



Q3. Describe how accounts are used to record information about the effects of transactions?

Answer :

Every transaction is recorded in the original book of entry (journal) in order of their occurrence; however, if we want to know that how much we receive from our debtors or how much to pay to the creditors, it is not possible to determine at a single movement. Hence, we prepare accounts to know the position of business activities in the meantime.

There are some steps to record transactions in accounts; it can be easily understood with the help of an example.

Sold goods to Mr A worth Rs 50,000 on 12th April and received payment Rs 40,000 on 25th April. The following journal entries will be recorded:

	Particulars		L.F.	Debit Amount Rs	Credit Amount Rs
Apr.12	A's A/c Dr.	22	50,000		
	To Sales	18			50,000
	(Goods sold on credit to Mr. A)				
Apr.25	Cash A/c Dr.	13	40,000		
	To A's A/c	22			40,000
	(Cash received from Mr. A)				

Step 1- Locate the account in ledger, i.e., Mr A's Account.

Step 2- Enter the date of transaction in the date column of the debit side of Mr A's Account.

Step 3- In the 'Particulars' column of the debit side of Mr A's Account, the name of corresponding account is to be written, i.e., 'Sales'.

Step 4- Enter the page number of the ledger in the Journal Folio (J.F.) column of Mr A's Account.

Step 5- Enter the amount in the 'Amount' column.

Step 6- Same steps are to be followed to post entries in the credit side of Mr A's Account.

Step 7- After entering all the transactions for a particular period, balance the account by totalling both sides and write the difference in shorter side, as 'Balance c/d'.

Step 8- Total of account is to be written on either sides.

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