4.5 Illustrations

Example 1:

January 1, 2004 – Saravanan started business with Rs. 1,00,000.

Analysis of Transaction

Step 1	Determine the two accounts involved in the transaction.	Cash Account	Capital Account
Step 2	Classify the accounts under personal, real or nominal.	Real Account	Personal Account
Step 3	Find out the rules of debit and credit.	2(a) Debit what comes in.	1(b) Credit the giver
Step 4	Identify which account is to be debited and credited.	Cash A/c is to be debited	Capital A/c is to be credited

Solution :

Journal

Date	Particulars	LF	Debit Rs.	P.	Credit Rs.	P.
2004	Cash A/c Dr.	12	1,00,000	–		
Jan 1	To Capital A/c	45			1,00,000	–
	(The amount invested in the business)					

The Ledger Folio column indicates 12 against Cash Account which means that Cash Account is found in page 12 in the ledger and this debit of Rs.1,00,000 to Cash A/c can be seen on that page. Similarly 45 against Capital A/c indicates the page number in which Capital account is found and the credit of Rs.1,00,000 indicated there in.

Example 2:

Jan. 3, 2004 : Received cash from Balan Rs. 25,000

Analysis of Transaction

Step 1	Determine the two accounts involved in the transaction.	Cash Account	Balan Account
Step 2	Classify the accounts under personal, real or nominal.	Real Account	Personal Account
Step 3	Find out the rules of debit and credit.	2(a) Debit what comes in.	1(b) Credit the giver
Step 4	Identify which account is to be debited and credited.	Cash A/c is to be debited	Balan A/c is to be credited

Solution :

Journal

Date	Particulars	LF	Debit Rs.	P.	Credit Rs.	P.
2004	Cash A/c Dr.	12	25,000	–		
Jan 3	To Balan's A/c (Cash received from Balan)	81			25,000	–

The Ledger Folio column indicates 12 against Cash Account which means that Cash Account is found in page 12 in the ledger and this debit of Rs.25,000 to Cash A/c can be seen on that page. Similarly 81 against Balan A/c indicates the page number in which Balan Account is found and the credit of Rs.25,000 indicated there in.

Example 3: July 7, 2004 – Paid cash to Perumal Rs.37,000.

Analysis of Transaction

Step 1	Determine the two accounts involved in the transaction.	Perumal Account	Cash Account
Step 2	Classify the accounts under personal, real or nominal.	Personal Account	Real Account
Step 3	Find out the rules of debit and credit.	1(a) Debit the receiver	2(b) Credit what goes out
Step 4	Identify which account is to be debited and credited.	Perumal A/c is to be debited	Cash A/c is to be credited

Solution : Journal

Date	Particulars	LF	Debit Rs. P.	Credit Rs. P.
2004 July 7	Perumal A/c Dr. To Cash A/c (Cash paid to Perumal)	95 12	37,000 –	37,000 –

Example 4: Feb. 7, 2004 – Bought goods for cash Rs. 80,000.

Analysis of Transaction

Step 1	Determine the two accounts involved in the transaction.	Purchases Account	Cash Account
Step 2	Classify the accounts under personal, real or nominal.	Real Account	Real Account
Step 3	Find out the rules of debit and credit.	2(a) Debit what comes in	2(b) Credit what goes out
Step 4	Identify which account is to be debited and credited.	Purchases A/c is to be debited	Cash A/c is to be credited

Solution: Journal

Date	Particulars	LF	Debit Rs. P.	Credit Rs. P.
2004 Feb 7	Purchases A/c Dr. To Cash A/c (Cash purchase of goods)	48 12	80,000 –	80,000 –

Example 5: March 10, 2004 – Cash sales Rs.90,000.

Analysis of Transaction

Step 1	Determine the two accounts involved in the transaction.	Cash Account	Sales Account
Step 2	Classify the accounts under personal, real or nominal.	Real Account	Real Account
Step 3	Find out the rules of debit and credit.	2(a) Debit what comes in	2(b) Credit what goes out
Step 4	Identify which account is to be debited and credited.	Cash A/c is to be debited	Sales A/c is to be credited

Solution: Journal

Date	Particulars	LF	Debit Rs. P.	Credit Rs. P.
2004 Mar 10	Cash A/c Dr. To Sales A/c (Cash Sales)		90,000 –	90,000 –

Example 6: March 15, 2004 – Sold goods to Jaleel on credit Rs.1,00,000.

Analysis of Transaction

Step 1	Determine the two accounts involved in the transaction.	Jaleel Account	Sales Account
Step 2	Classify the accounts under personal, real or nominal.	Personal Account	Real Account
Step 3	Find out the rules of debit and credit.	1(a) Debit the receiver	2(b) Credit what goes out
Step 4	Identify which account is to be debited and credited.	Jaleel A/c is to be debited	Sales A/c is to be credited

Solution : Journal

Date	Particulars	LF	Debit Rs.	P.	Credit Rs.	P.
2004 March 15	Jaleel A/c Dr. To Sales A/c (Credit sales)		1,00,000	–	1,00,000	–

Example 7: March 18, 2004 – Purchased goods from James on credit Rs.1,50,000.

Analysis of Transaction

Step 1	Determine the two accounts involved in the transaction.	Purchases Account	James Account
Step 2	Classify the accounts under personal, real or nominal.	Real Account	Personal Account
Step 3	Find out the rules of debit and credit.	2(a) Debit what comes in	1(b) Credit the giver
Step 4	Identify which account is to be debited and credited.	Purchases A/c is to be debited	James A/c is to be credited

Solution : Journal

Date	Particulars	LF	Debit Rs.	P.	Credit Rs.	P.
2004 March 18	Purchases A/c Dr. To James A/c (Credit purchases)		1,50,000	–	1,50,000	–

Example 8: March 20, 2004 – Returned goods from Jaleel Rs.5,000.

Analysis of Transaction

Step 1	Determine the two accounts involved in the transaction.	Sales Return Account	Jaleel Account
Step 2	Classify the accounts under personal, real or nominal.	Real Account	Personal Account
Step 3	Find out the rules of debit and credit.	2(a) Debit what comes in	1(b) Credit the giver
Step 4	Identify which account is to be debited and credited.	Sales return A/c is to be debited	Jaleel A/c is to be credited

Solution : Journal

Date	Particulars	LF	Debit Rs.	P.	Credit Rs.	P.
2004 March 20	Sales return A/c Dr. To Jaleel A/c (Returned goods)		5,000	–	5,000	–

Example 9: March 25, 2004 – Goods returned to James Rs.7,000.

Analysis of Transaction

Step 1	Determine the two accounts involved in the transaction.	James Account	Purchases return Account
Step 2	Classify the accounts under personal, real or nominal.	Personal Account	Real Account
Step 3	Find out the rules of debit and credit.	1(a) Debit the receiver	2(b) Credit what goes out
Step 4	Identify which account is to be debited and credited.	James A/c is to be debited	Purchases return A/c is to be credited

Solution :   **Journal**

Date	Particulars	LF	Debit Rs. P.	Credit Rs. P.
2004 March 25	James A/c Dr. To Purchases return A/c (Goods returned)		7,000 –	7,000 –

Example 10: March 25, 2004 – Paid salaries in cash Rs.6,000.

Analysis of Transaction

Step 1	Determine the two accounts involved in the transaction.	Salaries Account	Cash Account
Step 2	Classify the accounts under personal, real or nominal.	Nominal Account	Real Account
Step 3	Find out the rules of debit and credit.	3(a) Debit all expenses & losses	2(b) Credit what goes out
Step 4	Identify which account is to be debited and credited.	Salaries A/c is to be debited	Cash A/c is to be credited

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Solution: **Journal**

Date	Particulars	LF	Debit Rs. P.	Credit Rs. P.
2004 March 25	Salaries A/c Dr. To Cash A/c (Salaries paid)		6,000 –	6,000 –

Example 11: April 14, 2004 – Commission received Rs.5,000.
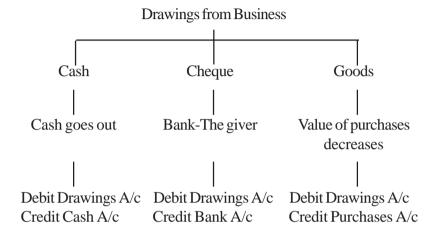
Analysis of Transaction

Step 1	Determine the two accounts involved in the transaction.	Cash Account	Commission Account
Step 2	Classify the accounts under personal, real or nominal.	Real Account	Nominal Account
Step 3	Find out the rules of debit and credit.	2(a) Debit what comes in	3(b) Credit all incomes & gains
Step 4	Identify which account is to be debited and credited.	Cash A/c is to be debited	Commission A/c is to be credited

Solution: **Journal**

Date	Particulars	LF	Debit Rs. P.	Credit Rs. P.
2004 April 14	Cash A/c Dr. To Commission A/c (Commission received)		5,000 –	5,000 –

4.5.1 Capital and Drawings

It is important to note that business is treated as a separate entity from the business man. All transactions of the business have to be analysed from the business point of view and not from the proprietor's

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point of view. The amount with which a trader starts the business is known as **Capital**. The proprietor may withdraw certain amounts from the business to meet personal expense or goods for personal use. It is called **Drawings**.

Drawings from Business

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                    Drawings from Business
          ┌──────────────┼──────────────┐
        Cash          Cheque          Goods
          │              │              │
     Cash goes out   Bank-The giver  Value of purchases
                                       decreases
          │              │              │
  Debit Drawings A/c  Debit Drawings A/c  Debit Drawings A/c
  Credit Cash A/c     Credit Bank A/c     Credit Purchases A/c
```

Example 12: January 31, 2004 – Saravanan withdrew for personal use Rs. 20,000.

Analysis of Transaction

Step 1	Determine the two accounts involved in the transaction.	Drawings Account	Cash Account
Step 2	Classify the accounts under personal, real or nominal.	Personal Account	Real Account
Step 3	Find out the rules of debit and credit.	1(a) Debit the receiver	2(b) Credit what goes out
Step 4	Identify which account is to be debited and credited.	Drawings A/c is to be debited	Cash A/c is to be credited

Solution: **Journal**

Date	Particulars	L.F	Debit Rs. P.	Credit Rs. P.
2004 Jan. 31	Drawings A/c Dr. To Cash A/c (The amount withdrawn for personal use)		20,000 –	20,000 –

4.5.2 Bank Transactions

Bank transactions that occur often in the business concerns are cash paid into bank, cheques and bills received from customers paid into bank for collection, payment of cheques for expenses and cheques issued to suppliers or creditors. When a cheque is received treat it as cash.

Example 13: January 18, 2004 – Opened a current account with Indian Overseas Bank Rs.10,000.

Analysis of Transaction

Step 1	Determine the two accounts involved in the transaction.	Bank Account	Cash Account
Step 2	Classify the accounts under personal, real or nominal.	Personal Account	Real Account
Step 3	Find out the rules of debit and credit.	1(a) Debit the receiver	2(b) Credit what goes out
Step 4	Identify which account is to be debited and credited.	Bank A/c is to be debited	Cash A/c is to be credited

Solution: **Journal**

Date	Particulars	L.F	Debit Rs. P.	Credit Rs. P.
2004 Jan 18	Indian Overseas Bank A/c Dr. To Cash A/c (Opened a current A/c.)		10,000 –	10,000 –

Example 14: Feb 3, 2004 – Rent paid by cheque Rs. 5,000.

Analysis of Transaction

Step 1	Determine the two accounts involved in the transaction.	Rent Account	Bank Account
Step 2	Classify the accounts under personal, real or nominal.	Nominal Account	Personal Account
Step 3	Find out the rules of debit and credit.	3(a) Debit all expenses & losses	1(b) Credit the giver
Step 4	Identify which account is to be debited and credited.	Rent A/c is to be debited	Bank A/c is to be credited

Solution: **Journal**

Date	Particulars	L.F	Debit		Credit	
			Rs.	P.	Rs.	P.
2004 Feb 3	Rent A/c Dr. To Bank A/c (Rent paid by cheque No.)		5,000	–	5,000	–

Example 15: March 5, 2004 – Received cheque from Elavarasan Rs.20,000.

Analysis of Transaction

Step 1	Determine the two accounts involved in the transaction.	Cash Account	Elavarasan Account
Step 2	Classify the accounts under personal, real or nominal.	Real Account	Personal Account
Step 3	Find out the rules of debit and credit.	2(a) Debit what comes in	1(b) Credit the giver
Step 4	Identify which account is to be debited and credited.	Cash A/c is to be debited	Elavarasan A/c is to be credited

Solution: **Journal**

Date	Particulars	L.F	Debit		Credit	
			Rs.	P.	Rs.	P.
2004 March 5	Cash A/c Dr. To Elavarasan A/c (Cheque received but not paid into bank)		20,000	–	20,000	–

Example 16: March 15, 2004 – Cheque received from Santhosh Rs.30,000 and immediately banked.

Analysis of Transaction

Step 1	Determine the two accounts involved in the transaction.	Bank Account	Santhosh Account
Step 2	Classify the accounts under personal, real or nominal.	Personal Account	Personal Account
Step 3	Find out the rules of debit and credit.	1(a) Debit the receiver	1(b) Credit the giver
Step 4	Identify which account is to be debited and credited.	Bank A/c is to be debited	Santhosh A/c is to be credited

Solution: **Journal**

Date	Particulars	L.F	Debit		Credit	
			Rs.	P.	Rs.	P.
2004 March 15	Bank A/c Dr. To Santhosh A/c (Cheque received and immediately banked)		30,000	–	30,000	–

4.5.3 Compound Journal Entry

When two or more transactions of similar nature take place on the same date, such transactions can be entered in the journal by means of a combined journal entry is called **Compound Journal Entry**. The only precaution is that the total debits should be equal to total credits.

Example 17: June 1, 2004 – Anju contributed capital Rs. 50,000

Manju contributed capital Rs. 70,000

Solution: Journal

Date	Particulars		L.F	Debit		Credit	
				Rs.	P.	Rs.	P.
2004	Cash A/c	Dr.		1,20,000	–		
June 1	To Anju's Capital A/c					50,000	–
	To Manju's Capital A/c					70,000	–
	(The amount invested						
	by Anju & Manju)						

Example 18:

July 1, 2004 – Ajay contributed capital – Cash Rs. 90,000

Furniture Rs. 20,000

Vijay contributed capital – Cash Rs. 50,000

Stock Rs. 70,000

Solution: Journal

Date	Particulars		L.F	Debit		Credit	
				Rs.	P.	Rs.	P.
2004	Cash A/c	Dr.		1,40,000	–		
July 1	Stock A/c	Dr.		70,000	–		
	Furniture A/c	Dr.		20,000	–		
	To Ajay's Capital A/c					1,10,000	–
	To Vijay's Capital A/c					1,20,000	–
	(Capital introduced by						
	Ajai & Vijay)						

Example 19: July 13, 2003 – Received cash Rs.24,700 from Shanthi in full settlement of her account of Rs.25,000.

Here cash received is Rs.24,700 in full settlement of Rs.25,000 so the difference Rs.300 is discount allowed.

Solution: Journal

Date	Particulars		L.F	Debit		Credit	
				Rs.	P.	Rs.	P.
2003	Cash A/c	Dr.		24,700	–		
July 13	Discount allowed A/c	Dr.		300	–		
	To Shanthi's A/c					25,000	–
	(Shanthi settled her account)						

Example 20: July 14, 2003 – Paid cash to Thenmozhi Rs.14,500, in full settlement of her account of Rs.15,000.

Here cash paid Rs.14,500 in settlement of Rs.15,000 so the difference Rs. 500 is discount received.

Solution: Journal

Date	Particulars		L.F	Debit		Credit	
				Rs.	P.	Rs.	P.
2003	Thenmozhi A/c	Dr.		15,000	–		
July 14	To Cash A/c					14,500	–
	To Discount received A/c.					500	–
	(Settled Thenmozhi's account)						

4.5.4 Bad Debts

When the goods are sold to a customer on credit and if the amount becomes irrecoverable due to his insolvency or for some other reason, the amount not recovered is called **bad debts**. For recording it, the

bad debts account is debited because the unrealised amount is a loss to the business and the customer's account is credited.

Example 21 : Jamuna who owed us Rs.10,000 is declared insolvent and 25 paise in a rupee is received from her on 15th July, 2003.

Solution:

Journal

Date	Particulars	L.F	Debit Rs.	Debit P.	Credit Rs.	Credit P.
2003	Cash A/c Dr.		2,500	–		
July 15	Bad Debts A/c Dr.		7,500	–		
	To Jamuna A/c				10,000	–
	(25 paise in a rupee received on her insolvency)					

Bad Debts Recovered

Some times, it so happens that the bad debts previously written off are subsequently recovered. In such case, cash account is debited and bad debts recovered account is credited because the amount so received is a gain to the business.

Example 22: Received cash for a Bad debt written off last year Rs.7,500 on 18th January, 2004.

Solution: **Journal**

Date	Particulars	L.F	Debit Rs.	Debit P.	Credit Rs.	Credit P.
2004	Cash A/c Dr.		7,500	–		
Jan 18	To Bad debts recovered A/c				7,500	–
	(Bad debts recovered)					

4.5.5 Opening Entry

Opening Entry is an entry which is passed in the beginning of each current year to record the closing balance of assets and liabilities of the previous year. In this entry asset accounts are debited and liabilities and capital account are credited. If capital is not given in the question, it will be found out by deducting total of liabilities from total of assets.

Example 23: The following balances appeared in the books of Malarkodi as on 1st January 2004 – Cash Rs. 7,000, Bank Rs.70,000, Stock Rs.80,000, Furniture Rs.10,000, Computer Rs.50,000, Debtors Rs.33,000 and Creditors Rs.90,000.

The opening entry is

Journal

Date	Particulars	L.F	Debit Rs.	Debit P.	Credit Rs.	Credit P.
2004	Cash A/c Dr.		7,000	–		
Jan 1	Bank A/c Dr.		70,000	–		
	Stock A/c Dr.		80,000	–		
	Debtors A/c Dr.		33,000	–		
	Furniture A/c Dr.		10,000	–		
	Computer A/c Dr.		50,000	–		
	To Creditors A/c				90,000	–
	To Capital A/c (Balacing figure)				1,60,000	–
	(Assets and liabilities brought forward)					

4.5.6 Advantages

The main advantages of the Journal are:

1. It reduces the possibility of errors.
2. It provides an explanation of the transaction.
3. It provides a chronological record of all transactions.

4.5.7 Limitations

The limitations of the Journal are:

1. It will be too long if all transactions are recorded here.
2. It is difficult to ascertain the balance of each account.