Double Entry System

"Every transaction involving money or money's worth has a two fold aspect — the receiving of a value on the one hand and the giving of the same value on the other. This two fold nature in all transactions must be recorded in the books, and this gives rise to the term Double Entry Book-Keeping''.

— **Munro and Palmer**

Double entry system is the most progressive, scientific and complete system of recording the financial transactions of a business. The rules of recording transactions under this system are so definite and clearly stated that the system is being used extensively in all countries. According to this system there are two accounts involved in every business transaction. One of them is debited and the other is credited. Under this system the accuracy of the accounts can be checked by preparing a trial balance with the help of balances of ledger accounts at any time and with the help of the trial balance a profit and loss account can be prepared in order to ascertain the profit earned or loss suffered during a particular period. Also, with the help of the trial balance a balance sheet can be prepared to ascertain the financial position of the firm.

A book on the double entry system was, first of all, written in 1494 by **'Luca Pacioli'**, a resident of the city of Venice in Italy. In this book he discussed the method of recording both the aspects of a transaction. The book became very popular in a very short period due to its characteristics. Afterwards, the book was translated into English by **Huge Old Castle** in 1544. Later on, many changes were incorporated in the system and finally a complete book named as 'English System of Book-Keeping' was written on this system by Edward Jones in 1785. It was in this book that the old system was completely revised and the use of purchase book, sales book and the preparation of a trial balance was discussed first of all. Due to its peculiarities this system has been adopted by all the progressive countries all over the world.

Meaning of Double Entry System

According to this system every business transaction affects at least two accounts in opposite directions. For example, if the furniture is purchased in the business, furniture is increased whereas the cash is decreased. There can be no transaction in the business which affects only one account or which has only one aspect. As such, both the aspects of every transaction are recorded under this system. It may, however, be noted that the double entry does not mean that a transaction is recorded twice. But it means that at least two accounts are affected by a transaction — one account receiving a benefit and the other account yielding a benefit. The person or the account receiving a benefit is debited and the person or the account who gives something to the business is credited. The amount of every transaction is written twice, once as a debit and again as a credit. For example, we received ₹20,000 from Mohan. This transaction affects two accounts — Cash Account and the Mohan's Account. Cash account is receiving a benefit (as cash is coming in) and hence Cash account will be debited, whereas Mohan is yielding a benefit and hence his account will be credited.

Definitions :— Double entry system may be defined as follows :—

1. "The Double Entry System seeks to record every transaction in money or money's worth in its double aspect — The receipt of a benefit by one account and the surrender of a like benefit by another account, the former entry being to the debit of the account receiving and the latter to the credit of that account surrendering." — **William Pickles**

2. "Every business transaction has a two-fold effect and that it affects two accounts in opposite directions and if a complete record were to be made of each such transaction, it would be necessary to debit one account and credit another account. It is this recording of the two fold effect of every transaction that has given rise to the term Double Entry System." — **J.R. Batliboi**

Principles or Characteristics of Double Entry System

Double Entry System is based upon the principle that "Every debit has a credit and every credit has a debit". Following are the important features or essentials of the double entry system :—

(1) **Every business transaction affects two accounts** :— Every business transaction has a two-fold effect, *i.e.*, it affects two accounts simultaneously. One of them is debited and the other is credited. Certain transactions may affect more than two accounts but the amount of the accounts to be debited and credited will always be equal.

(2) **Recording of both personal and impersonal aspects** :— Both personal and impersonal aspects of a transaction are recorded in Double Entry. It is possible that both the aspects of a transaction may be personal or both may be impersonal or one may be personal and the other may be impersonal.

(3) **Recording is made according to certain specified rules** :— In double entry one account is debited and the other is credited. It does not mean that any account may be debited and any account may be credited. There are certain rules for debiting and crediting and debits and credits are made on the basis of these rules.

(4) **Preparation of Trial Balance** :— Since one account is debited and the other is credited, total of all debits is always equal to the total of all credits. This helps in finding out the arithmetical accuracy of the accounting records. This is done by preparing a trial balance.

In order to keep a proper record of the two aspects of a transaction, accounts may be classified as shown below :—

Classification of Accounts

- Personal Accounts
- Impersonal Accounts
  - Real Accounts
  - Nominal Accounts

(1) **Personal Accounts** :— The accounts which relate to an individual, firm, company or an institution are called personal accounts. Account of Mohan, Account of Ram Chander Krishan Chander, Account of D.C.M. Limited, Account of Delhi University, Bank Account, Capital Account of the proprietor, Drawings Account of the proprietor etc. are examples of Personal Accounts.

Rule :— Rule for recording a transaction in personal accounts in simple words is 'Debit the receiver and credit the giver'. In other words, "Debit that person's account who receives something from the business and credit that person's account who gives something to the business".

Example 1 :— Paid ₹10,000 to Hari :—

In this case, two accounts affected are Hari's A/c and Cash A/c. According to the rule of "Debit the receiver", Hari's Account will be debited in the entry as he is the receiver of Cash. Simultaneously, the account of cash will be credited, as cash has gone out. The entry will be :—

Hari (Debit the receiver)	Dr.	10,000	
To Cash A/c			10,000

Example 2 :— Received ₹5,000 from Mohan :—

In this case, cash account will be debited as cash has been received, and Mohan's account will be credited according to the rule of "Credit the Giver". The entry will be :—

Cash A/c	Dr.	5,000	
To Mohan (Credit the Giver)			5,000

Objects :— Object of preparing a personal account is to ascertain as to how much amount a personal account owes to the business *i.e.*, how much amount is due to be received from him and how much amount is owed to a personal account from the business, *i.e.*, how much amount is payable to him.

Types or Classification of Personal Accounts

Personal accounts can be classified into the following three categories :—

Personal Accounts
↓
- Natural Personal Accounts
- Artificial Personal Accounts
- Representative Personal Accounts

(A) Natural Personal Accounts :— Accounts of 'Natural Persons' means the accounts of human beings. For example, Mohan's Account, Sohan's Account, Seema's Account, Nirmla's Account etc. Proprietor's Capital Account, Proprietor's Drawings Account, Debtors Accounts and Creditors Accounts are also included in this category.

(B) Artificial Personal Accounts :— These accounts do not have physical existence as human beings but they work as personal accounts. For example, any Firm's account, any limited company's account, any institution's account and any bank's account. These are treated as artificial persons for the recording of business transactions. These accounts also include the accounts of Clubs, Insurance Companies and the accounts of Government Departments which are recognised as 'persons' in the business dealings.

(C) Representative Personal Accounts :— When an account represents a particular person or group of persons, it is termed as a representative personal account. For example, if the salaries for the month of December are not paid to the employees, the amount payable to these employees will be added and put under one common title "Salaries Outstanding Account". This account represents the accounts of all the persons to whom salaries have to be paid. This is therefore termed as 'Representative Personal Account'. Other examples of the Representative Personal Accounts are, Prepaid Insurance Account, Accrued Interest Account and Unearned Commission Account etc.

(2) Real Accounts :— The accounts of all those things whose value can be measured in terms of money and which are the properties of the business are termed as Real Accounts. Such as, Cash Account, Furniture Account, Machinery Account, Building Account, Goodwill Account etc.

Rule :— Rule for recording a transaction in real account is 'Debit what comes in and credit what goes out'.

According to this rule, whenever any property comes into the business, it is debited and when it goes outside the business, it is credited.

For example, if Furniture for ₹5,000 has been purchased for cash, furniture account should be debited according to the rule of "Debit what comes in", while cash account should be credited according to the rule of "Credit what goes out". Entry will be :—

Furniture A/c (Debit what comes in)	Dr.	5,000	
To Cash A/c (Credit what goes out)			5,000

Objects :— These accounts represent the value of various properties owned by a business in terms of money and indicate the financial position of the business.

Types or Classification of Real Accounts

Real accounts can be classified in the following two categories :—

Real Accounts

Tangible Real Accounts

Intangible Real Accounts

(A) Tangible Real Accounts :— Tangible real accounts are the accounts of those things which can be touched, felt, measured, purchased, sold etc. Examples of such accounts are Cash account, Stock account, Furniture account, Land account, Building account etc. It should be noted that Bank Account is not a real account but it is an Artificial Personal Account, since it represents the account of the Banking Company — an artificial person.

(B) Intangible Real Accounts :— These accounts represent such things which cannot be touched, but, of course, their value can be measured in terms of money. Examples are : Goodwill account, Patents account, Trade Marks account, Copyrights account etc.

(3) **Nominal Accounts** :— These accounts include the accounts of all expenses and incomes.

The examples of nominal accounts relating to expenses are Salaries paid, Rent paid, Discount allowed, Bad Debts etc.

The examples of nominal accounts relating to incomes are Commission received, Interest received, Discount received etc.

Rule :— Rule for recording in nominal accounts is, "Debit the expenses and losses and Credit incomes and gains".

Example 1 :— Paid ₹5,000 for Salaries. In this case the two accounts being affected are Salaries A/c and Cash A/c. Salaries represent expenses and as such, Salaries Account will be debited according to the rule of "Debit the expenses". On the other hand, Cash Account will be Credited according to the rule of "Credit what goes out". Entry will be :—

Salary A/c (Debit the Expenses)	Dr.	5,000	
To Cash A/c (Credit what goes out)			5,000

Example 2 :— Received ₹1,000 for Commission. In this case the two accounts being affected are Commission A/c and Cash A/c. Commission A/c is a nominal account and represents an income. As such, Commission A/c will be credited according to the rule of "Credit the incomes". Cash A/c is a real account and as Cash is coming in, therefore Cash A/c will be debited according to the rule of "Debit what comes in". Entry will be :—

Cash A/c (Debit what comes in)	Dr.	1,000	
To Commission A/c (Credit the incomes)			1,000

Objects :— Nominal accounts are those accounts which are in name only and which do not really exist. These accounts are opened simply to explain the nature of head for which Cash has been paid. In the absence of nominal accounts it will be very difficult for the management to know the amount paid separately on account of salary, rent, commission etc. As such, the nominal accounts provide information regarding the following :—

(*i*) Amount spent on various heads in a particular period;
(*ii*) Income received on various heads in a particular period.

IMPORTANT NOTE

When any word (as a prefix' or as a suffix) is added to a Nominal Account, it becomes a Personal Account.

Nominal Account	Personal Account
1. Rent A/c	Outstanding Rent A/c; Prepaid Rent A/c.
2. Salary A/c	Outstanding Salaries A/c; Salaries Prepaid A/c.
3. Commission A/c	Commission Outstanding A/c; Commission Received in Advance A/c.
4. Interest	Interest Outstanding A/c; Interest Accrued A/c.

ILLUSTRATION 1.

Classify the following Accounts into Personal, Real or Nominal Accounts :

1. Capital; 2. Drawings; 3. Cash paid; 4. Cash received; 5. Commission paid; 6. Commission received; 7. Purchases A/c; 8. Sales A/c; 9. Furniture; 10. Cash A/c; 11. Bank A/c; 12. Bank Overdraft A/c; 13. Debtors A/c; 14. Creditors A/c; 15. Travelling Expenses; 16. Goodwill; 17. Patents; 18. Salary A/c; 19. Salary Outstanding A/c; 20. Insurance A/c; 21. Insurance Prepaid A/c; 22. Bad Debts written off; 23. Bad Debts recovered.

SOLUTION :

Personal Accounts	*Real Accounts*	*Nominal Accounts*
1. Capital	3. Cash paid	5. Commission paid
2. Drawings	4. Cash received	6. Commission received
11. Bank A/c	9. Furniture A/c	7. Purchases A/c
12. Bank Overdraft A/c	10. Cash A/c	8. Sales A/c
13. Debtors A/c	16. Goodwill A/c	15. Travelling Expenses A/c
14. Creditors A/c	17. Patents A/c	18. Salary A/c
19. Salary Outstanding A/c*		20. Insurance A/c
21. Insurance Prepaid A/c*		22. Bad Debts written off
		23. Bad Debts Recovered

* When a prefix or suffix is added to a Nominal A/c, it becomes a Personal A/c.

Notes : (*i*) Salary A/c is a nominal account whereas Salary Outstanding is a personal account because it is the account of some unnamed creditor.

(*ii*) Insurance A/c is a nominal account whereas Insurance Prepaid is a personal account because it is the account of some unnamed debtor.

(*iii*) Bank A/c is not a real account. It is a personal account since it is the account of some banking company or firm which is an artificial person.

(*iv*) Purchases A/c and Sales A/c are nominal accounts.

Books of Original Entry — Journal

LEARNING OBJECTIVES

After studying this Chapter, you should be able to understand :

- Names of Books of Original Entry
- Meaning and Format of Journal
- Rules of Journalising
- Recording of Entries in Journal

The books in which a transaction is recorded for the first time from a source document are called 'Books of Original Entry'. Journal is one of the basic books of original entry in which transactions are originally recorded in a chronological (day-to-day) order according to the principles of double entry system. When the size of the business is a small one, then it is possible to enter each and every transaction in the Journal. But when the size of the business grows, it becomes no longer possible to record each and every transaction in the Journal. As such, the Journal is sub-divided into a number of **Sub-Journals** known as **special purpose subsidiary books** or **books of original entry.** Each type of transaction is recorded in a separate subsidiary book. The subsidiary books may be enumerated as under :—

1. Cash Book
2. Purchases Book
3. Sales Book
4. Purchases Return Book
5. Sales Return Book
6. Bills Receivable Book
7. Bills Payable Book
8. Journal Proper

These books are termed as 'books of original entry' because transactions are first of all recorded in these books. A businessman need not maintain all of the above mentioned subsidiary books, but he may maintain any of the above books according to the needs and requirements of his business.

In this chapter, only the 'Journal' has been discussed. Subsidiary books have been discussed in the subsequent chapters.

JOURNAL

Journal is a book of original entry in which the transactions are recorded first of all, as and when they take place.

According to **Professor Carter,** "The Journal as originally used, is a book of prime entry in which transactions are copied in order of date from a memorandum or waste book. The entries as they are copied are classified into debits and credits, so as to facilitate their being correctly posted, afterwards in the ledger.''

Thus, the Journal provides a date-wise record of all the transactions with details of the accounts debited and credited, and the amount of each transaction. Prior to recording in Journal, the transactions may also be recorded in a rough book called 'Waste book' or 'Memorandum book'. Maintenance of waste book is not necessary but where the number of every day transactions is so large that it is not possible for a businessman to remember all of them, the use of waste book may prove helpful. Later on with the help of waste book recording is made in Journal.

Features of a Journal

The chief features of Journal may be stated as under :

(*i*) Journal is a book in which the transactions are recorded first of all, as and when they take place. For this reason it is called a book of original entry.

(*ii*) A journal is only a book of primary (original) entry. All the transactions recorded in the journal are subsequently transferred to ledger which is the principal book of accounts.

(*iii*) A journal is a daily accounting record, *i.e.*, each day's transactions are recorded in the journal on the same day.

(*iv*) In journal, transactions are recorded in a chronological order, *i.e.*, in a date-wise order.

(*v*) It maintains the identity of each transaction and provides a complete picture of the same in one entry.

(*vi*) A journal records both debit and credit aspects of a transaction according to the double entry system of book-keeping.

(*vii*) Each entry in the journal is followed by a brief explanation of the transaction which is called 'Narration'.

(*viii*) A single journal entry is capable of recording more than one transaction involving more than two accounts. Such an entry is called compound entry.

Functions of a Journal

(*i*) To keep a chronological (*i.e.*, date-wise) record of all transactions.

(*ii*) To analyse each transaction into debit and credit aspects by using double entry system of book-keeping.

(*iii*) To provide a basis for posting into ledger.

(*iv*) To maintain the identity of each transaction by keeping a complete record of each transaction at one place on a permanent basis.

Advantages of a Journal

Although it is not necessary to maintain a journal and the transactions can be recorded directly in the ledger accounts, a journal, still is used for the following reasons:

(*i*) As transactions in journal are entered as and when they take place, the possibility of omission of a transaction in the books of accounts is minimised.

(*ii*) As transactions in journal are recorded in chronological order, it is very easy to locate a particular transaction when required.

(*iii*) By analysing each transaction into debit and credit aspects, the journal facilitates the posting into ledger.

(*iv*) Each entry in the journal carries narration which gives a brief explanation of the transaction. Hence, postings in the ledger can be made without explanation.

(*v*) Journal facilitates cross checking of ledger accounts in case a trial balance does not agree.

(*vi*) Since entire transaction is recorded at one place in the journal, the identity of each transaction is maintained on a permanent basis.

(*vii*) Once the transaction is recorded in journal, posting in the ledger can be made as and when convenient.

Limitations of Journal :

(*i*) When the number of transactions is large, it is not possible to record all the transactions in Journal. It will become bulky and voluminous. Hence, the usual practice is to have separate journals or books for different classes of transactions such as purchase book, sales book etc.

(*ii*) Many transactions are repetitive in nature and if all transactions are recorded in journal it will involve debiting and crediting the same accounts time and again. It will involve repetitive posting labour also.

(*iii*) In order to ascertain cash balance everyday, cash transactions are usually recorded in a separate book called 'Cash book'. Thus cash transactions need not be recorded in journal.

(*iv*) Journal does not provide the required information on prompt basis.

Format of Journal

JOURNAL

Date	Particulars	Ledger Folio	Amount Dr. ₹	Amount Cr. ₹
(1)	(2)	(3)	(4)	(5)

The columns have been numbered only to show how the Journal is written up, otherwise the columns are not numbered.

1. **Date** :— In the first column, the date of the transaction is entered. The year and the month is written only once, till they change. The sequence of the dates and months should be strictly maintained.

2. **Particulars** :— Each transaction affects two accounts out of which one account is debited and the other account is credited. The name of the account to be debited is written first and the word 'Dr.' is also written towards the end of the column. In the second line, the name of the account to be credited is written. The credit account starts with the word 'To', a few space away from the margin to make it distinct from the debit account (A practice is now developing to omit the writing of the words 'Dr.' and 'To' from Journal entries).

Narration :— After each entry, a brief explanation of the transaction together with necessary details is given. This explanation is called 'Narration'. The narration helps to know in future the reason for the entry and also as to why a particular account

... at the start of each page.

Rules of Journalising

On the basis of the rules discussed in the chapter on double entry system the accounts to be debited or credited will be determined. The same rules are again explained here in a simplified manner :—

(1) Personal Accounts :— According to the rule of 'Debit the receiver', the personal account of the person to whom we give some money or goods is debited. For example, if we gave ₹20,000 to Gopal, the entry will be :—

Gopal	Dr.	20,000	
To Cash A/c			
(Cash paid to Gopal)			20,000

In the same way, according to the rule of 'Credit the giver', the personal account of the person from whom we receive some money or goods is credited. For example, if we received ₹50,000 from Govind, the entry will be :—

Cash A/c	Dr.	50,000	
To Govind			
(Cash received from Govind)			50,000

(2) **Real Accounts** :— According to the rule of 'Debit what comes in and credit what goes out', the account of the cash or other property which is received by the business firm is debited and in the same way, the account of the Cash or other property which goes out of the business is credited. For example, if Machinery is bought for ₹5,00,000 :—

Machinery A/c	Dr.	5,00,000	
To Cash A/c			
(Machinery purchased for cash)			5,00,000

(3) **Nominal Accounts** :— According to the rule of 'Debit all Expenses', the accounts of all expenses and losses are debited. For example, if ₹20,000 are paid for salary, the entry will be :—

Salary A/c	Dr.	20,000	
To Cash A/c			
(Salary paid)			20,000

Similarly, according to the rule of 'Credit all Incomes', the accounts of all incomes and profits are credited. For example, if ₹5,000 are received for commission. The entry will be :—

Cash A/c	Dr.	5,000	
To Commission A/c			
(Commission received)			5,000

Meaning of Goods

Goods are those things which are purchased for resale. In other words, goods are the commodities in which the business deals. For example, if a cloth merchant purchases cloth, the cloth will be termed as 'purchases'. But if the same cloth merchant purchases some furniture, say chairs and a sofa set for the seating of customers, the furniture so purchased will not be termed as purchases, but will be an asset of his business and in this case 'Furniture A/c' will be debited instead of 'Purchases A/c'. It means that the purchases of asset are not termed as purchases in accounting terminology because these assets are not meant for sale.

Goods Account is classified into five accounts for the purpose of passing the Journal entries :—

(I) **Purchases A/c** :— When goods are purchased, instead of debiting Goods A/c 'Purchase A/c' is debited. Purchase A/c is a nominal account and while passing a

Journal entry 'Purchase A/c' should always be debited because of the rule of "Debit all Expenses and Losses."

(II) **Sales A/c** :— When goods are sold, instead of crediting Goods A/c 'Sales A/c' is credited. Sales A/c is a nominal account and while passing a Journal entry 'Sales A/c' should always be credited because of the rule of "Credit all Incomes and Gains".

(III) **Purchases Return A/c** :— This account is also named as 'Return Outward'. It is a nominal account and should always be credited because purchases *i.e.* expenses are reduced.

(IV) **Sales Return A/c** :— This account is also named as 'Return Inward'. It is a nominal account and should always be debited because incomes *i.e.* sales are reduced.

(V) **Stock A/c**

In the transactions relating to the purchase and sale of goods, it has to be decided whether a transaction is for cash or for credit, because the entry is passed accordingly. If, in the transactions relating to purchase and sale of goods the word 'Cash' is stated clearly, only then will it be a cash transaction otherwise it will be taken as a credit transaction. Such as :—

I.	Goods for ₹10,000 sold for cash :	It will be taken as cash transaction
II.	Goods for ₹10,000 sold to Anil for cash:	It will be taken as cash transaction
III.	Goods for ₹10,000 sold to Anil :	It will be taken as credit transaction

ILLUSTRATION 1.

Enter the following transactions in the Journal of Siya Ram :—

2012		₹
April 1	Siya Ram started business with cash	50,000
2	Purchased goods for cash	20,000
4	Purchased goods from Subhash	12,000
5	Purchased Furniture for cash	6,000
7	Sold goods for cash	13,000
9	Sold goods to Mahesh	15,000
10	Paid cash to Subhash	8,000
12	Received cash from Mahesh	10,000
16	Purchased goods from Ravi for cash	7,500
17	Purchased goods from Ravi	5,000
18	Sold goods to Suresh for cash	12,600
19	Sold goods to Suresh	7,000
20	Bought Machinery for cash	8,000
24	Withdrew cash from office for personal use	2,500
27	Paid rent	400
29	Paid wages	450
30	Paid salary to Gopal	1,200
30	Received Commission	200

SOLUTION : JOURNAL OF SIYARAM

Date	Particulars	L.F.	Amount Dr.	Amount Cr.
2012			₹	₹
April 1	Cash A/c Dr.		50,000	
	To Capital A/c			50,000
	(Cash brought into the business by Siya Ram as capital)			
	Carried Forward (C/F)		50,000	50,000

	Brought Forward (B/F)		50,000	50,000
April 2	Purchases A/c Dr. To Cash A/c (Goods purchased for cash)		20,000	20,000
April 4	Purchases A/c Dr. To Subhash (Goods purchased from Subhash on credit)		12,000	12,000
April 5	Furniture A/c Dr. To Cash A/c (Furniture purchased for cash)		6,000	6,000
April 7	Cash A/c Dr. To Sales A/c (Goods sold for cash)		13,000	13,000
April 9	Mahesh Dr. To Sales A/c (Goods sold to Mahesh on credit)		15,000	15,000
April 10	Subhash Dr. To Cash A/c (Cash paid to Subhash)		8,000	8,000
April 12	Cash A/c Dr. To Mahesh (Cash received from Mahesh)		10,000	10,000
April 16	Purchases A/c Dr. To Cash A/c (Goods purchased for cash)		7,500	7,500
April 17	Purchases A/c Dr. To Ravi (Goods purchased from Ravi on credit)		5,000	5,000
April 18	Cash A/c Dr. To Sales A/c (Goods sold for cash)		12,600	12,600
April 19	Suresh Dr. To Sales A/c (Goods sold to Suresh on credit)		7,000	7,000
April 20	Machinery A/c Dr. To Cash A/c (Machinery purchased for cash)		8,000	8,000
April 24	Drawings A/c Dr. To Cash A/c (Amount withdrew for personal use)		2,500	2,500
April 27	Rent A/c Dr. To Cash A/c (Rent paid)		400	400
April 29	Wages A/c Dr. To Cash A/c (Wages paid)		450	450
April 30	Salary A/c Dr. To Cash A/c (Salary paid)		1,200	1,200
	Carried Forward (C/F)		1,78,650	1,78,650

	Brought Forward (B/F)		1,78,650	1,78,650
April 30	Cash A/c Dr. To Commission A/c (Commission received)		200	200
	Total ₹		1,78,850	1,78,850

Explanation of the above mentioned entries

April 1. **Siya Ram started business with Cash** :— A business unit is always considered to be separate and distinct from the proprietor. All the transactions are recorded in the books of the business from the point of view of the business. Cash coming into the business will be debited according to the rule of real account, *i.e.*, 'debit what comes in'. Proprietor is the giver of cash to the business, therefore, his capital account will be credited according to the rule of personal account, *i.e.*, 'Credit the giver'.

April 2. **Purchased goods for Cash** :— The two accounts affected in this transaction are 'Purchases A/c' and 'Cash A/c'. Purchases A/c is a nominal account and will be debited because of the rule of 'Debit all expenses'. Cash A/c is a real account and will be credited because of the rule of 'Credit What goes out'.

April 4. **Purchased goods from Subhash** :— When the name of the seller is given and it is not mentioned that the goods have been purchased for cash, it will be assumed that the goods have been purchased on credit. Purchases A/c will be debited according to the rule of nominal account *i.e.* 'Debit all expenses'. Subhash is the giver of goods, as such, his personal account will be credited according to the rule of 'Credit the giver'.

April 5. **Purchased Furniture for Cash** :— Both the accounts involved, *i.e.*, furniture account and cash account are real accounts. Furniture is coming into the business, therefore, it will be debited and as cash is going out, it will be credited.

April 7. **Sold goods for Cash** :— The two accounts affected are Cash A/c and Sales A/c. Cash is coming into the business and hence it will be debited as per the rule of real account *i.e.* 'Debit what comes in'. Sales A/c is a nominal account and will be credited as per the rule of 'Credit all incomes'.

April 9. **Sold goods to Mahesh** :— In this transaction the name of the purchaser is given and it is not mentioned that the goods have been sold for cash, it will be assumed that the goods have been sold on credit. Mahesh is the receiver of goods, as such, his personal account has been debited according to the rule of personal account, *i.e.*, 'Debit the receiver'. Sales A/c will be credited according to the rule of nominal account *i.e.* 'Credit all incomes'.

April 10. **Paid Cash to Subhash** :— Subhash is the receiver of cash, as such, his personal account has been debited according to the rule of 'debit the receiver'. Cash is going out, hence, it will be credited according to the rule of real account 'Credit what goes out'.

April 12. **Received Cash from Mahesh** :— Cash is coming into the business, therefore, the account of cash will be debited. Mahesh is the giver of cash, therefore, the account of Mahesh has been credited.

April 16. **Purchased goods from Ravi for Cash** :— Purchases A/c will be debited according to the rule of nominal account *i.e.* 'Debit all expenses'. Cash A/c will be credited because of the rule of 'Credit what goes out'.

April 17. **Purchased goods from Ravi** :— The word 'cash' is not mentioned in this transaction, as such, it will be treated as a credit purchase of goods from Ravi. Purchases A/c will be debited as per the rule of nominal account i.e. 'Debit all expenses'. Ravi is the giver of goods and hence the account of Ravi will be credited as per the rule of personal account, *i.e.* 'Credit the giver'.

April 18. **Sold goods to Suresh for Cash** :— The two accounts affected in this transaction are Cash and Sales. Cash is coming into the business, therefore, it will be debited and sales account will be credited according to the rule of nominal account *i.e.*, 'Credit all incomes'.

April 19. **Sold goods to Suresh** :— The word 'cash' is not mentioned in this transaction. Therefore, it will be treated as a credit sale of goods to Suresh. Suresh is the receiver of goods, as such, the account of Suresh will be debited as per the rule of personal account *i.e.* 'Debit the receiver'. Sales A/c will be credited as per the rule of nominal account *i.e.*, 'Credit all incomes'.

April 20. **Bought Machinery for Cash** :— Both the accounts involved, *i.e.*, Machinery Account and Cash Account are real accounts. Machinery is coming into the business, therefore, it will be debited and as Cash is going out, it will be Credited.

April 24. **Withdrew cash from office for personal use** : When the proprietor introduces cash into the business, it is credited to his capital account and when he withdraws cash from the business for his personal use, it is debited to his Drawings account. Drawings account is a personal account of the proprietor. In this transaction, Drawings account will be debited, as the proprietor is the receiver of cash. Cash account will be credited because it is going out of the business.

April 27. **Paid Rent** :— This transaction affects Rent account and cash account. Rent is a nominal account and because this is an expense of business, as such, the Rent account will be debited according to the rule of 'debit all expenses'. Cash account will be credited, as cash is going out of the business.

April 29. **Paid Wages** :— Wages is a nominal account and because this is an expense of business, as such, Wages account will be debited according to the rule of 'debit all expenses'. Cash account will be credited, as cash is going out of the business.

April 30. **Paid Salary to Gopal** :— The two accounts affected in this transaction are 'Salary account' and 'Cash account'. Purpose of paying to Gopal is 'salary' and when purpose of payment is given in the question, the personal account of receiver is not debited.

Salary is a nominal account and because this is an expense of business, as such, the Salary account will be debited according to the rule of 'debit all expenses'. Cash account will be credited, as cash is going out of the business.

April 30. **Received Commission** :— The two accounts affected in this transaction are 'Cash account' and 'Commission account'. Cash account will be debited, as cash is coming into the business. Commission is a nominal account and because this is an income, as such, commission account will be credited according to the rule of 'credit all incomes'.

ILLUSTRATION 2.

Record the following transactions in the Journal of Vishal :—

		₹
2011		
May 1	Commenced business with cash	5,00,000
2	Goods purchased from Mohan for cash	50,000
3	Goods purchased from Ajay	1,20,000
4	Goods returned to Ajay	5,000
8	Goods sold to Rajiv	40,000
12	Rajiv returned 10% of goods	

SOLUTION : JOURNAL OF VISHAL

Date	Particulars		L. F.	Amount Dr.	Amount Cr.
2011				₹	₹
May 1	Cash A/c	Dr.		5,00,000	
	To Capital A/c				5,00,000
	(Amount brought in by Vishal as capital)				
May 2	Purchases A/c	Dr.		50,000	
	To Cash A/c				50,000
	(Goods purchased from Mohan for cash)				
May 3	Purchases A/c	Dr.		1,20,000	
	To Ajay				1,20,000
	(Goods purchased from Ajay)				
May 4	Ajay	Dr.		5,000	
	To Purchases Return A/c				5,000
	(Goods returned to Ajay)				
May 8	Rajiv	Dr.		40,000	
	To Sales A/c				40,000
	(Goods sold to Rajiv)				
May 12	Sales Return A/c	Dr.		4,000	
	To Rajiv				4,000
	(10% of goods sold to Rajiv returned by him : 10% of 40,000 = ₹4,000)				
	Total	₹		7,19,000	7,19,000

Discount

Discount is of two types :

(1) Trade Discount, and

(2) Cash Discount

(1) Trade Discount :— This discount is allowed by wholesaler or manufacturer to the retailer at a fixed percentage on the listed price of goods. It is allowed when goods are purchased in bulk, *i.e.*, large quantity. This discount is allowed both on credit as well as cash transactions since it is related to the purchases and not to the payment. No separate entry is passed for the Trade discount, as it is deducted from the cash memo or invoice of the goods. For example, if a trader sells goods of the list price of ₹1,00,000 at 20% trade discount for cash, the entry will be :—

Cash A/c	Dr.	80,000	
To Sales A/c			80,000

If the goods sold at trade discount are returned by the customer, the amount of trade discount is again deducted from the list price of the returned goods.

(2) **Cash Discount** :— This discount is allowed to the customers for making prompt or early payment. In other words, cash discount is allowed only if the customer makes the payment within a fixed period. Such discount motivates the customer to make the payment at the earliest. As the discount is allowed at the time of making payment, so the entry for cash discount is recorded alongwith the entry for payment. Discount is a nominal account and as such, it is debited when it is allowed to a customer and credited when it is received.

20,000×10/100

Distinction between Trade Discount and Cash Discount

Basis of Distinction	Trade Discount	Cash Discount
1. **Meaning**	Trade discount is allowed by wholesaler or manufacturer to the retailers at a fixed percentage on the printed price list.	Cash discount is allowed if the customer makes the payment immediately or within a fixed period.
2. **When allowed?**	It is allowed when goods are purchased in a **specified quantity**.	It is allowed when payment is made **on or before a specified date.**
3. **Object**	Generally, it is allowed to the retailers to enable them to make some profit even if they sell the goods at their catalogue price.	It is allowed to encourage quick or prompt payment.
4. **Recording in the books of accounts**	It is not recorded separately in the books of accounts.	It is recorded separately in the books of accounts.
5. **Deduction from Invoice**	It is deducted from the invoice.	It is not deducted from the invoice.

Sometimes, a customer is allowed both the discounts, *i.e.*, trade discount as well as cash discount. In such a case, first trade discount is to be deducted from the price of the goods and then, cash discount is to be calculated on the balance of the amount.

For example, if a trader sells goods of the list price of ₹20,000 at 10% trade discount and 2% cash discount, the net amount will be calculated as under :

	₹
List Price	20,000
Less : Trade Discount @ 10%	2,000
	18,000