

## Recording of Transactions-I

### 3

#### LEARNING OBJECTIVES

After studying this chapter, you will be able to:

- describe the nature of transaction and source documents;
- explain the preparation of accounting vouchers;
- apply accounting equation to explain the effect of transactions;
- record transactions using rules of debit and credit;
- explain the concept of book of original entry and recording of transactions in journal;
- explain the concept of ledger and posting of journal entries to the ledger accounts.

In chapter 1 and 2, while explaining the development and importance of accounting as a source of disseminating the financial information along with the discussion on basic accounting concepts that guide the recording of business transactions, it has been indicated that accounting involves a process of identifying and analysing the business transactions, recording them, classifying and summarising their effects and finally communicating it to the interested users of accounting information.

In this chapter, we will discuss the details of each step involved in the accounting process. The first step involves identifying the transactions to be recorded and preparing the source documents which are in turn recorded in the basic book of original entry called journal and are then posted to individual accounts in the principal book called ledger.

#### 3.1 Business Transactions and Source Document

After securing good percentage in your previous examination, as promised, your father wishes to buy you a computer. You go to the market along with your father to buy a computer. The dealer gives a *cash memo* along with the computer and in exchange your father makes cash payment of Rs. 35,000. Purchase of computer for cash is an example of a *transaction*, which involves reciprocal exchange of two things: (i) *payment of cash*, (ii) *delivery of a computer*. Hence, the transaction

involves this aspect, i.e. *Give* and *Take*. Payment of cash involves *give* aspect and delivery of computer is a *take* aspect. Thus, business transactions are exchanges of economic consideration between parties and have two-fold effects that are recorded in at least two accounts.

Business transactions are usually evidenced by an appropriate documents such as Cash memo, Invoice, Sales bill, Pay-in-slip, Cheque, Salary slip, etc. A document which provides evidence of the transactions is called the *Source Document* or a *Voucher*. At times, there may be no documentary for certain items as in case of petty expenses. In such case voucher may be prepared showing the necessary details and got approved by appropriate authority within the firm. All such documents (vouchers) are arranged in chronological order and are serially numbered and kept in a separate file. All recording in books of account is done on the basis of vouchers.

<b>Transaction Voucher</b>	
<b>Name of Firm :</b>	
<b>Voucher No :</b>	
<b>Date :</b>	
<b>Debit account :</b>	
<b>Credit account:</b>	
<b>Amount (Rs.) :</b>	
<b>Narration :</b>	
<b>Authorised By :</b>	<b>Prepared By :</b>

**Fig. 3.1 :** Showing specimen transaction voucher

### **3.1.1 Preparation of Accounting Vouchers**

Accounting vouchers may be classified as cash vouchers, debit vouchers, credit vouchers, journal vouchers, etc. There is no set format of accounting vouchers. A specimen of a simple transaction voucher is used in practice is shown in figure 3.1.

These must be preserved in any case till the audit of the accounts and tax assessments for the relevant period are completed. Now a days, accounting is computerised and the necessary accounting vouchers showing the code number and name of the accounts to be debited and credited are prepared for the purpose of necessary recording of transactions. A transaction with one debit and one credit is a simple transaction and the accounting vouchers prepared for such transaction is known as *Transaction Voucher*, the format of

which is shown in figure 3.1. Voucher which records a transaction that entails multiple debits/credits and one credit/debit is called compound voucher. Compound voucher may be: (a) *Debit Voucher* or (b) *Credit Voucher*; the specimen is shown in figure 3.2.

<b>Debit Voucher</b>				
<b>Voucher No</b> :		<b>Name of Firm</b> :		<b>Date</b> :
<b>Credit Account</b> :				
<b>Amount</b> :				
<b>Debit Accounts</b>				
S. No.	Code	Account Name	Amount Rs.	Narration (i.e. Explanation)
<b>Authorised By :</b>			<b>Prepared By :</b>	

<b>Credit Voucher</b>				
<b>Voucher No</b> :		<b>Name of Firm</b> :		<b>Date</b> :
<b>Debit Account</b> :				
<b>Amount</b> :				
<b>Credit Accounts</b>				
S. No.	Code	Account Name	Amount Rs.	Narration (i.e. Explanation)
<b>Authorised By :</b>			<b>Prepared By :</b>	

**Fig. 3.2 :** Showing debit and credit vouchers

Transactions with multiple *debits* and multiple *credits* are called complex transactions and the accounting voucher prepared for such transaction is known as *Complex Voucher/ Journal Voucher*. The format of a complex transaction voucher is shown in figure 3.3.

<b>Journal Voucher</b>				
<b>Voucher No</b>		<b>Name of Firm :</b>		<b>Date :</b>
<b>Debit Accounts</b>				
S. No.	Code	Account Name	Amount Rs.	Narration (i.e. Explanation)
<b>Credit Accounts</b>				
S. No.	Code	Account Name	Amount Rs.	Narration (i.e. Explanation)
<b>Authorised By :</b>		<b>Prepared By :</b>		

**Fig. 3.3** : Showing specimen of complex transaction voucher

The design of the accounting vouchers depends upon the nature, requirement and convenience of the business. There is no set format of an accounting voucher. To distinguish various vouchers, different colour papers and different fonts of printing are used. Some of the specimen of the accounting vouchers are given in the earlier pages. A accounting voucher must contain the following essential elements :

- It is written on a good quality paper;
- Name of the firm must be printed on the top;
- Date of transaction is filled up against the date and not the date of recording of transaction is to be mentioned;
- The number of the voucher is to be in a serial order;
- Name of the account to be debited or credited is mentioned;

- Debit and credit amount is to be written in figures against the amount;
- Description of the transaction is to be given account wise;
- The person who prepares the voucher must mention his name along with signature; and
- The name and signature of the authorised person are mentioned on the voucher.

### 3.2 Accounting Equation

Accounting equation signifies that the assets of a business are always equal to the total of its liabilities and capital (*owner's equity*). The equation reads as follows:

$$A = L + C$$

Where,

A = Assets

L = Liabilities

C = Capital

The above equation can also be presented in the following forms as its derivatives to enable the determination of missing figures of Capital(C) or Liabilities(L).

(i)  $A - L = C$

(ii)  $A - C = L$

Since, the accounting equation depicts the fundamental relationship among the components of the balance sheet, it is also called the Balance Sheet Equation. As the name suggests, the balance sheet is a statement of assets, liabilities and capital.

At any point of time resources of the business entity must be equal to the claims of those who have financed these resources. The proprietors and outsiders provide the resources of the business. The claim of the proprietors is called *capital* and that of the outsiders is known as *liabilities*. Each element of the equation is the part of balance sheet, which states the financial position of the business on a particular date. When we analyse the transactions, we actually try to know that how balance sheet of a business entity gets affected.

Asset side of the balance sheet is the list of assets, which the business entity owns. The liabilities side of the balance sheet is the list of owner's claims and outsider's claims, i.e., what the business entity owes. The equality of the assets side and the liabilities side of the balance sheet is an undeniable fact and this justifies the name of accounting equation as balance sheet equation also.

For example, Rohit started business with a capital of Rs. 5,00,000. From the accounting point of view, the resources of this business entity is in the form of cash, i.e., Rs. 5,00,000. Sources of this business entity is the contribution by Rohit (Proprietor) Rs. 5,00,000 as Capital .

*(For the purpose of understanding we will refer this example as example 1, throughout the chapter) .*

If we put this information in the form of equality of resources and sources, the picture would emerge somewhat as follows:

**Books of Rohit**  
**Balance Sheet as at .....**

<i>Liabilities</i>	<i>Amount Rs.</i>	<i>Assets</i>	<i>Amount Rs.</i>
Capital	5,00,000	Cash in hand	5,00,000
	5,00,000		5,00,000

In the above balance sheet, the total assets are equal to the liabilities of the business. Since, the business has not yet started its activities and has not earned any profits; the amount invested in business is still Rs. 5,00,000. In case any profits are earned, it will increase the invested amount in business. On the other hand, if business suffers any losses, it will decrease the invested amount in business.

We will now analyse the transactions listed in example 1 and its effect on different elements and you will observe that the accounting equation always remain balanced:

*Example 1.*

1. Opened a bank account in State Bank of India with an amount of Rs. 4,80,000.

*Analysis of transaction:* This transaction increases the cash at bank (assets) and decreases cash (asset) by Rs. 4,80,000.

2. Bought furniture for Rs. 60,000 and cheque was issued on the same day.

*Analysis of transaction:* This transaction increases furniture (assets) and decreases bank (assets) by Rs. 60,000.

3. Bought plant and machinery for the business for Rs. 1,25,000 and an advance of Rs. 10,000 in cash is paid to M/s Ramjee Lal.

*Analysis of transaction:* This transaction increases plant and machinery (assets) by Rs. 1,25,000, decreases cash by Rs. 10,000 and increases liabilities (M/s Ramjee Lal as creditor) by Rs. 1,15,000.

4. Goods purchased from M/s Sumit Traders for Rs. 55,000.  
*Analysis of transaction: This transaction increases goods (assets) and increases liabilities (M/s Sumit Traders as creditors) by Rs. 55,000.*
5. Goods costing Rs. 25,000 sold to Rajani Enterprises for Rs. 35,000.  
*Analysis of transaction: This transaction decreases stock of goods (assets) by Rs. 25,000 and increases assets (Rajani Enterprises as debtors Rs. 35,000) and capital (with the profit of Rs. 10,000)*

The final equation as per the above analysis table can be summarised in the form of a balance sheet as under:

**Balance Sheet as at.....2017**

<i>Liabilities</i>	<i>Amount Rs.</i>	<i>Assets</i>	<i>Amount Rs.</i>
Outsider's Claims (Creditors)	1,70,000	Cash	10,000
Capital	5,10,000	Bank	4,20,000
		Debtors	35,000
		Stock	30,000
		Furniture	60,000
		Plant & Machinery	1,25,000
	6,80,000		6,80,000

In terms of accounting equation

$$A = L + C$$

$$\text{Rs. } 6,80,000 = \text{Rs. } 1,70,000 + \text{Rs. } 5,10,000$$

### 3.3 Using Debit and Credit

As already stated every transaction involves give and take aspect. In double entry accounting, every transaction affects and is recorded in at least two accounts. When recording each transaction, the *total amount debited must equal to the total amount credited*. In accounting, the terms — *debit* and *credit* indicate whether the transactions are to be recorded on the left hand side or right hand side of the account. In its simplest form, an account looks like the letter **T**. Because of its shape, this simple form called a T-account (refer figure 3.4). Notice that the T format has a left side and a right side for recording increases and decreases in the item. This helps in ascertaining the ultimate position of each item at the end of an accounting period. For example, if it is an account of a customer all goods sold shall appear on the left (debit) side of customer's account and all payments received on the right side. The difference between the totals of the two sides called *balance* shall reflect the amount due to the customer. In a **T** account, the left side is called *debit* (often abbreviated as Dr.) and the right side is known as *credit* (often abbreviated as Cr.). To

The summary of effects of transactions on accounting equation is in the following analysis table:

(Figures in rupees)

Transaction No.	Cash	Bank	Assets Debtors	Goods (Stock)	Furniture	Plant and Machinery	Total Assets	Liabilities	Capital	Total
1. Post Trans. Equation	5,00,000						5,00,000	.....	5,00,000	5,00,000
	(4,80,000) 20,000	4,80,000 4,80,000					..... 5,00,000		..... 5,00,000	..... 5,00,000
2. Post Trans. Equation	..... 20,000	(60,000) 4,20,000			60,000 60,000		..... 5,00,000		..... 5,00,000	..... 5,00,000
	(10,000) 10,000	4,20,000 4,20,000			60,000	1,25,000 1,25,000	1,15,000 6,15,000	1,15,000 1,15,000		1,15,000 6,15,000
4. Post Trans. Equation	10,000	4,20,000		55,000 55,000	60,000	1,25,000	55,000 6,70,000	55,000 1,70,000	5,00,000	55,000 6,70,000
			35,000	(25,000)			10,000		10,000	10,000
Final Equation	10,000	4,20,000	35,000	30,000	60,000	1,25,000	6,80,000	1,70,000	5,10,000	6,80,000



enter amount on the left side of an account is to *debit* the account. To enter amount on the right side is to *credit* the account.

Account Title	
(Left Side)	(Right Side)

**Fig. 3.4 :** Showing T-account

### 3.3.1 Rules of Debit and Credit

All accounts are divided into five categories for the purposes of recording the transactions: (a) Asset (b) Liability (c) Capital (d) Expenses/Losses, and (e) Revenues/Gains.

Two fundamental rules are followed to record the changes in these accounts:

- (1) *For recording changes in Assets/Expenses (Losses):*
  - (i) "Increase in asset is debited, and *decrease* in asset is credited."
  - (ii) "Increase in expenses/losses is debited, and *decrease* in expenses/losses is credited."
- (2) *For recording changes in Liabilities and Capital/Revenues (Gains):*
  - (i) "Increase in liabilities is credited and *decrease* in liabilities is debited."
  - (ii) "Increase in capital is credited and *decrease* in capital is debited."
  - (iii) "Increase in revenue/gain is credited and *decrease* in revenue/gain is debited."

The rules applicable to the different kinds of accounts have been summarised in the following chart:

#### Rules of Debit and Credit

Asset		Liabilities	
(Increase) + Debit	(Decrease) - Credit	(Decrease) - Debit	(Increase) + Credit
Capital		Expenses/Losses	
(Decrease) - Debit	(Increase) + Credit	(Increase) + Debit	(Decrease) - Credit
Revenues/Gains			
(Decrease) - Debit	(Increase) + Credit		

The transactions in Example 1 on page 46 will help you to learn how to apply these debit and credit rules. Observe the analysis table given on page 48 carefully to be sure that you understand before you go on to the next one. To illustrate different kinds of events, three more transactions have been added (transactions 7 to 9).

**1. Rohit started business with cash Rs. 5,00,000**

*Analysis of Transaction :* The transaction increases cash on one hand and increases capital on the other hand. Increases in assets are debited and increases in capital are credited. Therefore record the transaction with debit to Cash and credit to Rohit's Capital.

Cash Account		Capital Account	
(1) 5,00,000			(1) 5,00,000
			(6) 10,000

**2. Opened a bank account with an amount of Rs. 4,80,000**

*Analysis of Transaction:* The transaction increases the cash at bank on one hand and decreases cash in hand on the other hand. Increases in assets are debited and a decreases in assets are credited. Therefore, record the transactions with debit to Bank account and credit to Cash account.

Cash Account		Bank Account	
(1) 5,00,000	(2) 4,80,000	(2) 4,80,000	

**3. Bought furniture for Rs. 60,000 and issued cheque for the same**

*Analysis of Transaction :* This transaction increases furniture (assets) on one hand and decreases bank (assets) on the other hand by Rs. 60,000. Increases in assets are debited and decreases are credited. Therefore record the transactions with debit to Furniture account and credit to Bank account.

Furniture Account		Bank Account	
(1) 60,000		(2) 4,80,000	(3) 60,000

**4. Bought Plant and Machinery from Ramjee lal for the business for-Rs. 1,25,000 and an advance of Rs. 10,000 in cash is given.**

*Analysis of Transaction :* This transaction increases plant and machinery (assets) by Rs. 1,25,000, decreases cash by Rs. 10,000 and increases liabilities (M/s Ramjee Lal as creditor) by Rs. 1,15,000. Increases in assets are debited whereas decreases in assets are credited. On the other hand increases in liabilities are credited. Therefore, record the transaction with debit to furniture account and with credit to Cash and Ramjee Lal's account.

Cash Account		Plant and Machinery Account	
(1) 5,00,000	(2) 4,80,000	(4) 1,25,000	
	(4) 10,000		
<b>Ramjee Lal's Account</b>			
	(4) 1,15,000		

**5. Goods purchased from Sumit Traders for Rs. 55,000**

*Analysis of transaction :* This transaction increases purchases (expenses) and increases liabilities (M/s Sumit Traders as creditors) by Rs. 55,000. Increases in expenses are debited and increases in liabilities are credited. Therefore record the transaction with debit to Purchases account and credit to Sumit Traders account.

Purchases Account		Sumit Traders Account	
(5) 55,000			(5) 55,000

**6. Goods costing Rs. 25,000 sold to Rajani Enterprises for Rs. 35,000**

*Analysis of transaction :* This transaction increases sales (Revenue) and increases assets (Rajani Enterprises as debtors). Increases in assets are debited and increases in revenue are credited. Therefore record the entry with credit to Sales account and debit to Rajani Enterprises account.

Sales Account		Rajani Enterprises Account	
	(6) 35,000	(6) 35,000	

**7. Paid the monthly store rent Rs. 2,500 in cash**

*Analysis of transaction :* The payment of rent is an expense which decreases capital thus, are recorded as debits. Credit cash to record decrease in assets.

Rent Account		Cash Account	
(7) 2,500		(7) 5,00,000	(2) 4,80,000
			(4) 10,000
			(7) 2,500

**8. Paid Rs. 5,000 as salary to the office employees**

*Analysis of transaction :* The payment of salary is an expense which decreases capital thus, are recorded as debits. Credit Cash to record decrease in assets.

Salary Account		Cash Account	
(8) 5,000		(1) 5,00,000	(2) 4,80,000
			(4) 10,000
			(7) 2,500
			(8) 5,000

**9. Received cheque as full payment from Rajani Enterprises and deposited same day into bank**

*Analysis of transaction :* This transaction increase assets (Bank) on the one hand and decreases assets (Rajani Enterprises as debtors) on the other hand. Increase in assets is debited whereas decrease in assets is credited. Therefore record the entry with debit to Bank account and credit to Rajani Enterprises account.

Rajani Enterprises Account		Bank's Account	
(6) 35,000	(9) 35,000	(2) 4,80,000	(3) 60,000
		(9) 35,000	

**Test Your Understanding - I**

- Double entry accounting requires that :
  - All transactions that create debits to asset accounts must create credits to liability or capital accounts;
  - A transaction that requires a debit to a liability account require a credit to an asset account;
  - Every transaction must be recorded with equal debits equal total credits.
- State different kinds of transactions that increase and decrease capital.
- Does debit always mean increase and credit always mean decrease?
- Which of the following answers properly classifies these commonly used accounts:  
 (1) Building (2) Wages (3) Credit sales (4) Credit purchases (5) Electricity charges due but not yet paid (outstanding electricity bills) (6) Godown rent paid in advance (prepaid godown rent) (7) Sales (8) Fresh capital introduced (9) Drawings (10) Discount paid

	Assets	Liabilities	Capital	Revenue	Expense
(i)	5,4,	3,	9,6	2,10	8,7
(ii)	1, 6	4, 5	8	7, 3	2,9,10
(iii)	2,10,4	4,6	8	7,5	1,3,9

**Illustration 1**

Analyse the effect of each transaction on assets and liabilities and show that the both sides of Accounting Equation ( $A = L + C$ ) remains equal :

- Introduced Rs. 8,00,000 as cash and Rs. 50,000 by stock.

- (ii) Purchased plant for Rs. 3,00,000 by paying Rs. 15,000 in cash and balance at a later date.
- (iii) Deposited Rs. 6,00,000 into the bank.
- (iv) Purchased office furniture for Rs. 1,00,000 and made payment by cheque.
- (v) Purchased goods worth Rs. 80,000 for cash and for Rs. 35,000 in credit.
- (vi) Goods amounting to Rs. 45,000 was sold for Rs. 60,000 on cash basis.
- (vii) Goods costing to Rs. 80,000 was sold for Rs. 1,25,000 on credit.
- (viii) Cheque issued to the supplier of goods worth Rs. 35,000.
- (ix) Cheque received from customer amounting to Rs. 75,000.
- (x) Withdrawn by owner for personal use Rs. 25,000.

#### Solution

*Transaction (i)* It affects Cash and Inventory on the assets side and Capital on the other hand. There is increase in cash by Rs. 8, 00,000 and Inventory of goods by Rs. 50,000 on assets side of the equation. Capital is increased by Rs. 8, 50,000.

Rs.

Assets		=	Liabilities + Capital
Cash	+ Inventory (Stock)		
8,00,000	+ 50,000	=	8,50,000
<b>Total</b>	<b>8,50,000</b>	=	<b>8,50,000</b>

*Transaction (ii)* It affects Cash and Plant and Machinery on the assets side and liabilities on the other side of the equation. There is an increase in plant and machinery by Rs. 3, 00,000 and decrease in cash by Rs. 15,000. Liability to pay to the supplier of plant and machinery increases by Rs. 2,85,000.

Rs.

Assets		=	Liabilities + Capital
Cash	+ Inventory + Plant and Machinery		
8,00,000	+ 50,000	=	8,50,000
(15,000)	3,00,000	=	2,85,000
7,85,000	+ 50,000 + 3,00,000	=	2,85,000 + 8,50,000
<b>Total</b>	<b>11,35,000</b>	=	<b>11,35,000</b>

*Transaction (iii)* It affects assets side only. The composition of the asset side changes. Cash decreases by Rs. 6,00,000 and by the same amount bank increases.

Rs.

Assets		=	Liabilities + Capital
Cash	+ Inventory + Plant and Machinery + Bank	=	
7,85,000	+ 50,000 + 3,00,000	=	2,85,000 + 8,50,000
(6,00,000)	+ 6,00,000	=	
1,85,000	+ 50,000 + 3,00,000 + 6,00,000	=	2,85,000 + 8,50,000
<b>Total</b>	<b>11,35,000</b>	=	<b>11,35,000</b>

*Transaction (iv)* It affects assets side only. The composition of the asset side changes. Furniture increases by Rs. 1,00,000 and by the same amount bank decreases.

Rs.

Assets					= Liabilities + Capital
Cash	+ Inventory	+ Plant and Machinery		+ Bank + Furniture	
1,85,000+	50,000	+ 3,00,000	+ 6,00,000		= 2,85,000 + 8,50,000
		(1,00,000)		+ 1,00,000	
<b>1,85,000+</b>	<b>50,000</b>	<b>+3,00,000</b>	<b>+5,00,000</b>	<b>+1,00,000</b>	<b>= 2,85,000+ 8,50,000</b>
<b>Total</b>	<b>11,35,000</b>				<b>= 11,35,000</b>

*Transaction (v)* It affects Cash and Inventory on the assets side and liability on the other side. There is decrease in cash by Rs. 80,000 and increase of inventory of goods by Rs. 1,15,000 on the assts side of the equation. Liabilities increases by Rs. 35,000.

Rs.

Assets					= Liabilities + Capital
Cash	+ Inventory	+ Plant and Machinery		+ Bank + Furniture	
1,85,000 +	50,000	+ 3,00,000	+ 5,00,000	+ 1,00,000	= 2,85,000 + 8,50,000
<b>(80,000) + 1,15,000</b>					<b>= 35,000</b>
<b>1,05,000 + 1,65,000</b>		<b>+3,00,000</b>	<b>+5,00,000</b>	<b>+ 1,00,000</b>	<b>= 3,20,000 + 8,50,000</b>
<b>Total</b>	<b>11,70,000</b>				<b>= 11,70,000</b>

*Transaction (vi)* It affects Cash and Inventory on the assets side and capital on the other side. There is an increase in cash by Rs. 60,000 and decrease in inventory of goods by Rs. 45,000 on the assets side of the equation. Capital increases by Rs. 15,000.

Rs.

Assets					= Liabilitie + Capital
Cash	+ Inventory	+ Plant and Machinery		+ Bank + Furniture	
1,05,000 +	1,65,000	+ 3,00,000	+ 5,00,000	+ 1,00,000	= 3,20,000 + 8,50,000
<b>60,000 + (45,000)</b>					<b>+ 15,000</b>
<b>1,65,000 + 1,20,000</b>		<b>+3,00,000</b>	<b>+5,00,000</b>	<b>+ 1,00,000</b>	<b>= 3,20,000 + 8,65,000</b>
<b>Total</b>	<b>11,85,000</b>				<b>= 11,85,000</b>

*Transaction (vii)* It affects Debtors and Inventory on the assets side and capital on the other side. There is increase in debtors by Rs. 1, 25,000 and decrease in Inventory of goods by Rs. 80,000 on the assets side of the equation. Capital increases by Rs.45, 000.

Rs.

Assets						= Liabilities + Capital
Cash	+ Inventory	+ Plant and Machinery		+ Bank + Furniture	+ Debtors	
1,65,000 +	1,20,000	+ 3,00,000	+ 5,00,000	+ 1,00,000		= 3,20,000 + 8,65,000
	<b>(80,000)</b>				<b>+ 1,25,000</b>	<b>= + 45,000</b>
<b>1,65,000+</b>	<b>40,000</b>	<b>+3,00,000</b>	<b>+5,00,000</b>	<b>+ 1,00,000</b>	<b>+ 1,25,000</b>	<b>= 3,20,000 + 9,10,000</b>
<b>Total</b>	<b>12,30,000</b>					<b>= 12,30,000</b>

*Transaction (viii)* It affects Bank on the assets side on one side and liability on the other side. There is decrease in bank by Rs. 35,000 on the assets side and liability also decreases by Rs. 35,000.

Rs.

Assets						= Liabilities + Capital	
Cash	+ Inventory	+ Plant and Machinery	+ Bank	+ Furniture	+ Debtors		
1,65,000	+ 40,000	+ 3,00,000	+ 5,00,000	+ 1,00,000	+ 1,25,000	= 3,20,000	+ 9,10,000
			(35,000)			= (35,000)	
<b>1,65,000</b>	<b>+ 40,000</b>	<b>+ 3,00,000</b>	<b>+ 4,65,000</b>	<b>+ 1,00,000</b>	<b>+ 1,25,000</b>	<b>= 2,85,000</b>	<b>+ 9,10,000</b>
<b>Total</b>	<b>11,95,000</b>					<b>= 11,95,000</b>	

*Transaction (ix)* It affects assets side only. The composition of the assets side changes. Bank increases by R. 75,000 and by the same amount Debtors decreases.

Rs.

Assets						= Liabilities + Capital	
Cash	+ Inventory	+ Plant and Machinery	+ Bank	+ Furniture	+ Debtors		
1,65,000	+ 40,000	+ 3,00,000	+ 4,65,000	+ 1,00,000	+ 1,25,000	= 2,85,000	+ 9,10,000
			+ 75,000		(75,000)		
1,65,000	+ 40,000	+ 3,00,000	+ 5,40,000	+ 1,00,000	+ 50,000	= 2,85,000	+ 9,10,000
<b>Total</b>	<b>11,95,000</b>					<b>= 11,95,000</b>	

*Transaction (x)* It affects Cash on the asset side and Capital on the other hand. There is decrease in Cash by Rs. 25,000 on the assets side whereas capital decreases by Rs. 25,000.

Rs.

Assets						= Liabilities + Capital	
Cash	+ Inventory	+ Plant and Machinery	+ Bank	+ Furniture	+ Debtors		
1,65,000	+ 40,000	+ 3,00,000	+ 5,40,000	+ 1,00,000	+ 50,000	= 2,85,000	+ 9,10,000
(25,000)							+ (25,000)
<b>1,40,000</b>	<b>+ 40,000</b>	<b>+ 3,00,000</b>	<b>+ 5,40,000</b>	<b>+ 1,00,000</b>	<b>+ 50,000</b>	<b>= 2,85,000</b>	<b>+ 8,85,000</b>
<b>Total</b>	<b>11,95,000</b>					<b>= 11,95,000</b>	

### 3.4 Books of Original Entry

In the preceding pages, you learnt about debits and credits and observed how transactions affect accounts. This process of analysing transactions and recording their effects directly in the accounts is helpful as a learning exercise. However, real accounting systems do not record transactions directly in the accounts. The book in which the transaction is recorded for the first time is called journal or book of original entry. The source document, as discussed earlier, is required to record the transaction in the journal. This practice provides a complete record of each transaction in one place and links the debits and credits for each transaction. After the debits and credits for each transaction are entered in the journal, they are transferred to the individual accounts. The process of recording transactions in journal is called journalising. Once the *journalising* process is completed, the journal entry provides

a complete and useful description of the event's effect on the organisation. The process of transferring journal entry to individual accounts is called *posting*. This sequence causes the journal to be called the *Book of Original Entry* and the ledger account as the *Principal Book* of entry. In this context, it should be noted that on account of the number and commonality of most transactions, the journal is subdivided into a number of books of original entry as follows:

- (a) Journal Proper
- (b) Cash book
- (c) Other day books:
  - (i) Purchases (journal) book
  - (ii) Sales (journal) book
  - (iii) Purchase Returns (journal) book
  - (iv) Sale Returns (journal) book
  - (v) Bills Receivable (journal) book
  - (vi) Bills Payable (journal) book

In this chapter you will learn about the process of journalising and their posting into ledger. The cash book and other day books are dealt in detail in chapter 4.

### 3.4.1 Journal

This is the basic book of original entry. In this book, transactions are recorded in the chronological order, as and when they take place. Afterwards, transactions from this book are posted to the respective accounts. Each transaction is separately recorded after determining the particular account to be debited or credited. The format of Journal is shown in figure 3.5

<b>Journal</b>				
<i>Date</i>	<i>Particulars</i>	<i>L.F.</i>	<i>Debit Amount Rs.</i>	<i>Credit Amount Rs.</i>

**Fig. 3.5 :** Showing the format of journal

The first column in a journal is *Date* on which the transaction took place. In the *Particulars* column, the account title to be debited is written on the first line beginning from the left hand corner and the word 'Dr.' is written at the end of the column. The account title to be credited is written on the second line leaving sufficient margin on the left side with a prefix 'To'. Below the account titles, a



brief description of the transaction is given which is called *Narration*. Having written the *Narration* a line is drawn in the Particulars column, which indicates the end of recording the specific journal entry. The column relating to *Ledger Folio* records the page number of the ledger book on which relevant account is appears. This column is filled up at the time of posting and *not* at the time of making journal entry.

The *Debit amount* column records the amount against the account to be debited and similarly the *Credit Amount* column records the amount against the account to be credited. It may be noted that, the number of transactions is very large and these are recorded in number of pages in the journal book. Hence, at the end of each page of the journal book, the amount columns are totaled and carried forward (c/f) to the next page where such amounts are recorded as brought forward (b/f) balances.

The journal entry is the basic record of a business transaction. It may be simple or compound. When only two accounts are involved to record a transaction, it is called a simple journal entry.

*For Example*, Goods Purchased on credit for Rs.30,000 from M/s Govind Traders on December 24, 2017, involves only two accounts: (a) Purchases A/c (Goods), (b) Govind Traders A/c (Creditors). This transaction is recorded in the journal as follows :

#### Journal

<i>Date</i>	<i>Particulars</i>	<i>L.F.</i>	<i>Debit Amount Rs.</i>	<i>Credit Amount Rs.</i>
2014 Dec.24	Purchases A/c Dr. To Govind Traders A/c (Purchase of goods- in-trade from Govind Traders)		30,000	30,000

It will be noticed that although the transaction results in an increase in stock of goods, the account debited is purchases, not goods. In fact, the goods account is divided into five accounts, viz. purchases account, sales account, purchases returns account, sales returns account, and stock account. When the number of accounts to be debited or credited is more than one, entry made for recording the transaction is called *compound* journal entry. That means compound journal entry involves multiple accounts. For example, Office furniture is purchased from Modern Furniture's on July 4, 2017 for Rs. 25,000 and Rs. 5,000 is paid by cash immediately and balance of Rs. 20,000 is still payable. It increases furniture (assets) by Rs. 25,000, decreases cash (assets) by Rs. 5,000 and increases liability by Rs. 20,000. The entry made in the journal on July 4, 2017 is :

**Journal**

<i>Date</i>	<i>Particulars</i>	<i>L.F.</i>	<i>Debit Amount Rs.</i>	<i>Credit Amount Rs.</i>
2017 July 4	Office Furniture A/c Dr. To Cash A/c To Modern Furniture A/c (Purchase of office furniture from Modern Furnitures)		25,000	5,000 20,000

Now refer to example 1 on page 46 again and observe how the transactions listed are recorded in the journal:

**Books of Rohit  
Journal**

<i>Date</i>	<i>Particulars</i>	<i>L.F.</i>	<i>Debit Amount Rs.</i>	<i>Credit Amount Rs.</i>
	Cash A/c Dr. To Capital A/c (Business started with cash)		5,00,000	5,00,000
	Bank A/c Dr. To Cash A/c (Opened bank account with State Bank of India)		4,80,000	4,80,000
	Furniture A/c Dr. To Bank A/c (Purchased furniture and made payment through bank)		60,000	60,000
	Plant and Machinery A/c Dr. To Cash A/c To Ramjee Lal (Bought Plant and Machinery from M/s Ramjee Lal, made an advance payment by cash for Rs. 10,000 and balance at the later date)		1,25,000	10,000 1,15,000
	Purchases A/c Dr. To M/s Sumit Traders A/c (Goods bought on credit)		55,000	55,000
	Rajani Enterprises A/c Dr. To Sales A/c (Goods sold on profit)		35,000	35,000
	Total		12,55,000	12,55,000

*Illustration 2.*

Soraj Mart furnishes the following information :

Transactions during the month of April, 2017 are as under :

<i>Date</i>	<i>Details</i>
01.4.2017	Business started with cash Rs. 1,50,000.
01.4.2017	Goods purchased form Manisha Rs. 36,000.
01.4.2017	Stationery purchased for cash Rs. 2,200.
02.4.2017	Open a bank account with SBI for Rs. 35,000.
02.4.2017	Goods sold to Priya for Rs. 16,000.
03.4.2017	Received a cheque of Rs. 16,000 from Priya.
05.4.2017	Sold goods to Nidhi Rs. 14,000.
08.4.2017	Nidhi pays Rs. 14,000 cash.
10.4.2017	Purchased goods for Rs. 20,000 on credit from Ritu.
14.4.2017	Insurance paid by cheque Rs. 6,000.
18.4.2017	Paid rent Rs. 2,000.
20.4.2017	Goods costing Rs. 1,500 given as charity.
24.4.2017	Purchased office furniture for Rs. 11,200.
29.4.2017	Cash withdrawn for household purposes Rs. 5000.
30.4.2017	Interest received cash Rs.1,200.
30.4.2017	Cash sales Rs.2,300.
30.4.2017	Commission paid Rs. 3,000 by cheque.
30.4.2017	Telephone bill paid by cheque Rs. 2,000.
30.4.2017	Payment of salaries in cash Rs. 12,000.

Journalise the transactions.

*Solution*

**Books of Saroj Mart  
Journal**

<i>Date</i>	<i>Particulars</i>	<i>L.F.</i>	<i>Debit Amount Rs.</i>	<i>Credit Amount Rs.</i>
2017 Apr.01	Cash A/c Dr. To Capital A/c (Business started with cash)		1,50,000	1,50,000
Apr.01	Purchases A/c Dr. To Manisha A/c (Goods purchase on credit)		36,000	36,000
Apr.01	Stationery A/c Dr. To Cash A/c (Purchase of stationery for cash)		2,200	2,200
	Total c/f		1,88,200	1,88,200

	Total b/f		1,88,200	1,88,200
Apr.02	Bank A/c Dr. To Cash A/c (Opened a bank account with SBI)		35,000	35,000
Apr.02	Priya A/c Dr. To Sales A/c (Goods sold to Priya On Credit)		16,000	16,000
Apr.03	Bank A/c Dr. To Priya A/c (Cheque Received from Priya)		16,000	16,000
Apr.05	Nidhi A/c Dr. To Sales A/c (Sale of goods to Nidhi on credit)		14,000	14,000
Apr.08	Cash A/c Dr. To Nidhi A/c (Cash received from Nidhi)		14,000	14,000
Apr.10	Purchases A/c Dr. To Ritu A/c (Purchase of goods on credit)		20,000	20,000
Apr.14	Insurance Premium A/c Dr. To Bank A/c (Payment of Insurance premium by cheque)		6,000	6,000
Apr.18	Rent A/c Dr. To Cash A/c (Rent paid)		2,000	2,000
Apr.20	Charity A/c Dr. To Purchases A/c (Goods given as charity)		1,500	1,500
Apr.24	Furniture A/c Dr. To Cash A/c (Purchase of office furniture)		11,200	11,200
Apr.29	Drawings A/c Dr. To Cash A/c (With drawl of cash from the business for personal use of the proprietor)		5,000	5,000
Apr.30	Cash A/c Dr. To Interest received A/c (Interest received)		1,200	1,200
Apr.30	Cash A/c Dr. To Sales A/c (Sale of goods for cash)		2,300	2,300
	Total c/f		3,32,400	3,32,400

	Total c/f		3,32,400	3,32,400
Apr.30	Commission A/c Dr. To Bank A/c (Commission paid by cheque)		3,000	3,000
Apr.30	Telephone expenses A/c Dr. To Cash A/c (Payment of telephone bill)		2,000	2,000
Apr.30	Salaries A/c Dr. To Cash A/c (Payment of salary to the office persons)		12,000	12,000
	Total		3,49,400	3,49,400

**Illustration 3**

Prove that the accounting equation is satisfied in all the following transactions of Sita Ram house by preparing the analysis table. Also record the transactions in Journal.

- (i) Business commenced with a capital of Rs. 6,00,000.
- (ii) Rs. 4,50,000 deposited in a bank account.
- (iii) Rs. 2,30,000 Plant and Machinery Purchased by paying Rs. 30,000 cash immediately.
- (iv) Purchased goods worth Rs. 40,000 for cash and Rs. 45,000 on account.
- (v) Paid a cheque of Rs. 2, 00,000 to the supplier for Plant and Machinery.
- (vi) Rs. 70,000 cash sales (of goods costing Rs. 50,000).
- (vii) Withdrawn by the proprietor Rs. 35,000 cash for personal use.
- (viii) Insurance paid by cheque of Rs. 2,500.
- (ix) Salary of Rs. 5,500 outstanding.
- (x) Furniture of Rs. 30,000 purchased in cash.

**Solution****Journal**

Date	Particulars	L.F.	Debit Amount Rs.	Credit Amount Rs.
(i)	Cash A/c Dr. To Capital A/c (Business started with cash)		6,00,000	6,00,000
(ii)	Bank A/c Dr. To Cash A/c (Cash deposited into the bank)		4,50,000	4,50,000
	Total c/f		10,50,000	10,50,000

	Total c/f		10,50,000	10,50,000
(iii)	Plant and Machinery A/c Dr. To Cash A/c To Creditors A/c (Purchase of plant and machinery by paying Rs. 30,000 cash and balance on a later date)		2,30,000	30,000 2,00,000
(iv)	Purchases A/c Dr. To Cash A/c To Creditors A/c (Bought goods for cash as well as on credit)		85,000	40,000 45,000
(v)	Creditor's A/c Dr. To Bank A/c (Payment made to the supplier of plant and machinery)		2,00,000	2,00,000
(vi)	Cash A/c Dr. To Sales A/c (Sold goods on profit)		70,000	70,000
(vii)	Drawings A/c Dr. To Cash A/c (Withdrew cash for personal use)		35,000	35,000
(viii)	Insurance A/c Dr. To Bank A/c (Paid insurance by cheque)		2,500	2,500
(ix)	Salary A/c Dr. To Outstanding salary A/c (Salary outstanding)		5,500	5,500
(x)	Furniture A/c Dr. To Cash A/c (Furniture purchased for cash)		30,000	30,000
	Total		17,08,000	17,08,000

**Test Your Understanding - II**

State the title of the accounts affected, type of account and the account to be debited and account to be credited :

	Rs
1. Bhanu commenced business with cash	1,00,000
2. Purchased goods on credit from Ramesh	40,000
3. Sold goods for cash	30,000
4. Paid salaries	3,000
5. Furniture purchased for cash	10,000

**Statement showing the effect of various transaction on accounting equation**  
(Figures in rupees)

No.	Cash	Bank	Stock	Furniture	Plant and Machinery	Total	=	Non-trade Creditors	Trade Creditors	Capital	Total
1	6,00,000	-	-	-	-	6,00,000	=	-	-	6,00,000	6,00,000
2	6,00,000	4,50,000	-	-	-	6,00,000	=	-	-	6,00,000	6,00,000
3	1,50,000	4,50,000	-	-	2,30,000	2,00,000	=	2,00,000	-	-	6,00,000
4	(30,000)	-	-	-	2,30,000	8,00,000	=	2,00,000	-	600,000	2,00,000
5	1,20,000	4,50,000	-	-	-	45,000	=	-	45,000	-	8,00,000
6	(40,000)	-	85,000	-	-	8,45,000	=	2,00,000	45,000	-	45,000
7	80,000	4,50,000	85,000	-	2,30,000	(2,00,000)	=	(2,00,000)	-	600,000	8,45,000
8	-	(2,00,000)	-	-	-	6,45,000	=	-	45,000	-	(2,00,000)
9	80,000	2,50,000	85,000	-	2,30,000	20,000	=	-	-	6,00,000	20,000
10	70,000	-	(50,000)	-	-	6,65,000	=	-	45,000	20,000	20,000
11	1,50,000	2,50,000	35,000	-	2,30,000	(35,000)	=	-	-	6,20,000	6,65,000
12	(35,000)	-	-	-	-	6,30,000	=	-	45,000	(35,000)	(35,000)
13	1,15,000	2,50,000	35,000	-	2,30,000	6,30,000	=	-	-	5,85,000	6,30,000
14	(2,500)	(2,500)	-	-	-	(2,500)	=	-	45,000	(2,500)	(2,500)
15	1,15,000	2,47,500	35,000	-	2,30,000	6,27,500	=	-	45,000	5,82,500	6,27,500
16	-	-	-	-	-	5,500	=	5,500	-	(5,500)	-
17	1,15,000	2,47,500	35,000	-	2,30,000	6,27,500	=	5,500	45,000	5,77,000	6,27,500
18	(30,000)	-	-	30,000	-	-	=	-	-	-	-
19	85,000	2,47,500	35,000	30,000	2,30,000	6,27,500	=	5,500	45,000	5,77,000	6,27,500
20	-	-	-	-	-	-	=	-	-	-	-
21	-	-	-	-	-	-	=	-	-	-	-

6.	Borrowed from bank	50,000
7.	Sold goods to Sarita	10,000
8.	Cash paid to Ramesh on account	20,000
9.	Rent paid	1,500

  

Transaction No.	Name of Accounts Affected		Type of Accounts (Assets, Liabilities Capital, Revenues and Expenses)		Affected Accounts Increase/Decrease	
	1	2	1	2	1	2
1.						
2.						
3.						
4.						
5.						
6.						
7.						
8.						
9.						

### Accounting Entries under Goods and Services Tax

*Illustration : 4*

Record necessary Journal entries assuming CGST @ 5% and SGST @ 5% and all transactions are occurred within Delhi)

- i. Shobit bought goods Rs. 1,00,000 on credit
- ii. He sold them for Rs. 1,20,000 in the same state on credit
- iii. He paid for Railway transport Rs. 8,000
- iv. He bought computer printer for Rs. 10,000
- v. Paid postal charges Rs. 2000

*Solution*

#### Journal

Date	Particulars	L.F.	Debit Amount Rs.	Credit Amount Rs.
(i)	Purchases A/c Dr. Input SGST A/c Dr. To Creditors A/c Dr. (Being Goods bought on credit)		1,00,000 5,000 5,000	1,10,000
(ii)	Debtors A/c Dr. To Sales A/c To Output CGST A/c To Output SGST A/c (Being Goods sold on credit)		1,48,000	1,35,000 6,750 6,750



(iii)	Transport Charges A/c	Dr.	8,000	
	Input CGST A/c	Dr.	400	
	Input SGST A/c	Dr.	400	
	To Bank A/c (Being transport charges paid)			8,800
(iv)	Computer printer A/c	Dr.	10,000	
	Input CGST A/c	Dr.	500	
	Input SGST A/c	Dr.	500	
	To Bank A/c (Being Computer-Printer bought)			11,000
(v)	Postal charges A/c	Dr.	2,000	
	Input CGST A/c	Dr.	100	
	Input SGST A/c	Dr.	100	
	To Bank A/c (Being Paid for Portage)			2,200
(vi)	Output CGST A/c	Dr.	6,750 <sup>1</sup>	
	Output SGST A/c	Dr.	6,750 <sup>2</sup>	
	To Input CGST A/c			6,000 <sup>3</sup>
	To Input SGST A/c			6,000 <sup>4</sup>
	To Electronic Cash Ledger A/c (Being GST set off and balance paid)			1,500

**Working Notes :-**

Total Input CGST	=	Rs. 5,000 + Rs. 400 + Rs.500 + Rs.100 = Rs.6,000 <sup>1</sup>
Total Input SGST	=	Rs. 5,000 + Rs. 400 + Rs.500 + Rs.100 = Rs.6,000 <sup>2</sup>
Total Output CGST	=	Rs. 6,750 <sup>3</sup>
Total Output SGST	=	Rs. 6,750 <sup>4</sup>
Net CGST Payable	=	Rs. 6,750 - Rs.6,000 = Rs.750
Net SGST Payable	=	Rs. 6,750 - Rs.6,000 = Rs.750

**Illustration : 5**

Record necessary Journal entries in the books of Suman of Bihar assuming CGST @ 9% and SGST @ 9% :

- Bought goods Rs. 3,50,000 from Jharkhand.
- Sold goods for Rs. 2,00,000 Uttar Pradesh.
- Sold goods for Rs. 4,00,000 locally.
- Paid Insurance premium Rs. 30,000.
- Bought furniture for office Rs. 50,000.

## Solution

**Books of Suman**  
**Journal**

<i>Date</i>	<i>Particulars</i>	<i>L.F.</i>	<i>Debit Amount Rs.</i>	<i>Credit Amount Rs.</i>
(i)	Purchases A/c Dr. Input IGST A/c Dr. To Bank A/c (Being goods bought)		3,50,000 63,000	4,13,000
(ii)	Bank A/c Dr. To Sales A/c To Output IGST A/c (Being goods sold outside the state)		2,36,000	2,00,000 36,000
(iii)	Debtors A/c Dr. To Sales A/c To Output CGST A/c To Output SGST A/c (Being goods sold on credit locally)		4,72,000	4,00,000 36,000 36,000
(iv)	Insurance Premium A/c Dr. Input CGST A/c Input SGST A/c To Bank A/c (Being insurance premium paid)		30,000 2,700 2,700	35,400
(v)	Furniture A/c Dr. Input CGST A/c Dr. Input SGST A/c Dr. To Bank A/c (Being furniture bought)		50,000 4,500 4,500	59,000
(vi)	Output CGST A/c Dr. To Input CGST A/c To Input IGST A/c (Being set off against CGST output made)		34,200	7,200 27,000
(vii)	Output SGST A/c Dr. To Input SGST A/c (Being set off against SGST output made)		7,200	7,200
(viii)	Output IGST A/c Dr. To Input IGST A/c (Being set off against SGST output made)		36,200	36,000
(ix)	Output CGST A/c Dr. Output SGST A/c To Electronic Cash Ledger A/c (Being final payment made)		1,800 28,800	30,600

*Working Notes :*

### Calculation Sheet

Particulars	CGST	SGST	IGST
Output liability	36,000	36,000	36,000
Loss : Input tax Credit			
CGST	7,200		
SGST		7,200	
IGST	27,000		36,000
Amount Payable	1,800	28,800	NIL

- Any IGST credit will first be applied to set off IGST and then CGST. Balance, if any, will be applied to set off SGST.

### 3.5 The Ledger

The ledger is the principal book of accounting system. It contains different accounts where transactions relating to that account are recorded. A ledger is the collection of all the accounts, debited or credited, in the journal proper and various special journal (about which you will learn in chapter 4). A ledger may be in the form of bound register, or cards, or separate sheets may be maintained in a loose leaf binder. In the ledger, each account is opened preferably on separate page or card.

#### Utility

A ledger is very useful and is of utmost importance in the organisation. The net result of all transactions in respect of a particular account on a given date can be ascertained only from the ledger. For example, the management on a particular date wants to know the amount due from a certain customer or the amount the firm has to pay to a particular supplier, such information can be found only in the ledger. Such information is very difficult to ascertain from the journal because the transactions are recorded in the chronological order and defies classification. For easy posting and location, accounts are opened in the ledger in some definite order. For example, they may be opened in the same order as they appear in the profit and loss account and in balance sheet. In the beginning, an index is also provided. For easy identification, in big organisations, each account is also allotted a code number.

*Format* of the account is shown in figure 3.6.

Name of the Account							
Dr.				Cr.			
Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.

**Fig. 3.6 :** Showing format of a ledger

According to this format the columns will contain the information as given below:

An account is debited or credited according to the rules of debit and credit already explained in respect of each category of account.

**Title of the account :** The Name of the item is written at the top of the format as the title of the account. The title of the account ends with suffix 'Account'.

**Dr./Cr. :** Dr. means Debit side of the account that is left side and Cr. means Credit side of the account, i.e. right side.

**Date :** Year, Month and Date of transactions are posted in chronological order in this column.

**Particulars :** Name of the item with reference to the original book of entry is written on debit/credit side of the account.

**Journal Folio :** It records the page number of the original book of entry on which relevant transaction is recorded. This column is filled up at the time of posting.

**Amount :** This column records the amount in numerical figure, corresponding to what has been entered in the amount column of the original book of entry.

### Test Your Understanding - III

Choose the Correct Answer :

- The ledger folio column of journal is used to:
  - Record the date on which amount posted to a ledger account.
  - Record the number of ledger account to which information is posted.
  - Record the number of amounts posted to the ledger account.
  - Record the page number of the ledger account.
- The journal entry to record the sale of services on credit should include:
  - Debit to debtors and credit to capital.
  - Debit to cash and Credit to debtors.
  - Debit to fees income and Credit to debtors.
  - Debit to debtors and Credit to fees income.
- The journal entry to record purchase of equipment for Rs. 2,00,000 cash and a balance of Rs. 8,00,000 due in 30 days include:
  - Debit equipment for Rs. 2,00,000 and Credit cash 2,00,000.

- (b) Debit equipment for Rs. 10,00,000 and Credit cash Rs. 2,00,000 and creditors Rs. 8,00,000.
  - (c) Debit equipment Rs. 2,00,000 and Credit debtors Rs. 8,00,000.
  - (d) Debit equipment Rs. 10,00,000 and Credit cash Rs. 10,00,000.
4. When an entry is made in journal:
- (a) Assets are listed first.
  - (b) Accounts to be debited listed first.
  - (c) Accounts to be credited listed first.
  - (d) Accounts may be listed in any order.
5. If a transaction is properly analysed and recorded:
- (a) Only two accounts will be used to record the transaction.
  - (b) One account will be used to record transaction.
  - (c) One account balance will increase and another will decrease.
  - (d) Total amount debited will equal total amount credited.
6. The journal entry to record payment of monthly bill will include:
- (a) Debit monthly bill and Credit capital.
  - (b) Debit capital and Credit cash.
  - (c) Debit monthly bill and Credit cash.
  - (d) Debit monthly bill and Credit creditors.
7. Journal entry to record salaries will include:
- (a) Debit salaries Credit cash.
  - (b) Debit capital Credit cash.
  - (c) Debit cash Credit salary.
  - (d) Debit salary Credit creditors.

### *Distinction between Journal and Ledger*

The Journal and the Ledger are the most important books of the double entry mechanism of accounting and are indispensable for an accounting system.

Following points of comparison are worth noting :

1. The Journal is the book of *first* entry (original entry); the ledger is the book of *second* entry.
2. The Journal is the book for *chronological* record; the ledger is the book for *analytical* record.
3. The Journal, as a book of source entry, gets greater importance as *legal evidence* than the ledger.
4. *Transaction* is the basis of classification of data within the Journal; *Account* is the basis of classification of data within the ledger.
5. Process of recording in the Journal is called Journalising; the process of recording in the ledger is known as *Posting*.

### **3.5.1 Classification of Ledger Accounts**

We have seen earlier that all ledger accounts are put into five categories namely, assets, liabilities, capital, revenues/gains and expense losses. All these accounts may further be put into two groups, i.e. permanent accounts and temporary accounts. All permanent accounts are balanced and carried forward to the next accounting period. The temporary accounts are closed at the end of the accounting period by transferring them to the trading and profit and loss account. All permanent accounts appears in the balance sheet. Thus, all assets, liabilities and capital accounts are permanent accounts and all revenue and expense accounts are temporary accounts. This classification is also relevant for preparing the financial statements.

### **3.6 Posting from Journal**

Posting is the process of transferring the entries from the books of original entry (journal) to the ledger. In other words, posting means grouping of all the transactions in respect to a particular account at one place for meaningful conclusion and to further the accounting process. Posting from the journal is done periodically, may be, weekly or fortnightly or monthly as per the requirements and convenience of the business.

The complete process of posting from journal to ledger has been discussed below:

*Step 1 :* Locate in the ledger, the account to be debited as entered in the journal.

*Step 2 :* Enter the date of transaction in the date column on the debit side.

*Step 3 :* In the 'Particulars' column write the name of the account through which it has been debited in the journal. For example, furniture sold for cash Rs. 34,000. Now, in cash account on the debit side in the particulars column 'Furniture' will be entered signifying that cash is received from the sale of furniture. In Furniture account, in the ledger on the credit side is the particulars column, the word, cash will be recorded. The same procedure is followed in respect of all the entries recorded in the journal.

*Step 4 :* Enter the page number of the journal in the folio column and in the journal write the page number of the ledger on which a particular account appears.

*Step 5 :* Enter the relevant amount in the amount column on the debit side.

It may be noted that the same procedure is followed for making the entry on the credit side of that account to be credited. An account is opened only once in the ledger and all entries relating to a particular account is posted on the debit or credit side, as the case may be.

We will now see how the transactions listed in example on *page 46-47* are posted to different accounts from the journal.

**Cash Account**

<b>Dr.</b>				<b>Cr.</b>			
<i>Date</i>	<i>Particulars</i>	<i>J.F.</i>	<i>Amount Rs.</i>	<i>Date</i>	<i>Particulars</i>	<i>J.F.</i>	<i>Amount Rs.</i>
	Capital		5,00,000		Bank		4,80,000
					Plant and Machinery		10,000

**Capital Account**

<b>Dr.</b>				<b>Cr.</b>			
<i>Date</i>	<i>Particulars</i>	<i>J.F.</i>	<i>Amount Rs.</i>	<i>Date</i>	<i>Particulars</i>	<i>J.F.</i>	<i>Amount Rs.</i>
					Cash		5,00,000

**Bank Account**

<b>Dr.</b>				<b>Cr.</b>			
<i>Date</i>	<i>Particulars</i>	<i>J.F.</i>	<i>Amount Rs.</i>	<i>Date</i>	<i>Particulars</i>	<i>J.F.</i>	<i>Amount Rs.</i>
	Cash		4,80,000		Furniture		60,000

**Furniture Account**

<b>Dr.</b>				<b>Cr.</b>			
<i>Date</i>	<i>Particulars</i>	<i>J.F.</i>	<i>Amount Rs.</i>	<i>Date</i>	<i>Particulars</i>	<i>J.F.</i>	<i>Amount Rs.</i>
	Bank		60,000				

**Plant and Machinery Account**

<b>Dr.</b>				<b>Cr.</b>			
<i>Date</i>	<i>Particulars</i>	<i>J.F.</i>	<i>Amount Rs.</i>	<i>Date</i>	<i>Particulars</i>	<i>J.F.</i>	<i>Amount Rs.</i>
	Cash		10,000				
	Ramjee Lal		1,15,000				

**Ramjee Lal's Account**

<b>Dr.</b>				<b>Cr.</b>			
<i>Date</i>	<i>Particulars</i>	<i>J.F.</i>	<i>Amount Rs.</i>	<i>Date</i>	<i>Particulars</i>	<i>J.F.</i>	<i>Amount Rs.</i>
					Plant and Machinery		1,15,000

**Purchases Account**

<b>Dr.</b>				<b>Cr.</b>			
<i>Date</i>	<i>Particulars</i>	<i>J.F.</i>	<i>Amount Rs.</i>	<i>Date</i>	<i>Particulars</i>	<i>J.F.</i>	<i>Amount Rs.</i>
	Sumit Traders		55,000				

**Sumit Traders Account**

<b>Dr.</b>				<b>Cr.</b>			
<i>Date</i>	<i>Particulars</i>	<i>J.F.</i>	<i>Amount Rs.</i>	<i>Date</i>	<i>Particulars</i>	<i>J.F.</i>	<i>Amount Rs.</i>
					Purchases		55,000

**Rajani Enterprises Account**

<b>Dr.</b>				<b>Cr.</b>			
<i>Date</i>	<i>Particulars</i>	<i>J.F.</i>	<i>Amount Rs.</i>	<i>Date</i>	<i>Particulars</i>	<i>J.F.</i>	<i>Amount Rs.</i>
	Sales		35,000				

**Sales Account**

<b>Dr.</b>				<b>Cr.</b>			
<i>Date</i>	<i>Particulars</i>	<i>J.F.</i>	<i>Amount Rs.</i>	<i>Date</i>	<i>Particulars</i>	<i>J.F.</i>	<i>Amount Rs.</i>
					Rajani Enterprises		35,000

**Test Your Understanding - IV**

*Fill in the blanks:*

1. Issued a cheque for Rs.8,000 to pay rent. The account to be debited is .....
2. Collected Rs. 35,000 from debtors. The account to be credited is .....
3. Purchased office stationary for Rs. 18,000. The account to be credited is .....
4. Purchased new machine for Rs. 1,70,000 and issued cheque for the same.  
The account to be debited is .....
5. Issued cheque for Rs. 70,000 to pay off on of the creditors. The account to be debited is .....
6. Returned damaged office stationary and received Rs. 50,000. The account to be credited is .....
7. Provided services for Rs. 65,000 on credit. The account to be debited is .....



*Illustration 4*

Journalise the following transactions of M/s Mallika Fashion House and post the entries to the Ledger:

<i>Date</i>	<i>Details</i>	<i>Amount</i>
<i>2017</i>		<i>Rs.</i>
June 05	Business started with cash	2,00,000
June 08	Opened a bank account with Syndicate Bank	80,000
June 12	Goods purchased on credit from M/s Gulmohar Fashion House	30,000
June 12	Purchase office machines, paid by cheque	20,000
June 18	Rent paid by cheque	5,000
June 20	Sale of goods on credit to M/s Mohit Bros	10,000
June 22	Cash sales	15,000
June 25	Cash paid to M/s Gulmohar Fashion House	30,000
June 28	Received a cheque from M/s Mohit Bros	10,000
June 30	Salary paid in cash	6,000

*Solution*

(i) *Recording the transactions*

**Books of Mallika Fashion House**  
**Journal**

<i>Date</i>	<i>Particulars</i>	<i>L.F.</i>	<i>Debit Amount Rs.</i>	<i>Credit Amount Rs.</i>
<i>2017</i>				
June 05	Cash A/c Dr. To Capital A/c (Business started with cash)		2,00,000	2,00,000
June 08	Bank A/c Dr. To Cash A/c (Opened a current account with syndicate bank)		80,000	80,000
June 12	Purchases A/c Dr. To Gulmohar Fashion House A/c (Goods purchased on credit)		30,000	30,000
June 12	Office Machines A/c Dr. To Bank A/c (Office machine purchased)		20,000	20,000
June 18	Rent A/c Dr. To Bank A/c (Rent paid)		5,000	5,000
June 20	Mohit Bros A/c Dr. To Sales A/c (Goods sold on credit)		10,000	10,000
	Total c/f		3,45,000	3,45,000

	Total b/f		3,45,000	3,45,000
June 22	Cash A/c Dr. To Sales A/c (Goods sold for cash)		15,000	15,000
June 25	Gulmohar Fashion House A/c Dr. To Cash A/c (Cash paid to Gulmohar Fashion House)		30,000	30,000
June 28	Bank A/c Dr. To Mohit Bros A/c (Payment received in full and final settlement)		10,000	10,000
June 30	Salary A/c Dr. To Cash A/c (Monthly salary paid)		6,000	6,000
	Total		4,06,000	4,06,000

(ii) Posting in the Ledger Book

**Cash Account**

Dr.				Cr.			
Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
2017 June 5 June 22	Capital Sales		2,00,000 15,000	2017 June 8 June 25 June 30	Bank Gulmohar Fashion House Salary		80,000 30,000 6,000

**Capital Account**

Dr.				Cr.			
Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
				2017 June 5	Cash		2,00,000

**Bank Account**

Dr.				Cr.			
Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
2017 June 08 June 28	Cash Mohit Bros.		80,000 10,000	2017 June 12 June 18	Office Machines Rent		30,000 5,000

**Purchases Account**

<b>Dr.</b>				<b>Cr.</b>			
<i>Date</i>	<i>Particulars</i>	<i>J.F.</i>	<i>Amount Rs.</i>	<i>Date</i>	<i>Particulars</i>	<i>J.F.</i>	<i>Amount Rs.</i>
2017 June 12	Gulmohar Fashion House		30,000	2017			

**Gulmohar Fashion House Account**

<b>Dr.</b>				<b>Cr.</b>			
<i>Date</i>	<i>Particulars</i>	<i>J.F.</i>	<i>Amount Rs.</i>	<i>Date</i>	<i>Particulars</i>	<i>J.F.</i>	<i>Amount Rs.</i>
2017 June 25	Cash		30,000	2017 June 12	Purchases		30,000

**Office Machines Account**

<b>Dr.</b>				<b>Cr.</b>			
<i>Date</i>	<i>Particulars</i>	<i>J.F.</i>	<i>Amount Rs.</i>	<i>Date</i>	<i>Particulars</i>	<i>J.F.</i>	<i>Amount Rs.</i>
2017 June 12	Bank		20,000				

**Rent Account**

<b>Dr.</b>				<b>Cr.</b>			
<i>Date</i>	<i>Particulars</i>	<i>J.F.</i>	<i>Amount Rs.</i>	<i>Date</i>	<i>Particulars</i>	<i>J.F.</i>	<i>Amount Rs.</i>
2017 June 18	Bank		5,000				

**Mohit Bros. Account**

<b>Dr.</b>				<b>Cr.</b>			
<i>Date</i>	<i>Particulars</i>	<i>J.F.</i>	<i>Amount Rs.</i>	<i>Date</i>	<i>Particulars</i>	<i>J.F.</i>	<i>Amount Rs.</i>
2017 June 20	Sales		10,000	2017 June 28	Cash		10,000

**Sales Account**

<b>Dr.</b>				<b>Cr.</b>			
<i>Date</i>	<i>Particulars</i>	<i>J.F.</i>	<i>Amount Rs.</i>	<i>Date</i>	<i>Particulars</i>	<i>J.F.</i>	<i>Amount Rs.</i>
2017 June 20				2017 June 20	Mohit Bros.		10,000
				June 22	Cash		15,000

**Salary Account**

<b>Dr.</b>				<b>Cr.</b>			
<i>Date</i>	<i>Particulars</i>	<i>J.F.</i>	<i>Amount Rs.</i>	<i>Date</i>	<i>Particulars</i>	<i>J.F.</i>	<i>Amount Rs.</i>
2017 June 30	Cash		6,000				

*Illustrtion 5*

Journalise the following transactions of M/s Time Zone and post them to the ledger accounts :

<i>Date</i>	<i>Details</i>	<i>Amount Rs.</i>
2017		
Dec. 01	Business started with cash	1,20,000
Dec. 02	Opened a bank account with ICICI	4,00,00
Dec. 04	Goods purchased for cash	12,000
Dec. 10	Paid cartage	500
Dec. 12	Goods sold on credit to M/s Lara India	25,000
Dec. 14	Cash received from M/s Lara India	10,000
Dec. 16	Goods returned from Lara India	3,000
Dec. 18	Paid trade expenses	700
Dec. 19	Goods purchased on credit from Taranum	32,000
Dec. 20	Cheque received from M/s Lara India for final settlement and deposited sameday into bank	11,500
Dec. 22	Goods returned to Taranum	1,500
Dec. 24	Paid for stationery	1,200
Dec. 26	Cheque given to Taranum on account	20,000
Dec. 28	Paid rent by cheque	4,000
Dec. 29	Drew cash for personal use	10,000
Dec. 30	Cash sales	12,000
Dec. 31	Goods sold to M/s Rupak Traders	11,000

*Solution***Books of Time Zone  
Journal**

<i>Date</i>	<i>Particulars</i>	<i>L.F.</i>	<i>Debit Amount Rs.</i>	<i>Credit Amount Rs.</i>
2017 Dec. 01	Cash A/c Dr. To Capital A/c ( Business started with cash)		1,20,000	1,20,000
02	Bank A/c Dr. To Cash A/c (Opened a current account with ICICI bank)		40,000	40,000
04	Purchases A/c Dr. To Cash A/c (Goods purchased for cash)		12,000	12,000
	Total c/f		1,72,000	1,72,000

	Total b/f		1,72,000	1,72,000
10	Cartage A/c Dr. To Cash A/c (Cartage paid)		500	500
12	Lara India A/c Dr. To Sales A/c (Goods sold on credit)		25,000	25,000
14	Cash A/c Dr. To Lara India A/c (Cash received from Lara India)		10,000	10,000
16	Sales Return A/c Dr. To Lara India A/c (Goods returned from Lara India)		3,000	3,000
18	Trade Expenses A/c Dr. To Cash A/c (Trade expenses paid)		700	700
19	Purchases A/c Dr. To Tranum's A/c (Goods purchased on credit)		32,000	32,000
20	Bank A/c Dr. Discount A/c Dr. To Lara India A/c (Cheque received for final settlement)		11,500 500	12,000
22	Taranum's A/c Dr. To Purchase Return's A/c (Goods returned to Tranum)		1,500	1,500
24	Stationery A/c Dr. To Cash A/c (Cash paid for stationery)		1,200	1,200
26	Taranum's A/c Dr. To Bank A/c (Cheque given to Tranum)		20,000	20,000
28	Rent A/c Dr. To Bank A/c (Rent paid by cheque)		4,000	4,000
29	Drawings A/c Dr. To Cash A/c (Cash withdrawn for personal use)		10,000	10,000
30	Cash A/c Dr. To Sales A/c (Goods sold for cash)		12,000	12,000
31	Rupak Trader A/c Dr. To Sales A/c (Goods sold on credit)		11,000	11,000
	Total		3,14,900	3,14, 900

Posting in the Ledger Book :

**Cash Account**

<b>Dr.</b>				<b>Cr.</b>			
<i>Date</i>	<i>Particulars</i>	<i>J.F.</i>	<i>Amount Rs.</i>	<i>Date</i>	<i>Particulars</i>	<i>J.F.</i>	<i>Amount Rs.</i>
2017 Dec. 01 Dec. 14 Dec. 30	Capital Lara India Sales		1,20,000 10,000 12,000	2017 Dec. 02 Dec. 04 Dec. 10 Dec. 18 Dec. 24. Dec. 29	Bank Purchase Cartage Trade Expenses Stationery Drawings		40,000 12,000 500 700 1,200 1,000

**Capital Account**

<b>Dr.</b>				<b>Cr.</b>			
<i>Date</i>	<i>Particulars</i>	<i>J.F.</i>	<i>Amount Rs.</i>	<i>Date</i>	<i>Particulars</i>	<i>J.F.</i>	<i>Amount Rs.</i>
				2017 Dec.01	Cash		1,20,000

**Bank Account**

<b>Dr.</b>				<b>Cr.</b>			
<i>Date</i>	<i>Particulars</i>	<i>J.F.</i>	<i>Amount Rs.</i>	<i>Date</i>	<i>Particulars</i>	<i>J.F.</i>	<i>Amount Rs.</i>
2017 Dec.02 Dec.20	Cash Lara India		40,000 11,500	2017 Dec.26 Dec.28	Taranum's Rent		20,000 4,000

**Purchases Account**

<b>Dr.</b>				<b>Cr.</b>			
<i>Date</i>	<i>Particulars</i>	<i>J.F.</i>	<i>Amount Rs.</i>	<i>Date</i>	<i>Particulars</i>	<i>J.F.</i>	<i>Amount Rs.</i>
2017 Dec.04 Dec.19	Cash Taranum		12,000 32,000				

**Cartage Account**

<b>Dr.</b>				<b>Cr.</b>			
<i>Date</i>	<i>Particulars</i>	<i>J.F.</i>	<i>Amount Rs.</i>	<i>Date</i>	<i>Particulars</i>	<i>J.F.</i>	<i>Amount Rs.</i>
2017 Dec.10	Cash		500				

**Lara India Account**

<b>Dr.</b>				<b>Cr.</b>			
<i>Date</i>	<i>Particulars</i>	<i>J.F.</i>	<i>Amount Rs.</i>	<i>Date</i>	<i>Particulars</i>	<i>J.F.</i>	<i>Amount Rs.</i>
2017 Dec.12	Sales		25,000	2017 Dec. 14	Cash		10,000
				Dec. 16	Sales return		3,000
				Dec. 20	Bank		11,500
					Discount		500

**Sales Account**

<b>Dr.</b>				<b>Cr.</b>			
<i>Date</i>	<i>Particulars</i>	<i>J.F.</i>	<i>Amount Rs.</i>	<i>Date</i>	<i>Particulars</i>	<i>J.F.</i>	<i>Amount Rs.</i>
				2017 Dec.12	Lara India		25,000
				Dec.30	Cash		12,000
				Dec.31	Rupak Traders		11,000

**Sales Return Account**

<b>Dr.</b>				<b>Cr.</b>			
<i>Date</i>	<i>Particulars</i>	<i>J.F.</i>	<i>Amount Rs.</i>	<i>Date</i>	<i>Particulars</i>	<i>J.F.</i>	<i>Amount Rs.</i>
2017 Dec.16	Lara India		3,000				

**Trade Expenses Account**

<b>Dr.</b>				<b>Cr.</b>			
<i>Date</i>	<i>Particulars</i>	<i>J.F.</i>	<i>Amount Rs.</i>	<i>Date</i>	<i>Particulars</i>	<i>J.F.</i>	<i>Amount Rs.</i>
2017 Dec.18	Cash		700				

**Taranum Account**

<b>Dr.</b>				<b>Cr.</b>			
<i>Date</i>	<i>Particulars</i>	<i>J.F.</i>	<i>Amount Rs.</i>	<i>Date</i>	<i>Particulars</i>	<i>J.F.</i>	<i>Amount Rs.</i>
2017 Dec.22	Purchase		1,500	2017 Dec.19	Purchase		32,000
Dec.26	Return Bank		20,000				

**Discount Paid Account**

<b>Dr.</b>				<b>Cr.</b>			
<i>Date</i>	<i>Particulars</i>	<i>J.F.</i>	<i>Amount Rs.</i>	<i>Date</i>	<i>Particulars</i>	<i>J.F.</i>	<i>Amount Rs.</i>
2017 Dec.20	Lara India		500				

**Purchases Return Account**

<b>Dr.</b>				<b>Cr.</b>			
<i>Date</i>	<i>Particulars</i>	<i>J.F.</i>	<i>Amount Rs.</i>	<i>Date</i>	<i>Particulars</i>	<i>J.F.</i>	<i>Amount Rs.</i>
				2017 Dec.22	Taranum		1,500

**Stationery Account**

<b>Dr.</b>				<b>Cr.</b>			
<i>Date</i>	<i>Particulars</i>	<i>J.F.</i>	<i>Amount Rs.</i>	<i>Date</i>	<i>Particulars</i>	<i>J.F.</i>	<i>Amount Rs.</i>
2017 Dec.	Cash		1,200				

**Rent Account**

<b>Dr.</b>				<b>Cr.</b>			
<i>Date</i>	<i>Particulars</i>	<i>J.F.</i>	<i>Amount Rs.</i>	<i>Date</i>	<i>Particulars</i>	<i>J.F.</i>	<i>Amount Rs.</i>
2017 Dec. 28	Bank		4,000				

**Drawings Account**

<b>Dr.</b>				<b>Cr.</b>			
<i>Date</i>	<i>Particulars</i>	<i>J.F.</i>	<i>Amount Rs.</i>	<i>Date</i>	<i>Particulars</i>	<i>J.F.</i>	<i>Amount Rs.</i>
2017 Dec. 29	Cash		10,000				

**Rupak Traders Account**

<b>Dr.</b>				<b>Cr.</b>			
<i>Date</i>	<i>Particulars</i>	<i>J.F.</i>	<i>Amount Rs.</i>	<i>Date</i>	<i>Particulars</i>	<i>J.F.</i>	<i>Amount Rs.</i>
2017 Dec. 31	Sales		11,000				



**Test Your Understanding - V**

*Select Right Answer:*

1. Voucher is prepared for:
  - (i) Cash received and paid
  - (ii) Cash/Credit sales
  - (iii) Cash/Credit purchase
  - (iv) All of the above
2. Voucher is prepared from:
  - (i) Documentary evidence
  - (ii) Journal entry
  - (iii) Ledger account
  - (iv) All of the above
3. How many sides does an account have?
  - (i) Two
  - (ii) Three
  - (iii) one
  - (iv) None of These
4. A purchase of machine for cash should be debited to:
  - (i) Cash account
  - (ii) Machine account
  - (iii) Purchase account
  - (iv) None of these
5. Which of the following is correct?
  - (i) Liabilities = Assets + Capital
  - (ii) Assets = Liabilities - Capital
  - (iii) Capital = Assets - Liabilities
  - (iv) Capital = Assets + Liabilities.
6. Cash withdrawn by the Proprietor should be credited to:
  - (i) Drawings account
  - (ii) Capital account
  - (iii) Profit and loss account
  - (iv) Cash account
7. Find the correct statement:
  - (i) Credit a decrease in assets
  - (ii) Credit the increase in expenses
  - (iii) Debit the increase in revenue
  - (iv) Credit the increase in capital
8. The book in which all accounts are maintained is known as:
  - (i) Cash Book
  - (ii) Journal
  - (iii) Purchases Book
  - (iv) Ledger
9. Recording of transaction in the Journal is called:
  - (i) Casting
  - (ii) Posting
  - (iii) Journalising
  - (iv) Recording

**Key Terms Introduced in the Chapter**

- Source Documents
- Accounting Equation
- Books of Original Entry
- Journalising and Posting
- Double Entry Book Keeping
- Credit
- Debit
- Account
- Ledger
- Journal

**Summary with Reference to Learning Objectives**

1. *Meaning of source documents* : Various business documents such as invoice, bills, cash memos, vouchers, which form the basis and evidence of a business transaction recorded in the books of account, are called source documents.
2. *Meaning of accounting equation* : A statement of equality between debits and credits signifying that the assets of a business are always equal to the total liabilities and capital.
3. *Rules of debit and credit* : An account is divided into two sides. The left side of an account is known as debit and the credit. The rules of debit and credit depend on the nature of an account. Debit and Credit both represent either increase or decrease, depending on the nature of an account. These rules are summarised as follows :

<i>Name of an account</i>	<i>Debit</i>	<i>Credit</i>
Assets	Increase	Decrease
Liabilities	Decrease	Increase
Capital	Decrease	Increase
Revenues	Decrease	Increase
Expenses	increase	Decrease

4. *Books of Original entry* : The transactions are first recorded in these books in a chronological order. Journal is one of the books of original entry. The process of recording entries in the journal is called *journalising*.
5. *Ledger* : A book containing all accounts to which entries are transferred from the books of original entry. *Posting* is process of transferring entries from books of original entry to the ledger.

**Questions for Practice****Short Answers**

1. State the three fundamental steps in the accounting process.
2. Why is the evidence provided by source documents important to accounting?
3. Should a transaction be first recorded in a journal or ledger? Why?
4. Are debits or credits listed first in journal entries? Are debits or credits indented?
5. Why are some accounting systems called double accounting systems?
6. Give a specimen of an account.

7. Why are the rules of debit and credit same for both liability and capital?
8. What is the purpose of posting J.F numbers that are entered in the journal at the time entries are posted to the accounts.
9. What entry (debit or credit) would you make to: (a) increase revenue (b) decrease in expense, (c) record drawings (d) record the fresh capital introduced by the owner.
10. If a transaction has the effect of decreasing an asset, is the decrease recorded as a debit or as a credit? If the transaction has the effect of decreasing a liability, is the decrease recorded as a debit or as a credit?

*Long Answers*

1. Describe the events recorded in accounting systems and the importance of source documents in those systems?
2. Describe how debits and credits are used to analyse transactions.
3. Describe how accounts are used to record information about the effects of transactions?
4. What is a journal? Give a specimen of journal showing at least five entries.
5. Differentiate between source documents and vouchers.
6. Accounting equation remains intact under all circumstances. Justify the statement with the help of an example.
7. Explain the double entry mechanism with an illustrative example.

**Numerical Questions**

*Analysis of Transactions*

1. Prepare accounting equation on the basis of the following :
  - (a) Harsha started business with cash  
Rs.2,00,000
  - (b) Purchased goods from Naman for cash  
Rs. 40,000
  - (c) Sold goods to Bhanu costing Rs.10,000/-  
Rs. 12,000
  - (d) Bought furniture on credit  
Rs. 7,000

(Ans: Asset = cash Rs. 1,60,000 + Goods Rs. 30,000 + Debtors Rs. 12,000 + Furniture Rs. 7,000 = Rs. 2,09,000; Liabilities = Creditors Rs. 7,000 + Capital Rs. 2,02,000 = Rs. 2,09,000)
2. Prepare accounting equation from the following:
  - (a) Kunal started business with cash  
Rs.2,50,000
  - (b) He purchased furniture for cash  
Rs. 35,000
  - (c) He paid commission  
Rs. 2,000

(d) He purchases goods on credit Rs. 40,000

(e) He sold goods (Costing Rs.20,000) for cash Rs. 26,000

(Ans: Asset = Cash Rs. 2,39,000 + Furniture Rs. 35,000 + Goods Rs. 20,000 = Rs. 2,94,000; Liabilities = Creditors Rs. 40,000 + Capital Rs. 2,54,000 = Rs. 2,94,000)

3. Mohit has the following transactions, prepare accounting equation:

(a) Business started with cash Rs. 1,75,000

(b) Purchased goods from Rohit Rs. 50,000

(c) Sales goods on credit to Manish (Costing Rs. 17,500) Rs. 20,000

(d) Purchased furniture for office use Rs. 10,000

(e) Cash paid to Rohit in full settlement Rs. 48,500

(f) Cash received from Manish Rs. 20,000

(g) Rent paid Rs. 1,000

(h) Cash withdrew for personal use Rs. 3,000

(Ans: Cash Rs. 1,32,500 + Goods Rs. 32,500 + Furniture Rs. 10,000 = Rs. 1,75,000; Liabilition = Capital Rs. 1,75,000)

4. Rohit has the following transactions :

(a) Commenced business with cash Rs.1,50,000

(b) Purchased machinery on credit Rs. 40,000

(c) Purchased goods for cash Rs. 20,000

(d) Purchased car for personal use Rs. 80,000

(e) Paid to creditors in full settlement Rs. 38,000

(f) Sold goods for cash costing Rs. 5,000 Rs. 4,500

(g) Paid rent Rs. 1,000

(h) Commission received in advance Rs. 2,000

Prepare the Accounting Equation to show the effect of the above transactions on the assets, liabilities and capital.

(Ans: Assets = Cash Rs. 17,500 + Machine Rs. 40,000 + Goods Rs. 15,000 = Rs. 72,500; Liabilities = Commission Rs. 2,000 + Capital Rs. 70,500 = Rs. 72,500)

5. Use accounting equation to show the effect of the following transactions of M/s Royal Traders:

(a) Started business with cash Rs.1,20,000

(b) Purchased goods for cash Rs. 10,000

(c) Rent received Rs. 5,000

(d) Salary outstanding Rs. 2,000

(e) Prepaid Insurance Rs. 1,000

(f) Received interest Rs. 700

- (g) Sold goods for cash (Costing Rs. 5,000) Rs. 7,000  
 (h) Goods destroyed by fire Rs. 500

(Ans: Assets = Cash Rs. 1,21,200 + Goods Rs. 4,500 + Prepaid insurance Rs. 1,000; Liabilities = Outstanding salary Rs. 2,000 + Capital Rs. 1,25,200)

6. Show the accounting equation on the basis of the following transaction:

- (a) Udit started business with:

- (i) Cash Rs. 5,00,000  
 (ii) Goods Rs. 1,00,000

- (b) Purchased building for cash Rs. 2, 00,000  
 (c) Purchased goods from Himani Rs. 50,000  
 (d) Sold goods to Ashu (Cost Rs. 25,000) Rs. 36, 000  
 (e) Paid insurance premium Rs. 3,000  
 (f) Rent outstanding Rs. 5,000  
 (g) Depreciation on building Rs. 8,000  
 (h) Cash withdrawn for personal use Rs. 20,000  
 (i) Rent received in advance Rs. 5,000  
 (j) Cash paid to himani on account Rs. 20,000  
 (k) Cash received from Ashu Rs. 30,000

(Ans : Assets = Cash Rs. 2,92,000 + Goods Rs. 1,25,000 + Building Rs. 1,92,000 + Debtors Rs. 6,000 = 6,15,000; Laibilities = Creditors Rs. 30,000 + Outstanding Rent Rs. 5,000 + Accounts receivable Rs. 5,000 + Capital Rs. 5,75,000 = Rs. 6,15,000)

7. Show the effect of the following transactions on Assets, Liabilities and Capital through accounting equation:

- (a) Started business with cash Rs. 1,20,000  
 (b) Rent received Rs. 10,000  
 (c) Invested in shares Rs. 50,000  
 (d) Received dividend Rs. 5,000  
 (e) Purchase goods on credit from Ragani Rs. 35,000  
 (f) Paid cash for house hold Expenses Rs. 7,000  
 (g) Sold goods for cash (costing Rs.10,000) Rs. 14,000  
 (h) Cash paid to Ragani Rs. 35,000  
 (i) Deposited into bank Rs. 20,000

(Ans: Assets = Cash Rs. 37,000 + Shares Rs. 50,000 + Goods Rs. 25,000 + Bank Rs. 20,000 = Rs. 1,32,000; Liabilities = Capital Rs. 1,32,000)

8. Show the effect of following transaction on the accounting equation:

- (a) Manoj started business with

- (i) Cash Rs. 2,30,000  
 (ii) Goods Rs. 1,00,000  
 (iii) Building Rs. 2,00,000

(b) He purchased goods for cash	Rs. 50,000
(c) He sold goods (costing Rs.20,000)	Rs. 35,000
(d) He purchased goods from Rahul	Rs. 55,000
(e) He sold goods to Varun (Costing Rs. 52,000)	Rs. 60,000
(f) He paid cash to Rahul in full settlement	Rs. 53,000
(g) Salary paid by him	Rs. 20,000
(h) Received cash from Varun in full settlement	Rs. 59,000
(i) Rent outstanding	Rs. 3,000
(j) Prepaid Insurance	Rs. 2,000
(k) Commission received by him	Rs. 13, 000
(l) Amount withdrawn by him for personal use	Rs. 20,000
(m) Depreciation charge on building	Rs. 10,000
(n) Fresh capital invested	Rs. 50,000
(o) Purchased goods from Rakhi	Rs. 10,000

(Ans: Assets = Cash Rs. 2,42,000 + Goods Rs. 1,43,000 + Building Rs.1,90,000 + Prepaid Insurance Rs. 2,000 = Rs. 5,77,000; Liabilities = Outstanding Rent Rs. 3,000 + Creditor Rs. 10,000 + Capital Rs. 5,64,000 = Rs. 5,77,000)

9. Transactions of M/s Vipin Traders are given below.

Show the effects on Assets, Liabilities and Capital with the help of accounting Equation.

(a) Business started with cash	Rs. 1,25,000
(b) Purchased goods for cash	Rs. 50,000
(c) Purchase furniture from R.K. Furniture	Rs. 10,000
(d) Sold goods to Parul Traders (Costing Rs. 7,000 vide bill no. 5674)	Rs.9,000
(e) Paid cartage	Rs. 100
(f) Cash Paid to R.K. furniture in full settlement	Rs. 9,700
(g) Cash sales (costing Rs.10,000)	Rs. 12,000
(h) Rent received	Rs. 4,000
(i) Cash withdrew for personal use	Rs. 3,000

(Ans: Asset = cash Rs. 78,200 + Goods Rs. 33,000 + Furniture Rs. 10,000 Debtors Rs. 9,000 = Rs. 1,30,200; Liabilities = Capital Rs. 1,30,200)

10. Bobby opened a consulting firm and completed these transactions during November, 2017:

- Invested Rs. 4,00,000 cash and office equipment with Rs. 1,50,000 in a business called Bobbie Consulting.
- Purchased land and a small office building. The land was worth Rs. 1,50,000 and the building worth Rs. 3, 50,000. The purchase price

was price was paid with Rs. 2,00,000 cash and a long term note payable for Rs. 3,00,000.

- (c) Purchased office supplies on credit for Rs. 12,000.
- (d) Bobbie transferred title of motor car to the business. The motor car was worth Rs. 90,000.
- (e) Purchased for Rs. 30,000 additional office equipment on credit.
- (f) Paid Rs. 75,00 salary to the office manager.
- (g) Provided services to a client and collected Rs. 30,000
- (h) Paid Rs. 4,000 for the month's utilities.
- (i) Paid supplier created in transaction c.
- (j) Purchase new office equipment by paying Rs. 93,000 cash and trading in old equipment with a recorded cost of Rs. 7,000.
- (k) Completed services of a client for Rs. 26,000. This amount is to be paid within 30 days.
- (l) Received Rs. 19,000 payment from the client created in transaction **k**.
- (m) Bobby withdrew Rs. 20,000 from the business.

Analyse the above stated transactions and open the following **T**-accounts:  
Cash, client, office supplies, motor car, building, land, long term payables, capital, withdrawals, salary, expense and utilities expense.

### Journalising

11. Journalise the following transactions in the books of Himanshu:

2017		Rs.
Dec.01	Business started with cash	75,000
Dec.07	Purchased goods for cash	10,000
Dec.09	Sold goods to Swati	5,000
Dec.12	Purchased furniture	3,000
Dec.18	Cash received from Swati In full settlement	4,000
Dec.25	Paid rent	1,000
Dec.30	Paid salary	1,500

12. Enter the following Transactions in the Journal of Mudit :

2017		Rs.
Jan.01	Commenced business with cash	1,75,000
Jan.01	Building	1,00,000
Jan.02	Goods purchased for cash	75,000
Jan.03	Sold goods to Ramesh	30,000
Jan.04	Paid wages	500
Jan.06	Sold goods for cash	10,000
Jan.10	Paid for trade expenses	700

- |        |                            |        |
|--------|----------------------------|--------|
| Jan.12 | Cash received from Ramesh  | 29,500 |
|        | Discount allowed           | 500    |
| Jan.14 | Goods purchased for Sudhir | 27,000 |
| Jan.18 | Cartage paid               | 1,000  |
| Jan.20 | Drew cash for personal use | 5,000  |
| Jan.22 | Goods use for house hold   | 2,000  |
| Jan.25 | Cash paid to Sudhir        | 26,700 |
|        | Discount allowed           | 300    |
13. Journalise the following transactions:
- | 2017    |                                   | Rs.      |
|---------|-----------------------------------|----------|
| Dec. 01 | Hema started business with cash   | 1,00,000 |
| Dec. 02 | Open a bank account with SBI      | 30,000   |
| Dec. 04 | Purchased goods from Ashu         | 20,000   |
| Dec.06  | Sold goods to Rahul for cash      | 15,000   |
| Dec.10  | Bought goods from Tara for cash   | 40,000   |
| Dec.13  | Sold goods to Suman               | 20,000   |
| Dec.16  | Received cheque from Suman        | 19,500   |
|         | Discount allowed                  | 500      |
| Dec.20  | Cheque given to Ashu on account   | 10,000   |
| Dec.22  | Rent paid by cheque               | 2,000    |
| Dec.23  | Deposited into bank               | 16,000   |
| Dec.25  | Machine purchased from Parigya    | 10,000   |
| Dec.26  | Trade expenses                    | 2,000    |
| Dec.28  | Cheque issued to Parigya          | 10,000   |
| Dec.29  | Paid telephone expenses by cheque | 1,200    |
| Dec.31  | Paid salary                       | 4,500    |
14. Journalise the following transactions in the books of Harpreet Bros.:
- Rs.1,000 due from Rohit are now bad debts.
  - Goods worth Rs.2,000 were used by the proprietor.
  - Charge depreciation @ 10% p.a for two month on machine costing Rs.30,000.
  - Provide interest on capital of Rs. 1,50,000 at 6% p.a. for 9 months.
  - Rahul become insolvent, who owed is Rs. 2,000 a final dividend of 60 paise in a rupee is received from his estate.
15. Prepare Journal from the transactions given below :
- |   |           |
|---|-----------|
| (a) Cash paid for installation of machine | Rs. 500   |
| (b) Goods given as charity                | Rs. 2,000 |



(c) Interest charge on capital @7% p.a. when total capital were	Rs.70,000
(d) Received Rs.1,200 of a bad debts written-off last year.	
(e) Goods destroyed by fire	Rs. 2,000
(f) Rent outstanding	Rs. 1,000
(g) Interest on drawings	Rs. 900
(h) Sudhir Kumar who owed me Rs. 3,000 has failed to pay the amount. He pays me a compensation of 45 paise in a rupee.	
(i) Commission received in advance	Rs. 7,000

*Posting*

16. Journalise the following transactions, post to the ledger:

2017		Rs.
Nov. 01	Business started with (i) Cash	1,50,000
	(ii) Goods	50,000
Nov. 03	Purchased goods from Harish	30,000
Nov. 05	Sold goods for cash	12,000
Nov. 08	Purchase furniture for cash	5,000
Nov. 10	Cash paid to Harish on account	15,000
Nov. 13	Paid sundry expenses	200
Nov. 15	Cash sales	15,000
Nov. 18	Deposited into bank	5,000
Nov. 20	Drew cash for personal use	1,000
Nov. 22	Cash paid to Harish in full settlement of account	14,700
Nov. 25	Good sold to Nitesh	7,000
Nov. 26	Cartage paid	200
Nov. 27	Rent paid	1,500
Nov. 29	Received cash from Nitesh	6,800
	Discount allowed	200
Nov. 30	Salary paid	3,000

17. Journalise the following transactions is the journal of M/s Goel Brothers and post them to the ledger.

2017		Rs.
Jan. 01	Started business with cash	1,65,000
Jan. 02	Opened bank account in PNB	80,000
Jan. 04	Goods purchased from Tara	22,000
Jan. 05	Goods purchased for cash	30,000
Jan. 08	Goods sold to Naman	12,000
Jan. 10	Cash paid to tara	22,000

Jan. 15	Cash received from Naman	11,700
	Discount allowed	300
Jan. 16	Paid wages	200
Jan. 18	Furniture purchased for office use	5,000
Jan. 20	withdrawn from bank for personal use	4,000
Jan. 22	Issued cheque for rent	3,000
Jan. 23	goods issued for house hold purpose	2,000
Jan. 24	drawn cash from bank for office use	6,000
Jan. 26	Commission received	1,000
Jan. 27	Bank charges	200
Jan. 28	Cheque given for insurance premium	3,000
Jan. 29	Paid salary	7,000
Jan. 30	Cash sales	10,000

- 18 Give journal entries of M/s Mohit traders, Post them to the Ledger from the following transactions :

August 2017		Rs.
1.	Commenced business with cash	1,10,000
2.	Opened bank account with H.D.F.C.	50,000
3.	Purchased furniture	20,000
7.	Bought goods for cash from M/s Rupa Traders	30,000
8.	Purchased good from M/s Hema Traders	42,000
10.	Sold goods for cash	30,000
14.	Sold goods on credit to M/s. Gupta Traders	12,000
16.	Rent paid	4,000
18.	Paid trade expenses	1,000
20.	Received cash from Gupta Traders	12,000
22.	Goods return to Hema Traders	2,000
23.	Cash paid to Hema Traders	40,000
25.	Bought postage stamps	100
30.	Paid salary to Rishabh	4,000

19. Journalise the following transaction in the Books of the M/s Bhanu Traders and Post them into the Ledger.

December, 2017		Rs.
1.	Started business with cash	92,000
2.	Deposited into bank	60,000
4.	Bought goods on credit from Himani	40,000
6.	Purchased goods from cash	20,000
8.	Returned goods to Himani	4,000
10.	Sold goods for cash	20,000
14.	Cheque given to Himani	36,000

- |  |          |
|--|----------|
| 17. Goods sold to M/s Goyal Traders.     | 3,50,000 |
| 19. Drew cash from bank for personal use | 2,000    |
| 21. Goyal traders returned goods         | 3,500    |
| 22. Cash deposited into bank             | 20,000   |
| 26. Cheque received from Goyal Traders   | 31,500   |
| 28. Goods given as charity               | 2,000    |
| 29. Rent paid                            | 3,000    |
| 30. Salary paid                          | 7,000    |
| 31. Office machine purchased for cash    | 3,000    |
20. Journalise the following transaction in the Book of M/s Beauti traders. Also post them in the ledger.
- | Dec. 2017  | Rs.      |
|--|----------|
| 1. Started business with cash                    | 2,00,000 |
| 2. Bought office furniture                       | 30,000   |
| 3. Paid into bank to open an current account     | 1,00,000 |
| 5. Purchased a computer and paid by cheque       | 2,50,000 |
| 6. Bought goods on credit from Ritika            | 60,000   |
| 8. Cash sales                                    | 30,000   |
| 9. Sold goods to Karishna on credit              | 25,000   |
| 12. Cash paid to Mansi on account                | 30,000   |
| 14. Goods returned to Ritika                     | 2,000    |
| 15. Stationery purchased for cash                | 3,000    |
| 16. Paid wages                                   | 1,000    |
| 18. Goods returned by Karishna                   | 2,000    |
| 20. Cheque given to Ritika                       | 28,000   |
| 22. Cash received from Karishna on account       | 15,000   |
| 24. Insurance premium paid by cheque             | 4,000    |
| 26. Cheque received from Karishna                | 8,000    |
| 28. Rent paid by cheque                          | 3,000    |
| 29. Purchased goods on credit from Meena Traders | 20,000   |
| 30. Cash sales                                   | 14,000   |
21. Journalise the following transaction in the books of Sanjana and post them into the ledger :
- | January, 2017   | Rs.    |
|-----------------|--------|
| 1. Cash in hand | 6,000  |
| Cash at bank    | 55,000 |
| Stock of goods  | 40,000 |
| Due to Rohan    | 6,000  |
| Due from Tarun  | 10,000 |

- |   |        |
|---|--------|
| 3. Sold goods to Karuna                 | 15,000 |
| 4. Cash sales                           | 10,000 |
| 6. Goods sold to Heena                  | 5,000  |
| 8. Purchased goods from Rupali          | 30,000 |
| 10. Goods returned from Karuna          | 2,000  |
| 14. Cash received from Karuna           | 13,000 |
| 15. Cheque given to Rohan               | 6,000  |
| 16. Cash received from Heena            | 3,000  |
| 20. Cheque received from Tarun          | 10,000 |
| 22. Cheque received from to Heena       | 2,000  |
| 25. Cash given to Rupali                | 18,000 |
| 26. Paid cartage                        | 1,000  |
| 27. Paid salary                         | 8,000  |
| 28. Cash sale                           | 7,000  |
| 29. Cheque given to Rupali              | 12,000 |
| 30. Sanjana took goods for Personal use | 4,000  |
| 31. Paid General expense                | 500    |
22. Record journal entries for the following transactions in the books of Anudeep of Delhi:
- Bought goods Rs. 2,00,000 from Kanta of Delhi (CGST @ 9%, SGST @ 9%)
  - Bought goods Rs. 1,00,000 for cash from Rajasthan (IGST @ 12%)
  - Sold goods Rs. 1,50,000 to Sudhir of Punjab (IGST @ 18%)
  - Paid for Railway Transport Rs. 10,000 (CGST @ 5%, SGST @ 5%)
  - Sold goods Rs. 1,20,000 to Sidhu of Delhi (CGST @ 9%, SGST @ 9%)
  - Bought Air-Condition for office use Rs. 60,000 (CGST @ 9%, SGST @ 9%)
  - Sold goods Rs. 1,50,000 for cash to Sunil to Uttar Pradesh (IGST 18%)
  - Bought Motor Cycle for business use Rs. 50,000 (CGST 14%, SGST @ 14%)
  - Paid for Broadband services Rs. 4,000 (CGST @ 9%, SGST @ 0%)
  - Bought goods Rs. 50,000 from Rajesh, Delhi (CGST @ 9%, SGST @ 9%)

### **Checklist to Test Your Understanding**

#### *Test Your Understanding - I*

- (iii), 2 (Capital increases by net profit and fresh capital introduced, decreases by drawings and net loss), 3 (No), 4 (ii)

#### *Test Your Understanding - II*

- Cash account and capital account, Assets and Liabilities, Assest increase and capital increase.
- Purchase account and Remesh account, Expenses and Liabilities, Expenses and Liabilities increases.

3. Cash account and sales account, Assets and Revenues, Assets and Revenues increases.
4. Salaries account and cash account, Expense and Assets, Expenses increases Assets decreases.
5. Furniture account and Cash account, Asset increases Asset decreases.
6. Loan account and Bank, Liability and Asset, Liabilities increases Asset decreases.
7. Sarita account and Sales account, Asset and Revenue, Assets decreases Revenue decreases.
8. Ramesh account and Cash, liabilities and Assets, Liabilities decreases Assets increases.
9. Rent account and Cash account, Expense and Assets, Expenses increases Assets decreases.

*Test Your Understanding - III*

1(d), 2(d), 3(b), 4(b), 5(d), 6(c), 7(a)

*Test your understanding - IV*

- |            |              |                      |
|------------|--------------|----------------------|
| 1. Rent    | 2. Debtors   | 3. Cash              |
| 4. Machine | 5. Creditors | 6. Office stationary |
| 7. Debtors |              |                      |

*Test Your Understanding - V*

1 (iv), 2 (i), 3 (i), 4 (ii), 5 (iii), 6 (iv), 7 (iv), 8 (iv), 9 (iii).