan 14	To John A/c	7,000	Jan 17	By Sohan's A/c	12,000
			Jan 20	By Tool A/c	13,000

### ② Purchase Account

Dr.	② Purchase Account			Credit	
Date	Particulars	Amount	Date	Particulars	Amount
Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
2016					
Jan 1	To Cash A/c	30,000			
Jan 9	To Sohan A/c	22,000			

### ③ Sales Account

Dr.	③ Sales Account			Credit	
Date	Particulars	Amount	Date	Particulars	Amount
Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
2016					
Jan 5	By Cash A/c	55,000	Jan 11	By John A/c	9,000

### ④ Tool Account

Dr.	④ Tool Account			Credit	
Date	Particulars	Amount	Date	Particulars	Amount
Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
2016					
Jan 20	To Cash A/c	13,000			

### ⑤ Sohan Account

Dr.	⑤ Sohan Account			Credit	
Date	Particulars	Amount	Date	Particulars	Amount
Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
2016					
Jan 17	To Cash A/c	12,000	Jan 9	By Purchase A/c	22,000

### ⑥ John Account

Dr.	⑥ John Account			Credit	
Date	Particulars	Amount	Date	Particulars	Amount
Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
2016					
Jan 11	To Sales A/c	9,000	Jan 14	By Cash A/c	7,000

Date	Particulars	Debit (Rs.)	Credit (Rs.)	Debit	Rs.
01-01-2000	Purchase A/c Dr. To Cash (2)	10,000	10,000	① Purchase A/c Dr. To Cash 1000 By Bal Crd 10,000 Dr. Bal 10000 Total B/d 10000	James A/c. Cr. Do To Sale - 4000 By Bal Crd 4000 To Bal b/d - 4000 Dr. Bal
Narration →	[Being purchased goods for cash]			② Cash A/c. Dr. To Sales 1,00000 By Purchase 1000 By Stationery 1,00,000 By Furniture 500 By Rent 2000 Dr. Bal b/d 78,700 By Salary 3000 By Bal Crd 78,700	③ Salary A/c. Dr. To Cash 8000 By Rent 800 By Furniture 2000 By Bal Crd 800 Dr. P21
02-01-2000	Purchase Stationery A/c Dr. To Cash (2)	500	500	④ Furniture A/c Dr. To Cash A/c (2)	④ Rent A/c. Dr. To Cash 800 By Bal Crd 800 To Bal b/d 800 Dr. P21
	[Being Purchased Stationery for cash]			⑤ James A/c Dr. To Sales (5)	⑤ Sales A/c. Dr. To Cash 1,00,000 By Bal Crd 1,00,000 To Bal b/d 1,00,000 Dr. P21
03-01-2000	Furniture A/c Dr. 2000 To Cash A/c (2)	2000	2000	⑥ James A/c Dr. To Sales (5)	⑥ Rent A/c. Dr. To Cash 800 By Bal Crd 800 To Bal b/d 800 Dr. P21
	[Being purchased furniture for cash]			⑦ Rent A/c. Dr. To Cash 500 By Bal Crd 500 To Bal b/d 500 Dr. P21	⑦ Furniture A/c Dr. To Cash 2000 By Bal Crd 2000 To Bal b/d 2000 Dr. P21
04-01-2000	Cash A/c (2) Dr. 1,00,000 To Sales (5)	1,00,000	1,00,000	⑧ James A/c Dr. To Sales (5)	⑧ Furniture A/c Dr. To Cash 2000 By Bal Crd 2000 To Bal b/d 2000 Dr. P21
	[Being sold goods for cash]			⑨ James A/c Dr. To Sales (5)	⑨ Sales A/c. Dr. To Cash 4000 By Bal Crd 4000 To Bal b/d 4000 Dr. P21
05-01-2000	James A/c (6) Dr. To Sales (5)	4,000	4,000	10 James A/c Dr. To Cash (2)	10 Sales A/c. Dr. To Cash 1,04,000 By Bal Crd 1,04,000 To Bal b/d 1,04,000 Dr. P21
	[Being sold goods to James]			11 Rent A/c (7) Dr. To Cash (2)	
06-01-2000	Rent A/c (7) Dr. To Cash (2)	800	800	12 Rent A/c (7) Dr. To Cash (2)	
07-01-2000	(Being ...) Salary A/c (8) Dr. To Cash (2)	8000	8000	13 Salary A/c (8) Dr. To Cash (2)	