CHAPTER - 4

BASIC ACCOUNTING PROCEDURES - II JOURNAL

Learning Objectives

After learning this chapter, you will be able to:

- *understand the Origin of Transactions – Source Documents.*
- *understand the Concept of Accounting Equation.*
- *know the Rules of Debit and Credit.*
- *know the Meaning and the Preparation of Journal.*
- *bring out the Advantages of Journal.*

Accounting process starts with identifying the transactions to be recorded in the books of accounts. Accounting identifies only those transactions and events which involve money. They should be of financial character. Accountant does so by sorting out various cash memos, invoices, bills, receipts and vouchers.

In the accounting process, the first step is the recording of transactions in the books of accounts. The origin of a transaction is derived from the source document.

4.1 Source Documents

Source documents are the evidences of business transactions which provide information about the nature of the transaction, the date, the amount and the parties involved in it. Transactions are recorded in the books of accounts when they actually take place and are duly supported by source documents. *According to the verifiable objective principle of Accounting*, each transaction recorded in the books of accounts should have adequate proof to support it. These supporting documents are the written and authentic proof of the correctness of the recorded transactions. These documents are required for audit and tax assessment. They also serve as the legal evidence in case of a dispute. The following are the most common source documents.

4.1.1 Cash Memo

When a trader sells goods for cash, he gives a cash memo and when he purchases goods for cash, he receives a cash memo. Details regarding the items, quantity, rate and the price are mentioned in the cash memo.

Cash Memo

Vinoth Watch Co.

135, South Usman Road, Thyagaraya Nagar, Chennai-17.

No: 52 Date : 18.8.2003

To ....

Qty.	Description	Rate Rs.	Amount Rs.
3	Titan Regulia	1,800	5,400
2	Titan Raga	1,200	2,400
			7,800
	Less: Discount 10%		780
5	Total		7,020

Goods once sold are not taken back.

Manager
for Vinoth Watch Co.

4.1.2 Invoice or Bill

When a trader sells goods on credit, he prepares a sale invoice. It contains full details relating to the amount, the terms of payment and the name and address of the seller and buyer. The original copy of the sale invoice is sent to the purchaser and its duplicate copy is kept for making records in the books of accounts.

Similarly, when a trader purchases goods on credit, he receives a credit bill from the supplier of goods.

INVOICE

Ramesh Electronics
306, Anna Salai, Chennai - 600 002.

No. 405 Date : 20.8.2003

Name & address of the Customer : Bhanu Enterprises
43, Eldams Road, Teynampet,
Chennai - 18.

Terms : 5% cash discount if payment is made within 30 days.

Qty.	Description	Rate Rs.	Amount Rs.
5	Refrigerators	9,000	45,000
10	Washing Machines	15,000	1,50,000
			1,95,000
	Sales Tax @ 10%		19,500
			2,14,500
	Handling & delivery charges		1,500
15	Total		2,16,000

(Rupees Two lakhs sixteen thousand only)

Partner
E&O.E for Ramesh Electronics

Note : E.&O.E., means errors and omissions excepted. In other words, if there is any error in the invoice, the same has to be adjusted accordingly.

4.1.3 Receipt

When a trader receives cash from a customer, he issues a receipt containing the date, the amount and the name of the customer. The original copy is handed over to the customer and the duplicate copy is kept for record. In the same way, whenever we make payment, we obtain a receipt from the party to whom we make payment.

RECEIPT

Saravana Book House
43, 1st Main Road, Chennai - 35.

Receipt No. 315 Date :16.9.2003

Received with thanks a sum of Rs. 15,000 (Rupees fifteen thousand only) from M/s. Sulthan & Sons being the supply of books as per the list enclosed.

Cheque/DD/No. : 10345 Dt. : 10.9.2003
Canara Bank, Trichy.

Signature

Seal

Note : If the amount is more than Rs.500, affix a revenue stamp.

4.1.4 Debit Note

A debit note is prepared by the buyer and it contains the date of of the goods returned, name of the supplier, details of the goods returned and reasons for returning the goods. Each debit note is serially numbered. A duplicate copy or counter foil of the debit note is retained by the buyer. On the basis of debit note, the suppliers account is debited in the books.

DEBIT NOTE

Ganesh Traders
22, Ram Nagar,
Chennai - 600 015

No : 315
Date: 14.6.2003

Name & Address of Supplier : Shanmuga Traders
122, III Street
Chennai - 600 021.

Terms : 5% cash discount if payment is made within 30 days.

Date	Particulars	Rs.	Rs.
2003 June 14	20 FM Radio sets purchased under your invoice No.394, dated, 2nd June, 2003, now returned, as the sets are not in working conditions @ Rs.75 per set.	1500	
	Add : Packing expenses	100	
			1,600
	Total		1,600

E & O., E

Manager

4.1.5 Credit Note

A credit note is prepared by the seller and it contains the date on which goods are returned, name of the customer, details of the goods received back, amount of such goods and reasons for returning the goods. Each credit note is serially numbered. A duplicate copy of the

credit note is retained for the record purpose. On the basis of credit note, the customer's account is credited in the books.

CREDIT NOTE

No : 243 Date: 15.9.2003

COTTON WORLD
22, Metha Nagar, Chennai - 600 029.

Name & Address of the Customer : Palanichami & Sons
122, Oppanakkara Street,
Coimbatore - 6.

Terms : 2% cash discount if payment is made within 30 days.

Date	Particulars	Rs.	Rs.
2003 Sept 15	T-Shirts - 32" - 200 Nos @ Rs.100 each	20,000	
	Less : Discount @10%	2,000	
			18,000
	(Return due to inferior quality)		
	Total		18,000

E & O.E.,

Manager

4.1.6 Pay-in-slip

Pay-in-slip is a form available in banks and is used to deposit money into a bank account. Each pay-in-slip has a counterfoil which is returned to the depositor duly sealed and signed by the bank official. This source document relates to bank transactions. It gives details regarding date, account number, amount deposited (in cash or cheque) and name of the account holder.

Pay-in-slip

Indian Overseas Bank	Indian Overseas Bank .... Branch
.... Branch ....200....	Credit Current Acount No. ☐☐☐☐☐☐ ....200....
Current Acount No............	of (name) ....
of (name)..........................	Rupees ....
Cheque/Cash Rs.....................	....
Rupees	as per details furnished overleaf
....	Seal — Cheque/Cash Rs.....................
....	L.F ☐ Initial ☐
Cashier Clerk Authorised Official	....
This counterfoil is not valid unless signed by an authorised official of the Bank (in addition to the cashier in case of deposit by cash).	Depositor's Signature Cashier/Clerk Authorised official
	Name & Address....................................... Tel. No.............
	....

4.1.7 Cheque

A cheque is a document in writing drawn upon a specified banker to pay a specified sum to the bearer or the person named in it and payable on demand. Each cheque book has a counterfoil in which the same details in the cheque are filled. The counterfoil remains with the account holder for his future reference. The counterfoil forms the source document for entries to be made in the books of accounts.

Cheque

Date : ....

PAY ....

.... OR BEARER

RUPEES ....

.... Rs.

A/c. No. ☐ INTL. ☐

The Tamil Nadu State Apex Co-operative Bank Ltd.,
Ashok Nagar, 273-B, 10th Avenue,
CHENNAI - 600 083.

"308894 600091007": 10

4.1.8 Vouchers

A voucher is a written document in support of a business transaction. Vouchers are prepared by an accountant and each voucher is counter signed by an authorised person of the organisation.

VOUCHER

No. ☐
Date ☐
Rs. ☐ ☐
Pay to ______________________
Rs. in Words ______________________
being ______________________
and debit ______________________
Authorised by ☐ Received the above sum of Rs. ______
Paid by Cash (or) Cheque ☐ Drawn on Bank ☐
Receiver's Signature

The vouchers are properly filed according to their serial numbers so that the auditors may easily vouch them and these may also serve as documentary evidence in future.

Bills receivable, bills payable, wage sheet/salaries pay acquittance, correspondence etc., also serve as the source documents. Thus, there must be a source document for each transaction recorded in the books of accounts.

Note : The formats of the source documents are given above, only to know the details but not for the preparation.

4.2 Accounting Equation

The source document is the origin of a transaction and it initiates the accounting process, whose starting point is the accounting equation.

Accounting equation is based on dual aspect concept (Debit and Credit). It emphasizes on the fact that every transaction has a two sided effect i.e., on the assets and claims on assets. Always the total claims (those of outsiders and of the proprietors) will be equal to the total assets of the business concern. The claims are also known as equities, are of two types: i.) Owners equity (Capital); ii.) Outsiders' equity (Liabilities).

Assets	=	Equities			
Assets	=	Capital	+	Liabilities	(A = C+L)
Capital	=	Assets	–	Liabilities	(C = A–L)
Liabilities	=	Assets	–	Capital	(L = A–C)

4.2.1 Effect of Transactions on Accounting Equation :

Illustration 1

If the capital of a business is Rs.3,00,000 and other liabilities are Rs.2,00,000, calculate the total assets of the business.

Solution

Assets	=	Capital	+	Liabilities
Capital	+	Liabilities	=	Assets
Rs. 3,00,000	+	Rs.2,00,000	=	Rs.5,00,000

Illustration 2

If the total assets of a business are Rs.3,60,000 and capital is Rs.2,00,000, calculate liabilities.

Solution

Assets	=	Capital	+	Liabilities
Liabilities	=	Assets	–	Capital
Assets	–	Capital	=	Liabilities
Rs. 3,60,000	–	Rs. 2,00,000	=	Rs. 1,60,000

Illustration 3

If the total assets of a business are Rs.4,50,000 and outside liabilities are Rs.2,50,000, calculate the capital.

Solution:

Capital	=	Assets	–	Liabilities
Assets	–	Liabilities	=	Capital
Rs. 4,50,000	–	Rs. 2,50,000	=	Rs.2,00,000

Illustration - 4

Transaction 1: Murugan started business with Rs.50,000 as capital.

The business unit has received assets totalling Rs.50,000 in the form of cash and the claims against the firm are also Rs.50,000 in the form of capital. The transaction can be expressed in the form of an accounting equation as follows:

Assets	=	Capital	+	Liabilities
Cash	=	Capital	+	Liabilities
Rs. 50,000	=	Rs. 50,000	+	0

Transaction 2: Murugan purchased furniture for cash Rs.5,000.

The cash is reduced by Rs,5,000 but a new asset (furniture) of the same amount has been acquired. This transaction decreases one asset (cash) and at the same time increases the other asset (furniture) with the same amount, leaving the total of the assets of the business unchanged. The accounting equation now is as follows:

				=			
	Assets			=	Capital	+	Liabilities
	Cash	+	Furniture	=	Capital	+	Liabilities
Transaction 1	50,000	+	0	=	50,000	+	0
Transaction 2	(–) 5,000	+	5,000	=	0	+	0
Equation	**45,000**	**+**	**5,000**	**=**	**50,000**	**+**	**0**

Transaction 3: He purchased goods for cash Rs.30,000.

As a result, cash balance is reduced by the goods purchased, leaving the total of the assets unchanged.

					Assets	=	Capital	+	Liabilities
	Cash	+	Furniture	+	Stock (Goods)	=	Capital	+	Liabilities
Transaction 1&2	45,000	+	5,000	+	0	=	50,000	+	0
Transaction 3	(–) 30,000	+	0	+	30,000	=	0	+	0
Equation	**15,000**	**+**	**5,000**	**+**	**30,000**	**=**	**50,000**	**+**	**0**

Transaction 4: He purchased goods on credit for Rs.20,000.

The above transaction will increase the value of stock on the assets side and will create a liability in the form of creditors.

					Assets	=	Capital	+	Liabilities
	Cash	+	Furniture	+	Stock	=	Capital	+	Creditors
Transaction 1-3	15,000	+	5,000	+	30,000	=	50,000	+	0
Transaction 4	0	+	0	+	20,000	=	0	+	20,000
Equation	**15,000**	**+**	**5,000**	**+**	**50,000**	**=**	**50,000**	**+**	**20,000**

Transaction 5: Goods costing Rs.25,000 sold on credit for Rs.35,000.

The above transaction will give rise to a new asset in the form of Debtors to the extent of Rs.35,000. But the stock of goods will be reduced by Rs.25,000 i.e., the cost of goods sold. The net increase of Rs.10,000 is the amount of revenue which will be added to the capital.

							Assets	=	Capital	+	Liabilities
	Cash	+	Furniture	+	Stock	+	Debtors	=	Capital + Revenue	+	Creditors
Transaction 1-4	15,000	+	5,000	+	50,000	+	0	=	50,000	+	20,000
Transaction 5	0	+	0	+	(-)25,000	+	35,000	=	10,000	+	0
Equation	**15,000**	**+**	**5,000**	**+**	**25,000**	**+**	**35,000**	**=**	**60,000**	**+**	**20,000**

Transaction 6: Rent paid Rs.3,000.

It reduces cash and the rent is an expense, it results in a loss which decreases the capital.

							Assets	=	Capital	+	Liabilities
	Cash	+	Furniture	+	Stock	+	Debtors	=	Capital	+	Creditors
Transaction 1-5	15,000	+	5,000	+	25,000	+	35,000	=	60,000	+	20,000
Transaction 6	– 3,000	+	0	+	0	+	0	=	–3,000	+	0
Equation	**12,000**	**+**	**5,000**	**+**	**25,000**	**+**	**35,000**	**=**	**57,000**	**+**	**20,000**
							77,000	**=**	**77,000**		

From the above transactions, it may be concluded that every transaction has a double effect and in each case - Assets = Capital + Liabilities, i.e., **'Accounting equation is true in all cases'**. The last equation appearing in the books of Mr.Murugan may also be presented in the form of a statement called Balance Sheet. It will appear as below:

Balance Sheet of Mr. Murugan
as on . . . .

Liabilities	Rs.	Assets	Rs.
Capital	57,000	Cash	12,000
Creditors	20,000	Stock	25,000
		Debtors	35,000
		Furniture	5,000
	77,000		77,000

Note : Increase in one asset will be automatically either decrease in another asset or increase in liability or increase in capital. Likewise decrease in asset by way of either in increase in another asset or decrease in liability or capital.

Illustration 5

Show the Accounting Equation on the basis of the following transactions and prepare a Balance Sheet on the basis of the last equation.

		Rs.
1.	Maharajan commenced business with cash	1,00,000
2.	Purchased goods for cash	70,000
3.	Purchased goods on credit	80,000
4.	Purchased furniture for cash	3,000
5.	Paid rent	2,000
6.	Sold goods for cash costing Rs.45,000	60,000
7.	Paid to creditors	20,000
8.	Withdrew cash for private use	10,000
9.	Paid salaries	5,000
10.	Sold goods on credit (cost price Rs.60,000)	80,000

Solution :

Accounting Equation

S.No.	Transaction	Assets				= Capital	+ Liabilities
		Cash +	Stock +	Furniture +	Debtors =	Capital +	Creditors
1.	Maharajan commenced business with Rs.1,00,000/-	1,00,000 +	0 +	0 +	0 =	1,00,000 +	0
		1,00,000 +	0 +	0 +	0 =	1,00,000 +	0
2.	Purchased goods for cash	(–) 70,000 +	70,000 +	0 +	0 =	0 +	0
		30,000 +	70,000 +	0 +	0 =	1,00,000 +	0
3.	Purchased goods on credit	0 +	80,000 +	0 +	0 =	0 +	80,000
		30,000 +	1,50,000 +	0 +	0 =	1,00,000 +	80,000
4.	Purchased Furniture	(–) 3,000 +	0 +	3,000 +	0 =	0 +	+0
		27,000 +	1,50,000 +	3,000 +	0 =	1,00,000 +	80,000
5.	Paid Rent	(–) 2,000 +	0 +	0 +	0 =	(–) 2,000 +	0
		25,000 +	1,50,000 +	3,000 +	0 =	98,000 +	80,000
6.	Sold goods for cash	(+) 60,000 (–)	45,000 +	0 +	0 =	15,000 +	0
		85,000 +	1,05,000 +	3,000 +	0 =	1,13,000 +	80,000
7.	Paid to creditors	(–) 20,000 +	0 +	0 +	0 =	0 +	(–) 20,000
		65,000 +	1,05,000 +	3,000 +	0 =	1,13,000 +	60,000
8.	Withdrew cash for private use	(–) 10,000 +	0 +	0 +	0 =	(–) 10,000 +	0
		55,000 +	1,05,000 +	3,000 +	0 =	1,03,000 +	60,000
9.	Paid Salaries	(–) 5,000 +	0 +	0 +	0 =	(–) 5,000 +	0
10.	Sold goods on credit costing Rs. 60,000	50,000 +	1,05,000 +	3,000 +	0 =	98,000 +	60,000
		0 (–)	60,000 +	0 +	80,000 =	(+) 20,000 +	0
		50,000 +	45,000 +	3,000 +	80,000 =	1,18,000 +	60,000
	Equation				1,78,000 =	1,78,000	

Explanation :

S.No.	Transactions	Accounts Affected	
		Assets	Capital & Liabilities
1.	Capital brought in	Cash increases (comes in)	Capital increases (created)
2.	Cash purchases	Stock increases Cash decreases	––
3.	Credit purchases	Stock increases	Creditors increase
4.	Furniture bought	Cash decreases Furniture increases (comes in)	––
5.	Rent paid	Cash decreases	Capital decreases (Rent is an expenses it results in a loss)
6.	Cash Sales	Cash increases Stock decreases	––
7.	Payment to creditors	Cash decreases	Creditors decrease
8.	Withdrawal of cash for private use (Drawings)	Cash decreases	Capital decreases
9.	Salaries paid	Cash decreases	Capital decreases (Salary is an expense - Loss)
10.	Credit Sales	Stock decreases Debtors increase	––

Balance Sheet of Mr.Maharajan
as on ....

Capital & Liabilities	Rs.	Assets	Rs.
Capital	1,18,000	Cash	50,000
Creditors	60,000	Stock	45,000
		Furniture	3,000
		Debtors	80,000
	1,78,000		1,78,000

4.3 Rules for Debiting and Crediting

In actual practice, the individual transactions of similar nature are recorded, added and substracted at one place. Such place is customarily the meaning of debit and credit, it is essential to understand the meaning and form of an account.

An account is a record of all business transactions relating to a particular person or asset or liability or expense or income. In accounting, we keep a separate record of each individual, asset, liability, expense or income. The place where such a record is maintained is termed as an 'Account'.

All accounts are divided into two sides. The left hand side of an account is called Debit side and the right hand side of an account is called Credit side. In the abbreviated form Debit is written as Dr. and Credit is written as Cr. For example, the transactions relating to cash are recorded in an account, entitled 'Cash Account' and its format will be as given below:

Debit (Dr.)	Cash Account	Credit (Cr.)

In order to decide when to write on the debit side of an account and when to write on the credit side of an account, there are two approaches. They are: 1) Accounting Equation Approach, 2) Traditional Approach.

Nature of Account

The accounting equation is a statement of equality between the debits and the credits. The rules of debit and credit depend on the nature of an account. For this purpose, all the accounts are classified into the following five categories in the accounting equation approach:-

1. Assets Accounts
2. Capital Account
3. Liabilities Accounts
4. Revenues or Incomes Accounts
5. Expenses or Losses Accounts

If there is an increase or decrease in one account, there will be equal decrease or increase in another account. Accordingly, the following rules of debit and credit in respect of the various categories of accounts can be obtained.

The rules may be summarised as below :-

1. Increases in assets are debits;
   decreases in assets are credits.
2. Increases in capital are credits;
   decreases in capital are debits.
3. Increases in liabilities are credits;
   decreases in liabilities are debits.
4. Increases in incomes and gains are credits;
   decreases in incomes and gains are debits.
5. Increases in expenses and losses are debits;
   decreases in expenses and losses are credits.

Elements of Accounting Equation	Debit	Credit
Assets	Increase	Decrease
Liabilities	Decrease	Increase
Capital	Decrease	Increase
Revenues	Decrease	Increase
Expenses	Increase	Decrease

In the traditional approach, all the accounts are classified into the following three types.

1. Personal Accounts 2. Real Accounts 3. Nominal Accounts

Golden Rules for Debit and Credit:

1. Personal Accounts – a) Debit the receiver
   b) Credit the giver
2. Real Accounts – a) Debit what comes in
   b) Credit what goes out
3. Nominal Accounts – a) Debit all expenses and losses
   b) Credit all incomes and gains

4.4. Books of Original Entry

The books in which a transaction is recorded for the first time from a source document are called *Books of Original Entry* or *Prime Entry*. *Journal* is one of the 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.

4.4.1. Journal

Journal is a date-wise record of all the transactions with details of the accounts debited and credited and the amount of each transaction.

4.4.2. Format

Journal

Date	Particulars	L.F.	Debit Amount Rs.	Credit Amount Rs.

Explanation:

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, very near to the line of particulars column and the word **Dr.** is also written at the end of the particulars column. In the second line, the name of the account to be credited is written, starts with the word '**To**', a few space away from the margin in the particulars column to the make it distinct from the debit account.

3. Narration : After each entry, a brief explanation of the transaction together with necessary details is given in the particulars column with in brackets called **narration**. The words 'For' or 'Being' are used before starting to write down narration. Now, it is not necessary to use the word 'For' or 'Being'.

4. Ledger Folio (L.F): All entries from the journal are later posted into the ledger accounts. The page number or folio number of the Ledger, where the posting has been made from the Journal is recorded in the L.F column of the Journal. Till such time, this column remains blank.

5. Debit Amount : In this column, the amount of the account being debited is written.

6. Credit Amount : In this column, the amount of the account being credited is written.

4.4.3. Steps in Journalising

The process of analysing the business transactions under the heads of debit and credit and recording them in the Journal is called **Journalising**. An entry made in the journal is called a '**Journal Entry**'.

Step 1 → Determine the two accounts which are involved in the transaction.

Step 2 → Classify the above two accounts under Personal, Real or Nominal.

Step 3 → Find out the rules of debit and credit for the above two accounts.

Step 4 → Identify which account is to be debited and which account is to be credited.

Step 5 → Record the date of transaction in the date column. The year and month is written once, till they change. The sequence of the dates and months should be strictly maintained.

Step 6 → Enter the name of the account to be debited in the particulars column very close to the left hand side of the particulars column followed by the abbreviation Dr. in the same line. Against this, the amount to be debited is written in the debit amount column in the same line.

Step 7 → Write the name of the account to be credited in the second line starts with the word '**To**' a few space away from the margin in the particulars column. Against this, the amount to be credited is written in the credit amount column in the same line.

Step 8 → Write the narration within brackets in the next line in the particulars column.

Step 9 → Draw a line across the entire particulars column to seperate one journal entry from the other.

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

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

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

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

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

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

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

Solution: **Journal**

Date	Particulars		L.F	Debit Rs.	P.	Credit Rs.	P.
2004 March 25	Salaries A/c	Dr.		6,000	–		
	To Cash A/c (Salaries paid)					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		L.F	Debit Rs.	P.	Credit Rs.	P.
2004 April 14	Cash A/c	Dr.		5,000	–		
	To Commission A/c (Commission received)					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 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

Cash	Cheque	Goods
Cash goes out	Bank-The giver	Value of purchases decreases
Debit Drawings A/c Credit Cash A/c	Debit Drawings A/c Credit Bank A/c	Debit Drawings 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 Rs.	P.	Credit 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 Rs.	P.	Credit 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 Rs.	P.	Credit 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 Rs.	Debit P.	Credit Rs.	Credit P.
2004 June 1	Cash A/c	Dr.		1,20,000	–		
	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 Rs.	Debit P.	Credit Rs.	Credit 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 Rs.	Debit P.	Credit Rs.	Credit 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 Rs.	Debit P.	Credit Rs.	Credit 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.	P.	Credit Rs.	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.	P.	Credit Rs.	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.	P.	Credit Rs.	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.

QUESTIONS

I. Objective Type:

a) Fill in the Blanks :

1. The source document gives information about the nature of the __________.

2. The accounting equation is a statement of __________ between the debits and credits.

3. In double entry book-keeping, every transaction affects at least two __________.

4. Assets are always equal to liabilities plus __________.

5. A transaction which increases the capital is called __________.

6. The journal is a book of __________.

7. Recording of transaction in the journal is called __________.

8. The __________ column of journal represents the place of posting of an entry in the ledger account.

9. __________ account is debited for the amount not recovered from the customer.

10. The assets of a business on 31st December, 2002 were worth Rs.50,000 and its capital was Rs.35,000. Its liabilities on that date were Rs. __________.

[Answer : 1. transactions, 2. equality, 3. accounts, 4. capital, 5. revenue or income, 6. original entry, 7. journalising, 8. L.F, 9. bad debts, 10. Rs.15,000]

b) Choose the correct answer:

1. The origin of a transaction is derived from the
   a) Source document b) Journal
   c) Accounting equation

2. Which of the following is correct?
   a) Capital = Assets + Liabilities
   b) Capital = Assets – Liabilities
   c) Assets = Liabilities – Capital

3. Amount owned by the proprietor is called
   a) Assets b) Liabilities c) Capital

4. The Accounting Equation is connected with
   a) Assets only b) Liabilities only
   c) Assets, Liabilities and capital

5. Goods sold to Srinivasan should be debited to
   a) Cash A/c b) Srinivasan A/c. c) Sales A/c.

6. Purchased goods from Venkat for cash should be credited to
   a) Venkat A/c b) Cash A/c c) Purchases A/c

7. Withdrawals of cash from bank by the proprietor for office use should be credited to
   a) Drawings A/c b) Bank A/c c) Cash A/c

8. Purchased goods from Murthy on credit should be credited to
   a) Murthy A/c b) Cash A/c c) Purchases A/c

9. An entry is passed in the beginning of each current year is called
   a) Original entry b) Final entry c) Opening entry

10. The liabilities of a business are Rs.30,000; the capital of the proprietor is Rs.70,000. The total assets are:

a) Rs.70,000 b) Rs.1,00,000 c) Rs.40,000

[Answers : 1. (a), 2. (b), 3. (c), 4. (c), 5. (b), 6. (b), 7. (b), 8. (a), 9.(c), 10 (b)]

II. Other Questions :

1. Explain the meaning of source documents.
2. What is cash memo?
3. What is an invoice?
4. What is a receipt?
5. What is pay-in-slip?
6. What is a debit note?
7. What is a credit note?
8. Explain the meaning of Accounting Equation.
9. What is a Journal?
10. Mention the five categories of Accounts.
11. How is the Journal ruled?
12. What is Journalising?
13. What do you mean by L.F.? How do you fill in this column?
14. What is a narration?
15. What is capital?
16. What is drawings?
17. What is a Compound Journal Entry?
18. Explain the rules for journalising.
19. Explain the steps in journalising?
20. Bring out the advantages and the limitations of journal.

III. Problems:

1. On 31st December 2003, the total assets and liabilities were Rs.1,00,000 and Rs.30,000 respectively. Calculate capital.
2. Indicate how assets, liabilities and capital are affected by each of the following transactions with an accounting equation:
   - i. Purchase of machinery for cash Rs. 3,00,000.
   - ii. Receipt of cash from a debtor Rs. 50,000.
   - iii. Cash payment of a creditor Rs.30,000.
3. Give transactions with imaginary figures involving the following:
   - i. Increase in assets and capital,
   - ii. Increase and decrease in assets,
   - iii. Increase in an asset and a liability,
   - iv. Decrease of an asset and owner's capital.
4. Supply the missing amounts on the basis of Accounting Equation

   Assets = Liabilities + Capital

	Assets	=	Liabilities	+	Capital
i.	20,000	=	15,000	+	?
ii.	?	=	5,000	+	10,000
iii.	10,000	=	?	+	8,000

5. State the nature of account and show which account will be debited and which account will be credited?
   1. Rent received
   2. Building purchased
   3. Machinery sold
   4. Discount allowed
   5. Discount received

6. Correct the following entries wherever you think:

i. Brought capital in to business:

Capital A/c	Dr.	
To Cash A/c		

ii. Cash Purchases:

Cash A/c	Dr.	
To Sales A/c		

iii. Salaries paid to clerk Mr.Kanniyappan:

Salaries A/c	Dr.	
To Kanniyappan A/c		

iv. Paid carriage:

Carriage A/c	Dr.	
To Cash A/c		

7. What do the following Journal Entries mean?

i.	Cash A/c	Dr.
	To Furniture A/c	
ii.	Rent A/c	Dr.
	To Cash A/c	
iii.	Bank A/c	Dr.
	To Cash A/c	
iv.	Tamilselvi A/c	Dr.
	To Sales A/c	

8. Show the accounting equation on the basis of the following transactions.

		Rs.
i.	Ramya started business with cash	25,000
ii.	Purchased goods from Shobana	20,000
iii.	Sold goods to Amala costing Rs.18,000	25,000
iv.	Ramya withdrew from business	5,000

[Assets Rs. 47,000 = Capital Rs.27,000 + Liabilities Rs.20,000]

9. Prepare accounting equation and balance sheet on the basis of the following :

		Rs.
i.	Pallavan started business with cash	60,000
ii.	He purchased furniture	10,000
iii.	He paid rent	2,000
iv.	He purchased goods on credit from Mr.Mahendran	30,000
v.	He sold goods (cost price Rs.20,000) for cash	25,000

[Assets Rs. 93,000 = Capital Rs.63,000 + Liabilities Rs.30,000]

10. Journalise the following Opening Entry:

	Rs.
Cash in hand	2,000
Plant	50,000
Furniture	5,000
Creditors	13,000
Debtors	18,000

11. Journalise the following transactions in the books of Tmt.Amutha

		Rs.
2004, Jan. 1	Tmt.Amutha commenced business with cash	50,000
2	Purchased goods for cash	10,000
5	Purchased goods from Mohan on credit	6,000
7	Paid into Bank	5,000
10	Purchased furniture	2,000
20	Sold goods to Suresh on credit	5,000

25	Cash sales	3,500
26	Paid to Mohan on account	3,000
31	Paid salaries	2,800

12. Journalise the following transactions of Mrs.Rama

		Rs.
2004, Jan 1	Mrs.Rama commenced business with cash	30,000
2	Paid into bank	21,000
3	Purchased goods by cheque	15,000
7	Drew cash from bank for office use	3,000
15	Purchased goods from Siva	15,000
20	Cash sales	30,000
25	Paid to Siva	14,750
	Discount Received	250
31	Paid rent	500
	Paid Salaries	2,000

13. Journalise the following transactions of Mr.Moorthi

		Rs.
2004, June 3	Received cash from Ramkumar	60,000
4	Purchased goods for cash	15,000
11	Sold goods to Damodaran	22,000
13	Paid to Ramkumar	40,000
17	Received from Damodaran	20,000
20	Bought furniture from Jagadeesan	5,000
27	Paid rent	1,200
30	Paid salary	2,500

14. Journalise the following in the Journal of Thiru.Gowri Shankar

		Rs.
2003, Oct. 1	Received cash from Siva	75,000
7	Paid cash to Sayeed	45,000
10	Bought goods for cash	27,000
12	Bought goods on credit from David	48,000
15	Sold goods for cash	70,000

15. Record the following transactions in the Journal of Tmt.Bhanumathi.

2004, Feb. 3	Bought goods for cash Rs.84,500
7	Sold goods to Dhanalakshmi on credit Rs.55,000
9	Received commission Rs.3,000
10	Cash Sales Rs.1,09,000
12	Bought goods from Mahalakshmi Rs.60,000
15	Received five chairs from Revathi & Co. at Rs.400 each
20	Paid Revathi & Co., cash for five chairs
28	Paid Salaries Rs.10,000 Paid Rent Rs.5,000

16. Journalise the following transactions in the books of Thiru.Kalyanasundaram.

2004, March 1	Sold goods on credit to Mohanasundaram Rs.75,000.
12	Purchased goods on credit from Bashyam Rs.70,000.
15	Sold goods for cash to David Rs.50,000.
20	Received from Mohanasundaram Rs.70,000.
25	Paid to Bashyam Rs.50,000.