

**UNIT 2 JOURNALISING TRANSACTIONS
MODULE - 1**

UNIT 2 JOURNALISING TRANSACTIONS

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2.0 INTRODUCTION

Accounting is the art of recording, classifying and summarising financial transactions and interpreting the results therefore. Thus, the accounting process or cycle involves the following stages:

1. **Recording of transactions.** This is done in the book termed as 'Journal'.
2. **Classifying the transactions.** This is done in the book termed as 'Ledger'.
3. **Summarising the transactions.** This includes preparation of the trial balance, profit and loss account and balance sheet of the business.
4. **Interpreting the results.** This involves computation of various accounting ratios, etc., to know about the liquidity, solvency and profitability of business. The recording of transactions in the Journal is being explained in this unit.

2.1 UNIT OBJECTIVES

After going through this unit, you will be able to:

- Identify the stages of the accounting cycle
- Appreciate the role of the Journal in recording business transactions
- Understand the rules of debit and credit applicable to different types of business transactions
- Describe the various categories of accounts
- Pass appropriate entries for recording transactions in the Journal

2.2 JOURNAL

The Journal records all daily transactions of a business in the order in which they occur. A Journal may therefore be defined as a book containing a chronological record of transactions. It is the book in which the transactions are recorded first of all under the double entry system. Thus, the Journal is the book of original record. A Journal does not replace but precedes the Ledger. The process of recording transactions in a Journal, is termed as Journalising. A pro forma of a journal is given below:

JOURNAL

<i>Date</i>	<i>Particulars</i>	<i>L.F.</i>	<i>Debit Rs</i>	<i>Credit Rs</i>
(1)	(2)	(3)	(4)	(5)

NOTES

1. **Date.** The date on which the transaction was entered is recorded here.
2. **Particulars.** The two aspects of transaction are recorded in this column, i.e., the details regarding accounts which have to be debited and credited.
3. **L.F.** It means Ledger Folio. The transactions entered in the Journal are later on posted to the ledger. The relevant ledger folio is entered here. Procedure regarding posting the transactions in the Ledger has been explained in the next chapter.
4. **Debit.** In this column, the amount to be debited is entered.
5. **Credit.** In this column, the amount to be credited is shown.

2.3 RULES OF DEBIT AND CREDIT

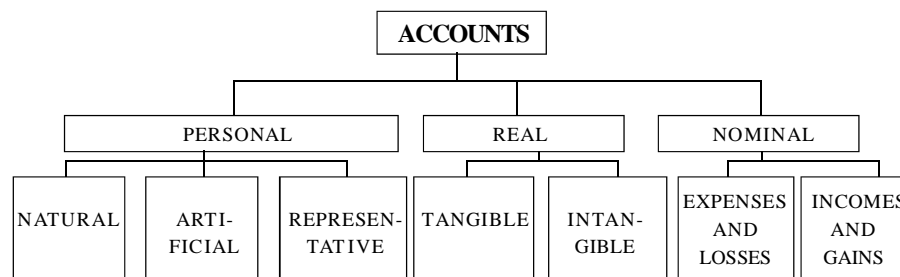
The transactions in the Journal are recorded on the basis of the rules of debit and credit. For this purpose business transactions have been classified into three categories:

- (i) Transactions relating to persons
- (ii) Transactions relating to properties and assets
- (iii) Transactions relating to incomes and expenses

On this basis, it becomes necessary for the business to keep an account of:

- (i) Each person with whom it deals
- (ii) Each property or asset which the business owns
- (iii) Each item of income or expense

The accounts falling under the first heading are called as 'Personal Accounts'. The accounts falling under the second heading are termed as 'Real Accounts'. The accounts falling under the third heading are termed as 'Nominal Accounts'. The classification of the accounts, as explained above, can be put in the form of the following chart:



Each of the above categories of accounts and the relevant rule for 'debit and credit' have been explained in detail in the following pages:

Personal accounts. Personal accounts include the accounts of persons with whom the business deals. These accounts can be classified into the three categories:

1. *Natural Personal Accounts.* The term 'Natural Persons' means persons who are the creation of God, e.g., Mohan's Account, Sohan's Account, Abha's Account etc.

2. *Artificial Personal Accounts.* These accounts include accounts of corporate bodies or institutions which are recognised as persons in business dealings, for example, the account of a Limited Company, the account of a Co-operative Society, the account of a Club, the account of Government, the account of an Insurance Company etc.

3. *Representative Personal Accounts.* These are accounts which represent a certain person or group of persons. For example, if the rent is due to the landlord, an outstanding rent account will be opened in the books. Similarly, for salaries due to the employees (not paid), an outstanding salaries account will be opened. The outstanding rent account represents the account of the landlord to whom the rent is to be paid while the outstanding salaries account represents the accounts of the persons to whom the salaries have to be paid. All such accounts are therefore termed as 'Representative Personal Accounts'.

The rule is:

DEBIT THE RECEIVER CREDIT THE GIVER
--

For example, if cash has been paid to Ram, the account of Ram will have to be debited. Similarly, if cash has been received from Keshav, the account of Keshav will have to be credited.

Real accounts. Real accounts may be of the following types:

1. *Tangible Real Accounts.* Tangible Real Accounts are those which relate to such things which can be touched, felt, measured etc. Examples of such accounts are cash account, building account, furniture account, stock account, etc. It should be noted that bank account is a personal account; since it represents the account of the banking company—an artificial person.

2. *Intangible Real Accounts.* These accounts represent such things which cannot be touched. Of course, they can be measured in terms of money, for example, patents account, goodwill account, etc.

The rule is:

DEBIT IS WHAT COMES IN CREDIT IS WHAT GOES OUT

For example, if a building has been purchased for cash, the building account should be debited (since it is coming in the business) while the cash account should be credited (since cash is going out the business). Similarly when furniture is purchased for cash, furniture account should be debited while the cash account should be credited.

Nominal accounts. These accounts are opened in the books to simply explain the nature of the transactions. They do not really exist. For example, in a business, salary is paid to the manager, rent is paid to the landlord, commission is paid to the salesman, cash goes out of the business and it is something real; while salary, rent or commission as such do not exist. The accounts of these items are opened simply to explain how the cash has been spent. In the absence of such information, it may difficult for the person concerned to explain how the cash at his disposal was utilised.

Nominal Accounts include accounts of all expenses, losses, incomes and gains. The examples of such accounts are rent, rates lighting, insurance, dividends, loss by fire, etc.

The rule is:

DEBIT ALL EXPENSES AND LOSSES CREDIT ALL GAINS AND INCOMES

Tutorial Note. Both Real Accounts and Nominal Accounts fall in the category of Impersonal Accounts. The student should note that when some prefix or suffix is added to a Nominal Account, it becomes a Personal Account. A table is being given to explain the above rule:

<i>Nominal Account</i>	<i>Personal Account</i>
1. Rent account	Rent prepaid account, Outstanding rent account.
2. Interest account	Outstanding interest account, Interest received in advance account, Prepaid interest account.
3. Salary account	Outstanding salaries account, Prepaid salaries account.
4. Insurance account	Outstanding insurance account, Prepaid insurance account.
5. Commission account	Outstanding commission account, Prepaid commission account.

Illustration 2.1. From the following transactions find out the nature of account and also state which account should be debited and which account should be credited.

- | | |
|--------------------|-------------------------------|
| (a) Rent paid. | (g) Outstanding for salaries. |
| (b) Salaries paid. | (h) Telephone charges paid. |

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- (c) Interest received. (i) Paid to Suresh.
 (d) Dividends received. (j) Received from Mohan (the proprietor).
 (e) Furniture purchased for cash. (k) Lighting.
 (f) Machinery sold.

NOTES**Solution:**

	<i>Transaction</i>	<i>Accounts involved</i>	<i>Nature of Accounts</i>	<i>Debit/Credit</i>
(a)	Rent paid	Rent A/c Cash A/c	Nominal A/c Real A/c	Debit Credit
(b)	Salaries paid	Salaries A/c Cash A/c	Nominal A/c Real A/c	Debit Credit
(c)	Interest received	Cash A/c Interest A/c	Real A/c Nominal A/c	Debit Credit
(d)	Dividends received	Cash A/c Interest A/c	Real A/c Nominal A/c	Debit Credit
(e)	Furniture purchased	Furniture A/c Cash A/c	Real A/c Real A/c	Debit Credit
(f)	Machinery sold	Cash A/c Interest A/c	Real A/c Real A/c	Debit Credit
(g)	Outstanding for salaries	Salaries A/c Outstanding Salaries A/c	Nominal A/c Personal A/c	Debit Credit
(h)	Telephone charges paid	Telephone Charges A/c Cash A/c	Nominal A/c Real A/c	Debit Credit
(i)	Paid to Suresh	Suresh Cash A/c	Personal A/c Real A/c	Debit Credit
(j)	Received from Mohan (the proprietor)	Cash A/c Capital A/c	Real A/c Personal A/c	Debit Credit
(k)	Lighting	Lighting A/c Cash A/c	Nominal A/c Real A/c	Debit Credit

The journalising of the various transactions is explained now with the help of the following illustration:

Illustration 2.2. Ram starts a business with capital of Rs 20,000 on 1 January, 2000. In this case there are two accounts involved. They are:

- (i) The account of Ram.
 (ii) Cash Account.

1. Ram is a natural person and, therefore, his account is a Personal Account. Cash Account is a tangible asset and, therefore, it is a Real Account. As per the rules of Debit and Credit, applicable to Personal Accounts, Ram is the giver and, therefore, his account, i.e., Capital Account should be credited. Cash is coming into the business and, therefore, as per the rules applicable to Real Accounts, it should be debited. The transaction will now be entered in the Journal as follows:

JOURNAL

<i>Date</i>	<i>Particulars</i>	<i>L.F.</i>	<i>Debit Rs</i>	<i>Credit Rs</i>
2000 Jan. 1	Cash Account To Capital Account (Being commencement of business)	Dr.	20,000	20,000

The words put within brackets, 'Being commencement of business', constitute the narration for the entry passed, since they narrate the transaction.

2. He purchased furniture for cash for Rs 5,000 on 5 January, 2000.

The two accounts involved in this transaction are the Furniture Account and the Cash Account. Both are Real Accounts. Furniture is coming in and, therefore, it should be debited while cash is going out and, therefore, it should be credited. The Journal entry will, therefore, be as follows:

JOURNAL

Date	Particulars	L.F.	Rs	Rs
2000 Jan. 5	Furniture Account To Cash Account (Being purchase of furniture)	Dr.	5,000	5,000

3. He paid rent for business premises Rs 2,000 on 10 January, 2000.

In this transaction, two accounts involved are the Rent Account and the Cash Account. Rent Account is Nominal Account. It is an expense and, therefore, it should be debited. Cash Account is a Real Account. It is going out of the business and, therefore, it should be credited. The journal entry will, therefore, be as follows:

JOURNAL

Date	Particulars	L.F.	Rs	Rs
2000 Jan. 10	Rent Account To Cash Account (Being payment of rent)	Dr.	2,000	2,000

4. He purchased goods on credit of Rs 2,000 from Suresh on 20 January, 2000.

The two accounts involved in the transaction are those of Suresh and Goods. The account of Suresh is a Personal Account while that of Goods is a Real Account. Suresh is the giver of goods and, therefore, his account should be credited while Goods are coming in the business and, therefore, Goods Account should be debited.

JOURNAL

Date	Particulars	L.F.	Rs	Rs
2000 Jan. 20	Goods Account To Suresh (Being purchase of goods on credit)	Dr.	2,000	2,000

Classification of Goods Account. The term goods include articles purchased by the business for resale. Goods purchased by the business may be returned to the supplier. Similarly, goods sold by the business to its customers can also be returned by the customers to the business due to certain reasons. In business, it is desired that a separate record be kept of all sale, purchase and return of goods. Hence, Goods Accounts can be classified into the following categories:

(i) *Purchases Account.* The account is meant for recording all purchases of goods. Goods 'come in' on purchasing of goods and, therefore, the Purchases Account is debited on purchase of goods.

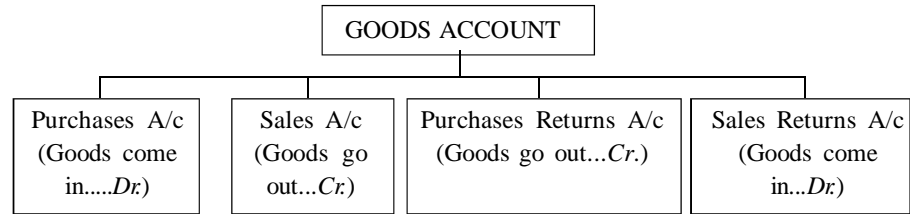
(ii) *Sales Account.* The account is meant for recording of selling of goods. The goods 'go out' on selling of goods, and therefore, on sale of goods, the Sales Account is credited.

(iii) *Purchases Returns Account.* The account is meant for recording return of goods purchased. The goods 'go out' on returning of goods to the suppliers and, therefore, the account should be credited on returning goods purchased.

(iv) *Sales Returns Account.* The account is meant for recording return of goods sold, by the customers. The goods 'come in' and, therefore, the Sales Returns Account should be debited on return of goods.

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The above classification of Goods Account can be shown in the form of the following chart:



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2.4 COMPOUND JOURNAL ENTRY

Sometimes there are a number of transactions on the same date relating to one particular account or of one particular nature. Such transactions may be recorded by means of a single journal entry instead of passing several journal entries. Such entry regarding recording a number of transactions is termed as a 'Compound Journal Entry'. It may be recorded in any of the following three ways:

- (i) One particular account may be debited while several other accounts may be credited.
- (ii) One particular account may be credited while several other accounts may be debited.
- (iii) Several accounts may be debited and several other accounts may also be credited.

This has been explained in the following illustration:

Illustration 2.3. Pass a compound journal entry in each of the following cases:

1. Payment made to Ram Rs 1,000. He allowed a cash discount of Rs 50.
2. Cash received from Suresh Rs 800 and allowed him Rs 50 as discount.
3. A running business was purchased by Mohan with following assets and liabilities:

Cash Rs 2,000, Land Rs 4,000, Furniture Rs 1,000, Stock Rs 2,000, Creditors Rs 1,000, Bank Overdraft Rs 2,000.

Solution:

JOURNAL

Sl. No.	Particulars	L.F.	Debit Rs	Credit Rs
1.	Ram Dr. To Cash A/c To Discount A/c (Being payment made to Ram Rs 1,000, and he allowed Rs 50 as discount)		1,050	1,000 50
2.	Cash A/c Dr. Discount A/c Dr. To Suresh (Being cash received from Suresh Rs 800, and discount allowed Rs 50)		800 50	850
3.	Cash A/c Dr. Land A/c Dr. Furniture A/c Dr. Stock A/c Dr. To Creditors To Bank Overdraft To Capital A/c (Being commencement of business by Mohan by taking over a running business)		2,000 4,000 1,000 2,000	1,000 2,000 6,000

Check Your Progress

1. State under what heading (Personal, Real or Nominal) would you classify each of the following accounts:

- (i) Salary Prepaid Account
- (ii) Salary Outstanding Account
- (iii) Rent Account
- (iv) Bank Account
- (v) Insurance Unexpired
- (vi) Proprietor's Account
- (vii) Bad Debts Account
- (viii) Furniture Account
- (ix) Goodwill Account
- (x) Patents Account

Notes:

1. The total of payment due to Ram was Rs 1,050. A payment of Rs 1,000 has been made to him and he allowed a discount of Rs 50. This means by paying Rs 1,000, a full credit for Rs 1,050 has been obtained. The account of Ram is a Personal Account, and therefore, it has been debited as he is the receiver. The cash has gone out of the business and, therefore, Cash Account being a Real Account, has been credited. Discount Account is a Nominal Account, getting discount is a gain to the business and, therefore, it has been credited.

2. Suresh was to pay a sum of Rs 850. He paid Rs 800 and he was allowed a discount of Rs 50. It means by paying Rs 800 only, Suresh could get a full credit of Rs 850. The Cash Account is a Real Account and, therefore, it has been debited since cash is coming in. Discount Account is a Nominal Account, it has been debited since it is a loss to the business. Suresh is the giver. His account being a Personal Account, it has been credited by Rs 850.

3. It is not necessary that a person should start a business only with cash. He may bring the assets into the business or he may purchase a running business. In the present case Mohan has purchased the assets of some other business. The net assets (i.e. assets—liabilities taken over) will be the capital of Mohan. The business is getting various assets and, therefore, the assets accounts have been debited. The business creates certain liabilities in the form of creditors, bank overdraft, and, therefore, these accounts have been credited. Mohan's Account i.e., his Capital Account has been credited by the balance since it represents the capital brought in by him.

Illustration 2.4. Journalise the following transactions. Also state the nature of each account involved in the Journal entry.

1. Dec. 1, 2000, Ajit started business with Cash Rs 40,000.
2. Dec. 3, he paid into the Bank Rs 2,000.
3. Dec. 5, he purchased goods for cash Rs 15,000.
4. Dec. 8, he sold goods for cash Rs 6,000.
5. Dec. 10, he purchased furniture and paid by cheque Rs 5,000.
6. Dec. 12, he sold goods to Arvind Rs 4,000.
7. Dec. 14, he purchased goods from Amrit Rs 10,000.
8. Dec. 15, he returned goods to Amrit Rs 5,000.
9. Dec. 16, he received from Arvind Rs 3,960 in full settlement.
10. Dec. 18, he withdrew goods for personal use Rs 1,000.
11. Dec. 20, he withdrew cash from business for personal use Rs 2,000.
12. Dec. 24, he paid telephone charges Rs.1,000.
13. Dec. 26, cash paid to Amrit in full settlement Rs 4,900.
14. Dec. 31, paid for stationary Rs 200, rent Rs 500 and salaries to staff Rs 2,000.
15. Dec. 31, goods distributed by way of free samples Rs 1,000.

Solution:

JOURNAL

Sl. No.	Date	Particulars	Nature of Account	L.F.	Debit Rs	Credit Rs
1.	Dec. 1	Cash A/c Dr. To Capital A/c (Being commencement of business)	Real A/c Personal A/c		40,000	40,000
2.	Dec. 3	Bank A/c Dr. To Cash A/c (Being cash deposited in the bank)	Personal A/c Real A/c		20,000	20,000
3.	Dec. 5	Purchases A/c Dr. To Cash A/c (Being purchase of goods for cash)	Real A/c Real A/c		15,000	15,000
4.	Dec. 8	Cash A/c Dr. To Sales A/c (Being goods sold for cash)	Real A/c Real A/c		6,000	6,000

(Contd.)

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Sl. No.	Date	Particulars	Nature of Account	L.F.	Debit Rs	Credit Rs
5.	Dec. 10	Furniture A/c To Bank A/c (Being purchase of furniture, paid by cheque)	Dr. Real A/c Personal A/c		5,000	5,000
6.	Dec. 12	Arvind To Sales A/c (Being sale of goods)	Dr. Personal A/c Real A/c		4,000	4,000
7.	Dec. 14	Purchases A/c To Amrit (Being purchase of goods from Amrit)	Dr. Real A/c Personal A/c		10,000	10,000
8.	Dec. 15	Amrit To Purchases Returns A/c (Being goods returned to Amrit)	Dr. Personal A/c Real A/c		5,000	5,000
9.	Dec. 16	Cash A/c Discount A/c To Arvind (Being cash received from Arvind in full settlement and allowed him Rs 40 as discount)	Dr. Dr. Personal A/c		3,960 40	4,000
10.	Dec. 18	Drawings A/c To Purchases A/c (Being withdrawal of goods for personal use)	Dr. Personal A/c Real A/c		1,000	1,000
11.	Dec. 20	Drawings A/c To Cash A/c (Being cash withdrawal from the business for personal use)	Dr. Personal A/c Real A/c		2,000	2,000
12.	Dec. 24	Telephone Expenses A/c To Cash A/c (Being telephone expenses paid)	Dr. Nominal A/c Real A/c		1,000	1,000
13.	Dec. 26	Amrit To Cash A/c To Discount A/c (Being cash paid to Amrit and he allowed Rs 100 as discount)	Dr. Personal A/c Real A/c Nominal A/c		5,000	4,900 100
14.	Dec. 31	Stationary Expenses Rent A/c Salaries A/c To Cash A/c (Being expenses paid)	Dr. Dr. Dr. Real A/c		200 500 2,000	2,700
15.	Dec. 31	Advertisement Expenses A/c To Purchases A/c (Being distribution of goods by way of free samples)	Dr. Nominal A/c Real A/c		1,000	1,000
		Total			1,21,700	1,21,700

Notes:

Transaction 9. Ajit was to receive Rs 4,000 from Arvind. He accepts only Rs 3,960 in full settlement. It means, he allows Rs 40 as discount to Arvind. The journal entries will be:

(i) Cash A/c	Dr.	3,960	
To Arvind			3,960
(ii) Discount A/c	Dr.	40	
To Arvind			40

A single entry may be passed in place of two entries stated above. Cash is a Real Account and, therefore, it should be debited. Discount is a Nominal Account and, therefore, it should also be debited. The account of Arvind is a Personal Account and he is entitled to get a full credit of Rs 4,000 by paying only Rs 3,960. His account should, therefore, be credited by Rs 4,000.

It may be remembered that cash or bank account and discount account go together. It means if cash is debited, the discount account should also be debited. In case the cash is credited, the discount account should also be credited. This is because when cash is received, discount is allowed to debtors. Cash Account is a Real Account and, therefore, it should be debited by the amount of cash actually received. The discount account is a Nominal Account and, therefore, on receipt of cash when discount is allowed, this is a loss which should be debited. Similarly, when cash is paid, discount is earned from the creditors. On payment of cash, therefore, Cash Account should be credited (since cash is a Real Account and it is going out of the business) and Discount Account should be credited (since Discount Account is a Nominal Account and discount received is a gain to the business).

Transaction 10. When goods are withdrawn by the proprietor of the business for his personal use, he is to be charged for them since business and the proprietor are two different persons as per separate entity concept. The problem is at what price should he be charged. He cannot be charged at the selling price for the goods. It will not be fair. He has to be charged with only the cost price of the goods withdrawn by him. It will be, therefore, appropriate to reduce the purchase of the business by the amount of goods withdrawn by the proprietor for his personal use as if the goods were purchased partly for the business and partly for him.

The same rule applies in those cases, where the goods purchased by the business are used for the purpose of business itself. For example in case of a stationery business, some stationery may be used for the business itself. In such case, the following journal entry will be passed:

Stationery Expenses Account	Dr.	
To Purchases Account		

The same rule has been followed in case of the last entry given in the illustration.

Transaction 11. In case of this transaction two entries could have been passed as under:

(i) Amrit	Dr.	4,900	
To Cash A/c			4,900
(ii) Amrit	Dr.	100	
To Discount A/c			100

In place of passing the above two entries a single compound entry has been passed.

Transaction 12. Three entries could have been based as follows:

(i) Stationery Expenses A/c	Dr.	200	
To Cash A/c			200
(ii) Rent A/c	Dr.	500	
To Cash A/c			500
(iii) Salaries A/c	Dr.	2,000	
To Cash A/c			2,000

In place of these three entries, a single compound entry has been passed.

NOTES**Check Your Progress**

- The amount brought in by the proprietor in the business should be credited to
 - Cash Account
 - Capital Account
 - Drawing Account
- The amount of salary paid to Suresh should be debited to
 - The account of Suresh
 - Salaries Account
 - Cash Account
- The return of goods by a customer should be debited to
 - Customer's Account
 - Sales Returns Account
 - Goods Account
- Sales made to Mahesh for cash should be debited to
 - Cash Account
 - Mahesh
 - Sales Account

2.5 OPENING ENTRY

NOTES

In case of a running business, the assets and liabilities appearing in the previous year's balance sheet will have to be brought forward to the current year. This is done by means of a journal entry which is termed as 'Opening Entry'. All Assets Accounts are debited while all Liabilities Accounts are credited. The excess of assets over liabilities is the proprietor's capital and is credited to his Capital Account. This will be clear with the help of the following illustration:

Illustration 2.5. Pass the Opening Entry on 1 January, 1999 on the basis of the following information taken from the business of Mr. Sunil:

	Rs
(i) Cash in Hand	2,000
(ii) Sundry Debtors	6,000
(iii) Stock of Goods	4,000
(iv) Plant	5,000
(v) Land and Buildings	10,000
(vi) Sundry Creditors	10,000

Solution:

JOURNAL

Date	Particulars	L.F.	Rs	Rs
1999	Cash A/c	Dr.	2,000	
Jan.1	Sundry Debtors A/c	Dr.	6,000	
	Stock A/c	Dr.	4,000	
	Plant A/c	Dr.	5,000	
	Land and Buildings A/c	Dr.	10,000	
	To Sundry Creditors			10,000
	To Capital A/c (balancing figure)			17,000
	(Being balances brought forward from the last year)			
			25,000	29,000

Illustration 2.6. Journalise the following transactions in the books of a trader. Debit Balances on 1 Jan., 1999:

Cash in hand Rs 8,000, Cash at Bank Rs 25,000, Stock of Goods Rs 20,000, Furniture Rs 2,000, Building Rs 10,000. Sundry Debtors : Vijay Rs 2,000, Anil Rs 1,000, and Madhu Rs, 2,000.

Credit Balances on 1 Jan., 1999:

Sundry Creditors: Anand Rs 5,000, Loan from Bablu Rs 10,000

Following were further transactions in the month of January 1999:

2. Jan. 1, Purchased goods worth Rs 5,000 for cash *less* 20% trade discount and 5% cash discount.
3. Jan. 4, Received Rs 1,980 from Vijay and allowed him Rs 20 as discount.
4. Jan. 6, Purchased goods from Bharat Rs 5,000.
5. Jan. 8, Purchased plant from Mukesh for Rs 5,000 and paid Rs 100 as cartage for bringing the plant to the factory and another Rs 200 as installation charges.
6. Jan.12, Sold goods to Rahim on credit Rs 600.
7. Jan.15, Rahim became insolvent and could pay only 50 paise in a rupee.
8. Jan.18, Sold goods to Ram for cash Rs 1,000.
9. Jan.20, Paid salary to Ratan Rs 2,000.
10. Jan.21, Paid Anand Rs 4,800 in full settlement.
11. Jan.26, Interest received from Madhu Rs 200.
12. Jan.28, Paid to Bablu interest on loan Rs 500.
13. Jan.31, Sold Goods for cash Rs 500.
14. Jan.31, Withdrew goods from business for personal use Rs 200.

Solution:

JOURNAL

Sl. No.	Date	Particulars	L.F.	Debit Rs	Credit Rs
1.	1999				
	Jan. 1	Cash A/c Dr. Bank A/c Dr. Stock A/c Dr. Furniture A/c Dr. Building A/c Dr. Vijay Dr. Anil Dr. Madhu Dr. To Anand To Bablu's Loan A/c To Capital A/c (Being balances brought forward from last year)		8,000 25,000 20,000 2,000 10,000 2,000 1,000 2,000	5,000 10,000 55,000
2.	Jan. 1	Purchases A/c Dr. To Cash A/c To Discount A/c (Being purchase of goods for cash worth Rs 5,000 allowed 20% trade discount and 5% cash discount on Rs 4,000)		4,000	3,800 200
3.	Jan. 4	Cash A/c Dr. Discount A/c Dr. To Vijay (Being cash received from Vijay, allowed Rs 20 as cash discount)		1,980 20	2,000
4.	Jan. 4	Purchases A/c Dr. To Bharat (Being purchases of goods from Bharat)		5,000	5,000
5.	Jan. 8	Plant A/c Dr. To Mukesh To Cash (Being purchase of plant for Rs 5,000 and payment of Rs 100 as cartage and Rs 200 as installation charges)		5,300	5,000 300
6.	Jan. 12	Rahim Dr. To Sales A/c (Being sale of goods to Rahim)		600	600
7.	Jan. 15	Cash A/c Dr. Bad Debts A/c Dr. To Rahim (Being cash received from Rahim after his being declared as an insolvent. 50% of the amount due has been received and the rest has been taken as a bad debt)		300 300	600
8.	Jan. 18	Cash A/c Dr. To Sales A/c (Being cash sales)		1,000	1,000
9.	Jan. 20	Salary A/c Dr. To Cash (Being salary paid)		2,000	2,000
10.	Jan. 21	Anand Dr. To Cash To Discount (Being cash paid to Anand and he allowed Rs 200 as discount)		5,000	4,800 200

NOTES

Check Your Progress

6. The rent paid to the landlord be credited to
(a) Landlord's Account
(b) Rent Account
(c) Cash Account
7. The Cash Discount allowed to a debtor should be credited to
(a) Discount Account
(b) Customer's Account
(c) Sales Account
8. In case of a debt becoming bad, the amount should be credited to
(a) Debtor's Account
(b) Bad Debts Account
(c) Sales Account

NOTES

Sl. No.	Date	Particulars	L.F.	Debit Rs	Credit Rs
11.	Jan. 26	Cash A/c Dr. To Interest (Being receipt of interest)		200	200
12.	Jan. 28	Interest on Loan Dr. To Cash (Being payment of interest on loan)		500	500
13.	Jan. 31	Cash A/c Dr. To Sales A/c (Being goods sold for cash)		500	500
14.	Jan. 31	Drawings A/c Dr. To Purchases A/c (Being goods withdrawn for personal use)		200	200
		Total		96,900	96,900

Illustration 2.7. Journalise the following transactions:

1. Purchased goods from Mukesh & Co. on credit Rs 10,000.
2. On obtaining delivery of goods, it was found that the goods have been damaged to the extent of Rs 1,000.
3. Mukesh & Co. admitted the claim for breakage to the extent of Rs 800.

Solution:

JOURNAL

Sl.No.	Particulars	L.F.	Rs	Rs
1.	Purchases A/c To Mukesh & Co. (Being goods purchased from Mukesh & Co.)	Dr.		10,000 10,000
2.	Loss in Transit A/c Dr. To Purchases A/c (Being damage to the goods purchased in transit)		1,000	1,000
3.	Mukesh & Co. Dr. To Loss in Transit A/c (Being claim admitted for loss in transit by Mukesh & Co.)		800	800

Note:

The entries show that against a loss of Rs 1,000, Mukesh & Co. has admitted a claim of only Rs 800. The loss of Rs 200 will have to be suffered by the proprietor of the business. He will transfer this loss to the Profit and Loss Account at the end of the accounting year:

2.6 KEY TERMS

- **Journal:** A book containing a chronological record of business transactions. It is the book of original records.
- **Compound Journal Entry:** A journal entry recording more than one business transaction.
- **Nominal Accounts:** These are accounts opened in the books simply to explain the nature of the transaction. They include accounts of all incomes/gains and expenses/losses.
- **Opening Journal Entry:** A journal entry passed for bringing forward balances of assets and liabilities of the previous period to the current period.
- **Journalising:** The process of recording transactions in the journal.
- **Personal Accounts:** These are accounts of persons with whom the business deals.
- **Real Accounts:** These are accounts of tangible objects or intangible rights owned by an enterprise and carrying probable future benefits.

2.7 SUMMARY

In this unit, you have learned that:

- Journal is the book of prime entry since all transactions are recorded first of all in the journal.
- Business transactions may be of three types: (i) Relating to persons; (ii) Relating to Properties and Assets; and (iii) Relating to Income and Expense.
- The rules for journalising are as under:
 - o Personal Accounts – Debit the receiver, Credit the giver
 - o Real Accounts – Debit what comes in, Credit what goes out
 - o Nominal Accounts – Debit all expenses and losses, Credit all gains and incomes

2.8 ANSWERS TO ‘CHECK YOUR PROGRESS’

1. (i) Personal, (ii) Personal, (iii) Nominal, (iv) Personal, (v) Personal, (vi) Personal, (vii) Nominal, (viii) Real, (ix) Real, (x) Real
2. (b)
3. (b)
4. (b)
5. (a)
6. (c)
7. (b)
8. (a)

2.9 QUESTIONS AND EXERCISES

1. Explain the different categories in which accounting transactions can be classified. Also state the rule of ‘debit and credit’ in this connection.
2. Explain the different rules for journalising the transaction with appropriate illustrations.
3. Explain the meaning of the term ‘Real Accounts’.
4. Explain the term Accounting Cycle.
5. What is an opening entry?
6. Briefly explain the difference between:
 - (i) Personal and Impersonal Accounts.
 - (ii) Real Accounts and Nominal Accounts.

2.10 PRACTICAL PROBLEMS

1. Enter the following transactions in the journal of Arun for the month of December 2000:

Dec.	Rs
1 Arun commenced his business with a capital of	10,000
1 Bought machinery	300
2 Bought goods for cash from Ram	500
2 Sold goods for cash to Hari	4,000
3 Purchased goods from Jai on credit	2,200
4 Cash sales to Hari	2,000
5 Bought goods from Sunder on credit	1,920
5 Credit sales to Hari	3,200
6 Bought goods from Jai on credit	2,300
8 Bought office furniture for cash from A Ltd.	3,050
12 Paid cartage to Golden Transport Co.	70
15 Paid carriage-outward to Hanuman	20
17 Paid trade expenses	10
18 Paid advertisement expenses to Sunil Agencies	200
19 Received interest from Anil	50
20 Deposited cash into bank	1,000
22 Paid rent	150

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NOTES

- | | | |
|----|----------------------------------|-----|
| 27 | Paid insurance premium | 30 |
| 29 | Paid salary to Nagendra, a clerk | 325 |
2. Journalise the following transactions:
- | | | |
|---------|---|-------|
| 2000 | | Rs |
| Jan. 1 | Girdhari commenced business with cash | 7,500 |
| Jan. 3 | Goods purchased for cash | 1,000 |
| Jan. 4 | Bought of Hari | 250 |
| Jan. 8 | Furniture purchased from Murari for cash | 50 |
| Jan. 9 | Furniture purchased from Murari | 250 |
| Jan. 12 | Cash paid to Hari in full settlement of his account | 240 |
| Jan. 15 | Goods purchased from Anil and he allowed us 10% trade discount | 350 |
| Jan. 20 | Cash paid to Anil in full satisfaction | 300 |
| Jan. 21 | Prince Behari bought from us | 115 |
| Jan. 22 | Cash paid by Price Behari | 15 |
| Jan. 25 | Prince Behari became insolvent, a final composition of 50 P in the rupee received from his official receiver out of a debit of Rs 100 | 50 |
| Jan. 26 | Paid for Miscellaneous Expenses | 25 |
| Jan. 28 | Withdrawn by Girdhari for his personal use | 100 |
- Pass an opening entry in the Journal on the basis of the following information on April 1, 2000:
- | | |
|------------------|--------|
| Cash in hand | 2,000 |
| Sundry Debtors | 6,000 |
| Stock of Goods | 4,000 |
| Machinery | 11,000 |
| Furniture | 5,000 |
| Sundry Creditors | 1,000 |
3. Surendra commenced business on 1st January, 1999. His transactions for the month are given below. Journalise them.
- | | | |
|---------|---|--------|
| 2000 | | Rs |
| Jan. 1 | Commenced business with a cash capital | 20,000 |
| Jan. 2 | Paid into Bank | 10,000 |
| Jan. 3 | Bought goods from Ramesh & Co. | 5,000 |
| Jan. 3 | Sold goods to Rajesh | 4,000 |
| Jan. 7 | Bought goods of Ram Chand | 6,000 |
| Jan. 8 | Paid wages in cash | 200 |
| | Sold goods to Mahesh Chand | 5,000 |
| Jan. 10 | Received cheque from Rajesh (discount allowed Rs 200) | 3,800 |
| Jan. 10 | Paid into bank | 4,000 |
| Jan. 11 | Paid to Ramesh & Co. (discount received Rs 200) | 4,000 |
| Jan. 12 | Paid rent for three months to March | 400 |
| Jan. 13 | Bought goods from C. Khare | 7,400 |
| Jan. 15 | Wages paid in cash | 80 |
| Jan. 15 | Paid office expenses in cash | 70 |
| Jan. 16 | Sold goods to Jagdish | 3,200 |
| Jan. 17 | Sold goods to Rajesh | 1,600 |
| Jan. 21 | Sold goods to Mahesh Chand | 2,500 |
| Jan. 21 | Payment received by cheque from Jagdish | 3,200 |
| Jan. 22 | Paid wages in cash | 80 |
| Jan. 22 | Paid office expenses in cash | 50 |
| Jan. 25 | Paid Ram Chand by cheque (discount Rs 200) | 5,800 |
| Jan. 26 | Received cheque from Mahesh Chand (discount Rs 200) | 4,800 |
| Jan. 27 | Mahesh Chand returned goods not up to the sample | 200 |
| Jan. 29 | Paid wages in cash | 80 |
| Jan. 31 | Paid office expenses in cash | 40 |
| Jan. 31 | Paid salaries for the month | 300 |
| Jan. 31 | Cash used at home | 400 |
4. From the following transactions of M/s Read and Write, write up the Journal in proper form: 1999
- | | |
|--------|---|
| Jan. 1 | <i>Assets:</i> Cash in hand Rs 2,000 Cash at Bank Rs 68,000, Stock of goods Rs 40,000, Machinery Rs 1,00,000, Furniture Rs 10,000, M/s Surya Bros. owe Rs 15,000, M/s Babu Bros. owe Rs 25,000. |
| | <i>Liabilities:</i> Loan Rs 50,000, Sum owing to Jain Ltd. Rs 20,000. |

	Rs
Jan. 2 Bought goods on credit from Samuel & Co.	10,000
Jan. 3 Sold goods for cash to Dhiraj & Co.	4,000
Jan. 4 Sold goods to Surya Bros. on credit	10,000
Jan. 5 Received from Surya Bros. in full settlement of amount due on Jan. 1	14,500
Jan. 6 Payment made to Jain Bros. Ltd. by cheque They allowed discount	9,750 250
Jan. 9 Old furniture sold for cash	1,000
Jan. 10 Bought goods for cash	7,500
Jan. 11 Babu Bros. pay by cheque; Cheque deposited in Bank Paid for repairs to machinery	25,000 1,000
Jan. 13 Bought goods of Jain Bros. Ltd. Paid carriage on these goods	10,000 500
Jan. 16 Received cheque from Surya Bros., cheque deposited in bank Discount allowed to them	9,500 500
Jan. 17 Paid cheque to Jain Bros. Ltd.	10,000
Jan. 18 Bank intimates that cheque of Surya Bros. has been returned unpaid	
Jan. 19 Sold good for cash to Key Bros.	6,000
Jan. 21 Cash deposited in bank	5,000
Jan. 24 Paid Municipal Taxes in cash	1,000
Jan. 25 Borrowed from Maheshwari Investment Co. Ltd for constructing own premises. Money deposited with bank for the time being	10,000
Jan. 26 Old newspapers sold	200
Jan. 28 Paid for advertisements	1,000
Jan. 31 Paid rent by cheque Paid salaries for the month Drew out of bank for private use Surya Bros. becomes insolvent, a dividend of 50 P in the rupee is received. An old amount, written off as bad debt in 1997 is recovered	1,500 3,000 2,500 1,500

NOTES

5. The following entries have been passed by a student. You have to state whether these entries are correctly passed. If not so, pass the correct journal entries.

(i)	Cash Account To Interest Account (Being interest paid)	Dr.	7,000	7,000
(ii)	Mohan To Purchases Account (Being purchase of goods from Mohan)	Dr.	10,000	10,000
(iii)	Hari To Sales Account (Being credit sales of goods to Hari)	Dr.	5,000	5,000
(iv)	Mukesh To Bank Account (Being salary paid to Mukesh)	Dr.	1,000	1,000
(v)	Freight Account To Cash Account (Being freight paid)	Dr.	1,000	1,000
(vi)	Repairs Account To Cash Account (Being charges paid for overhauling an old machine purchased)	Dr.	1,000	1,000
(vii)	Cash Account To Rakesh (Being an amount of debt which was written off as bad debt last year, is received during the year)	Dr.	200	200
(viii)	Purchases Account To Hari (Being goods sold to returned by him)	Dr.	1,000	1,000

NOTES

[Ans. (i) Wrong, reverse should have been done, (ii) Wrong, reverse should have been done, (iii) Correct, (iv) Wrong, Salary Account should have been debited in place of Mukesh, (v) Correct, (vi) Wrong, Machine Account should have been debited in place of Repairs Account, (vii) Wrong, the amount should have been credited to Bad Debts Recovered account in place of Rakesh (viii) Wrong, the amount should have been debited to Sales Returns account in place of Purchases Account]

2.11 FURTHER READING

1. Maheshwari, S.N. and S.K. Maheshwari, *An Introduction to Accountancy*.
2. Maheshwari, S.N. and S.K. Maheshwari, *A Text Book for Accounting for Management*.

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