

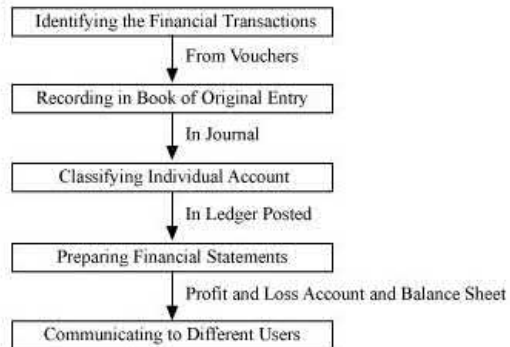
CHAPTER - 3

RECORDING OF TRANSACTION - I

Short Answer Type Questions

Q1. State the three fundamental steps in the accounting process.

Answer : The fundamental steps in the accounting process are diagrammatically presented below.



Q2. Why is the evidence provided by source documents important to accounting?

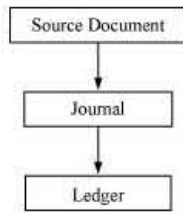
Answer : The evidence provided by the source document is important in the following manners:

1. It provides evidence that a transaction has actually occurred.
2. It provides important and relevant information about date, amount, parties involved and other details of a particular transaction.
3. It acts as a proof in the court of law.
4. It helps in verifying transactions during the auditing process.

Q3. Should a transaction be first recorded in a journal or ledger? Why?

Answer : A transaction should be recorded first in a journal because journal provides complete details of a transaction in one entry. Further, a journal forms the basis for posting the transactions into their respective accounts into ledger. Transactions are recorded in journal in chronological order, i.e. in the order of occurrence with the help of source documents. Journal is also known as 'book of original entry', because with the help of source document,

transactions are originally recorded in books. The process of recording the transactions in journal and then in ledger is presented in the below given flow chart.



Q4. Are debits or credits listed first in journal entries? Are debits or credits indented?

Answer : As per the rule of double entry system, there are two columns of 'Amount' in the journal format namely 'Debit Amount' and 'Credit Amount'. The way of recording in a journal is quite different from normal recording. Journal entry is recorded in journal format in which the 'Debit Amount' column is listed before the 'Credit Amount' column.

Credits are indented. Indentation is leaving a space before writing any word. Journal entry has its own jargon. While journalising, in the 'Particulars' column of journal format, debited account is written first and credited account is in the next line leaving some space, which is indentation.

Q5. Why are some accounting systems called double accounting systems?

Answer : Some accounting systems are called double accounting systems because under this system there are two aspects of every transaction, i.e., every transaction has dual effect. Every transaction affects two accounts simultaneously, that is represented by debiting one account and crediting the other account. It is based on the fact that if there is receiver, there should be a giver.

Q6. Give a specimen of an account.

_____Account

Dr.				Cr.			
Date	Particulars	J.F.	Amount Rs	Date	Particulars	J.F.	Amount Rs

Q7. Why are the rules of debit and credit same for both liability and capital?

Answer : Every business acquires funds from internal as well as from external sources. According to the business entity concept, the amount borrowed from the external sources together with the internal sources like, capital invested by the proprietor, is termed as liability to the business. Business entity concept treats business and business owner separately. Capital of the owner is treated as liability to the business because the business has to repay the amount of capital to the owner, in case of closure of the business. As liability incurred is credited, in the same way, fresh capital introduced and net profit increases the owner's capital, and so, capital is credited. On the other hand, if liability is paid, it reduces liability, and so, it is debited. Similarly, drawings from capital and net loss reduce the capital, and so, capital is debited. Thus the rules of debit and credit are same for both liability and capital.

Q8. What is the purpose of posting J.F numbers that are entered in the journal at the time entries are posted to the accounts?

Answer : J.F. number is the number that is entered in the ledger at the time of posting entries into their respective accounts. It helps in determining whether all transactions are properly posted in their accounts. It is recorded at the time of posting and not at the time of recording the transactions.

The purpose of entering J.F. number in the ledger is because of the below given benefits.

1. J.F. number helps in locating the entries of accounts in the journal book. In other words, J.F. number helps to locate the position of the related journal entry and subsidiary book in the journal book.
2. J.F. number in accounts ensures that recording in the books of original entry has been posted or not.

Q9. 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.

Answer :

1. Increase in revenue

Increase in revenue is credited as it increases the capital. Capital has credit balance and if capital increases, then it is credited.

2. Decrease in expense

Decrease in expense is credited as all expenses have debit balance. If expense decreases, then it is credited.

3. Record drawings

Capital has credit balance; if the capital increases, then it is credited. If capital decreases, then it is debited. Drawings are debited as they decrease the capital.

4. Record of fresh capital introduced by the owner- credit

Capital has credit balance, if capital increases, then it is credited. The introduction of fresh capital increases the balance of capital, and so, it is credited.

Q10. 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?

Answer : If a transaction has a decreasing effect on an asset, then this decrease is recorded as credit. This is because, as all assets have debit balance and if assets decrease, then it is credited. For example, sale of furniture results in decrease in furniture (asset); so, the sale of furniture will be credited.

If a transaction has a decreasing effect on a liability, then this decrease is recorded as debit. This is because all liabilities have credit balance. If the liability increases, then it is credited and if the liability decreases, then it is debited. For example, payment to the creditors results in a decrease in the creditors (liability); so, the creditors account will be debited.

Numerical Questions

Q1. 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

S.No.	Explanation	Assets				=	Liabilities +	Capital
		Cash	+ Stock	+ Debtors	+ Furniture			
(a)	Increase in cash	2,00,000				=		
	Increase in capital							2,00,000
		2,00,000				=	NIL	+ 2,00,000
(b)	Increase in stock		40,000					
	Decrease in cash	(40,000)						
		1,60,000	+ 40,000			=	NIL	+ 2,00,000
(c)	Increase in debtors			12,000				
	Decrease in stock		(10,000)					
	Profit							2,000
		1,60,000	+ 30,000	+ 12,000		=	NIL	2,02,000
(d)	Increase in furniture				7,000			
	Increase in creditors						7,000	
		1,60,000	+ 30,000	+ 12,000	+ 7,000	=	7,000	+ 2,02,000

Q2. Prepare accounting equation from the following:

Prepare accounting equation from the following:

	Rs
(a) Kunal started business with cash	2,50,000
(b) He purchased furniture for cash	35,000
(c) He paid commission	2,000
(d) He purchases goods on credit	40,000
(e) He sold goods (costing Rs 20,000) for cash	26,000

Answer:

S.No.	Explanation	Assets			=	Liabilities +	Capital
		Cash	+ Furniture	+ Stock			
(a)	Increase in cash	2,50,000					
	Increase in capital						2,50,000
		2,50,000			=	NIL	+ 2,50,000
(b)	Increase in furniture		35,000				
	Decrease in cash	(35,000)					
		2,15,000	+ 35,000		=	NIL	+ 2,50,000
(c)	Decrease in capital (Expense)						(2,000)
	Decrease in cash	(2,000)					
		2,13,000	+ 35,000		=	NIL	+ 2,48,000
(d)	Increase in stock			40,000			
	Increase in creditors					40,000	
		2,13,000	+ 35,000	+ 40,000	=	40,000	+ 2,48,000
(e)	Increase in cash	26,000					

Q3. Mohit has the following transactions, prepare accounting equation:

	Rs
(a) Business started with cash	1,75,000
(b) Purchased goods from Rohit	50,000
(c) Sales goods on credit to Manish (Costing Rs 17,500)	20,000
(d) Purchased furniture for office use	10,000
(e) Cash paid to Rohit in full settlement	48,500
(f) Cash received from Manish	20,000
(g) Rent paid	1,000
(h) Cash withdrew for personal use	3,000

Answer:

S.No	Explanation	Assets				Liabilities	+ Capital
		Cash	+ Stock	+ Debtors	Furniture	= Creditors	
(a)	Increase in cash	1,75,000					
	Increase in capital	0					1,75,000
(b)	Increase in stock	1,75,000	50,000			= NIL +	1,75,000
	Increase in creditors (Rohit)	0				= 50,000 +	1,75,000
(c)	Increase in debtors (Manish)	1,75,000	50,000			= 50,000 +	1,75,000
	Decrease in stock	0	(17,500)	20,000			
	Increase in capital (Profit)			0			2,500
(d)	Increase in furniture	1,75,000	32,500	20,000		= 50,000 +	1,77,500
	Decrease in cash	0		0	10,000		0
		(10,000)					

Q4. Rohit has the following transactions:

	Rs
(a) Commenced business with cash	1,50,000
(b) Purchased machinery on credit	40,000
(c) Purchased goods for cash	20,000
(d) Purchased car for personal use	80,000
(e) Paid to creditors in full settlement	38,000
(f) Sold goods for cash costing Rs 5,000	4,500
(g) Paid rent	1,000
(h) Commission received in advance	2,000

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

Answer:

S.No.	Explanation	Assets			Liabilities	+	Capital
		Cash	+ Machinery	+ Stock	= Creditors	+ Un ac cr ue d I nc o me	
(a)	Increase in cash	1,50,000					
	Increase in capital						1,50,000
		1,50,000			= NIL		+ 1,50,000
(b)	Increase in machinery		40,000				
	Increase in creditors				= 40,000		
		1,50,000 +	40,000		= 40,000		+ 1,50,000
(c)	Increase in stock			20,000			
	Decrease in cash	(20,000)					
		1,30,000 +	40,000 +	20,000	= 40,000		+ 1,50,000
(d)	Decrease in cash	(80,000)					
	Decrease in capital (Drawings)						(80,000)
		50,000 +	40,000 +	20,000	= 40,000		+ 70,000
(e)	Decrease in creditors				(40,000)		
	Decrease in cash	(38,000)					
	Increase in capital (Discount received)						

Q5. Use accounting equation to show the effect of the following transactions of M/s Royal Traders:

- (a) Started business with cash 1,20,000
- (b) Purchased goods for cash 10,000
- (c) Rent received 5,000
- (d) Salary outstanding 2,000
- (e) Prepaid Insurance 1,000
- (f) Received interest 700
- (g) Sold goods for cash (costing Rs 5,000) 7,000
- (h) Goods destroyed by fire 500

Answer:

S.No	Explanation	Assets			=	Liabilities	+	Capital
		Cash	Stock	Prepaid Expenses		Outstanding Expenses		
(a)	Increase in cash	1,20,000						1,20,000
	Increase in capital							1,20,000
(b)	Increase in stock	1,20,000	10,000		=	NIL	+	1,20,000
	Increase in cash	(10,000)			=			
(c)	Increase in cash	1,10,000	10,000		=	NIL	+	1,20,000
	Increase in capital (Profit)	5,000						5,000
(d)	Increase in outstanding expenses	1,15,000	10,000		=	NIL	+	1,25,000
	Decrease in capital (Expense)				=	2,000		(2,000)
(e)	Increase in prepaid expenses	1,15,000	10,000		=	2,000	+	1,23,000
	Decrease in cash	(1,000)		1,000				
(f)	Increase in cash	1,14,000	10,000	1,000	=	2,000	+	1,23,000
	Increase in capital (Profit)	700						700
(g)	Increase in cash	1,14,700	10,000	1,000	=	2,000	+	1,23,700
	Decrease in stock	7,000	(5,000)					2,000
(h)	Decrease in stock	1,21,700	5,000	1,000	=	2,000	+	1,25,700

Q6. Show the accounting equation on the basis of the following transaction:

(a)	Udit started business with:	Rs
(i)	Cash	5,00,000
(ii)	Goods	1,00,000
(b)	Purchased building for cash	2,00,000
(c)	Purchased goods from Himani	50,000
(d)	Sold goods to Ashu (Cost Rs 25,000)	36,000
(e)	Paid insurance premium	3,000
(f)	Rent outstanding	5,000
(g)	Depreciation on building	8,000
(h)	Cash withdrawn for personal use	20,000
(i)	Rent received in advance	5,000
(j)	Cash paid to Himani on account	20,000
(k)	Cash received from Ashu	30,000

Answer:

S.No.	Explanation	Assets				=	Liabilities			+ Capital
		Cash	+ Stock	+ Building	+Debtors	Creditors	+Out stan din g E xpe nse s	+ Un due dIn co me		
(a)	Increase in cash	5,00,000								
	Increase in stock		1,00,000							
	Increase in capital								6,00,000	
		5,00,000+	1,00,000			= NIL			+ 6,00,000	
(b)	Increase in building			2,00,000						
	Decrease in cash	(2,00,000)				=				
		3,00,000+	1,00,000+	2,00,000		= NIL			+ 6,00,000	
(c)	Increase in stock		50,000							
	Increase in creditors					= 50,000				
			3,00,000+	1,50,000 +	2,00,000		= 50,000			

Q7. Show the effect of the following transactions on Assets, Liabilities and Capital through accounting equation:

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

Answer :

S.No.	Explanation	Assets				=Liabilities+ Creditors	Capital
		Cash	+ Stock	+Investment	+Bank		
(a)	Increase in cash	1,20,000					
	Increase in capital						1,20,000
		1,20,000 +				= NIL +	1,20,000
(b)	Increase in cash	10,000					
	Increase in capital (Income)					=	10,000
		1,30,000				= NIL +	1,30,000
(c)	Decrease in investment			50,000			
	Decrease in cash	(50,000)				=	
		80,000 +		50,000		= NIL +	1,30,000
(d)	Increase in cash	5,000					
	Increase in capital (Income)						5,000
		85,000 +		50,000		= NIL +	1,35,000
(e)	Increase in stock		35,000				
	Increase in creditor (Ragani)					35,000	
		85,000 +	35,000 +	50,000		= 35,000 +	1,35,000
(f)	Decrease in capital						(7,000)
	Decrease in cash	(7,000)					
		78,000 +	35,000 +	50,000		= 35,000 +	1,28,000
(g)	Increase in cash						

Q8. Show the effect of following transaction on the accounting equation:

	Rs
(a) Manoj started business with	
(i) Cash	2,30,000
(ii) Goods	1,00,000
(iii) Building	2,00,000
(b) He purchased goods for cash	50,000
(c) He sold goods(costing Rs 20,000)	35,000
(d) He purchased goods from Rahul	55,000
(e) He sold goods to Varun (Costing Rs 52,000)	60,000
(f) He paid cash to Rahul in full settlement	53,000
(g) Salary paid by him	20,000
(h) Received cash from Varun in full settlement	59,000
(i) Rent outstanding	3,000
(j) Prepaid Insurance	2,000
(k) Commission received by him	13,000
(l) Amount withdrawn by him for personal use	20,000
(m) Depreciation charge on building	10,000
(n) Fresh capital invested	50,000
(o) Purchased goods from Rakhi	6,000

Answer :

S.No.	Explanation	Assets					=	Liabilities	+ Capital
		Cash	+	Stock	+ Building	+ Debtors	+	Prepaid Expenses	Creditors
(a)	Increase in cash, stock and building	2,30,000	+	1,00,000	+	2,00,000			
	Increase in capital								5,30,000
		2,30,000	+	1,00,000	+	2,00,000	=		5,30,000
(b)	Increase in stock					50,000			
	Decrease in cash	(50,000)							
		1,80,000	+	1,50,000	+	2,00,000	=		5,30,000
(c)	Increase in cash	35,000							
	Decrease in stock			(20,000)					
	increase in capital (Profit)								15,000
		2,15,000	+	1,30,000	+	2,00,000			

Q9. Transactions of M/s. Vipin Traders are given below.

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

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

Answer:

S.No.	Explanation	Assets				=	Liabilities	+	Capital
		Cash	Stock	Furniture	Debtors		Creditors		
(a)	Increase in cash	1,25,000							1,25,000
	Increase in capital								0
(b)	Increase in stock		50,000				NIL		1,25,000
	Decrease in cash	(50,000)							0
(c)	Increase in furniture			10,000					1,25,000
	Increase in creditors								0
(d)	Increase in debtors				9,000				1,25,000
	Decrease in stock		(7,000)						0
(e)	Increase in capital (Profit)								2,000
	Decrease in capital (Cartage Expenses)								(100)
(f)	Decrease in cash	(100)							1,27,000
	Decrease in cash	(100)							0
(g)	Decrease in cash	74,900	43,000	10,000	9,000		10,000		1,26,900
	Decrease in cash	(9,700)							0
(h)	Increase in capital (Discount-received)								300
	Increase in capital (Discount-received)								0

Q10. Bobby opened a consulting firm and completed these transactions during November, 2005:

- (a) Invested Rs 4,00,000 cash and office equipment with Rs 1,50,000 in a business called Bobbie Consulting.
- (b) 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 paid with Rs 2,00,000 cash and a long term note payable for Rs 8,00,000.
- (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.

Answer :

- (a) The transaction (a) increases assets by Rs 5,50,000 (cash Rs 4,00,000 and office equipment Rs 1,5,000) it will be debited and on the other hand it will increase the capital by Rs

5,50,000, so it will be credited in capital account.

Office Equipment Account		Capital Account			
Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
(a) Rs 4,00,000		(a) Rs 1,50,000			(a) Rs 4,00,000
					(a) Rs 1,50,000

(b)

Purchase of land and small office building are assets. On one hand, the purchase of these items will increase their individual accounts and this will increase the total amount of the assets in the business; so, both the accounts will be debited. On the other hand, payment in cash on the purchase of these assets will decrease the cash balance, so cash account will be credited to the extent of amount paid. After payment for building in cash, the balance of building account will be transferred to creditors for building account. This will increase the amount of the creditors, which in turn will increase the total liabilities of the business. Long term payables are regarded as loan to the business that will increase both cash balance (due to intake of loan) as well as liabilities of the business.

Land Account		Building Account	
Dr.	Cr.	Dr.	Cr.
(b) Rs 1,50,000		(b) Rs 3,50,000	

Cash Account		Long Term Payable Account	
Dr.	Cr.	Dr.	Cr.
(a) Rs 4,00,000	(b) Rs 1,50,000		(b) Rs 8,00,000
(b) Rs 8,00,000	(b) Rs 50,000		

Q11. Journalise the following transactions in the books of Himanshu:

2005		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

Answer:

Books of Himanshu
Journal

Date	Particulars	L.F.	Debit Amount Rs	Credit A mount Rs
2005				
Dec.01	Cash A/c To Capital A/c (Started business with cash)	Dr.	75,000	75,000
Dec.07	Purchases A/c To Cash A/c (Goods purchased for cash)	Dr.	10,000	10,000
Dec.09	Swati To Sales A/c (Goods sold on credit)	Dr.	5,000	5,000
Dec.12	Furniture A/c To Cash A/c (Furniture purchased for cash)	Dr.	3,000	3,000
Dec.18	Cash A/c Discount Allowed A/c To Swati (Cash received from Swati and discount allowed)	Dr. Dr.	4,000 1,000	5,000
Dec.25	Rent A/c To Cash A/c (Rent paid in cash)	Dr.	1,000	1,000

Q12. Enter the following Transactions in the Journal of Mudit :

2006	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

Answer :

Books of Mudit

Journal

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
2006				
Jan.01	Building A/c	Dr.	1,00,000	
	Cash A/c	Dr.	1,75,000	
	To Capital A/c			2,75,000
	(Commenced business with cash and building)			
Jan.02	Purchases A/c	Dr.	75,000	
	To Cash A/c			75,000
	(Goods purchased for cash)			
Jan.03	Ramesh	Dr.	30,000	
	To Sales A/c			30,000
	(Goods sold to Ramesh)			
Jan.04	Wages A/c	Dr.	500	
	To Cash A/c			500
	(Wages paid in cash)			
Jan.06	Cash A/c	Dr.	10,000	
	To Sales A/c			10,000
	(Goods sold for cash)			

Q13. Journalise the following transactions:

2005		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

Answer :

Books of Hema
Journal

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
2005				
Dec.01	Cash A/c To Capital A/c (Started business with cash)	Dr.	1,00,000	1,00,000
Dec.02	Bank A/c To Cash A/c (Bank account opened with SBI)	Dr.	30,000	30,000
Dec.04	Purchases A/c To Ashu (Goods purchased from Ashu)	Dr.	20,000	20,000
Dec.06	Cash A/c To Sales A/c (Goods sold for cash)	Dr.	15,000	15,000
Dec.10	Purchases A/c To Cash A/c (Goods purchased for cash)	Dr.	40,000	40,000
Dec.13	Suman To Sales A/c	Dr.	20,000	

Q14. Journalise the following transactions in the books of Harpreet Bros.:

- (a) Rs 1,000 due from Rohit are now bad debts.
- (b) Goods worth Rs 2,000 were used by the proprietor.
- (c) Charge depreciation @ 10% p.a for two month on machine costing Rs 30,000.
- (d) Provide interest on capital of Rs 1,50,000 at 6% p.a. for 9 months.
- (e) Rahul become insolvent, who owed is Rs 2,000 a final dividend of 60 paise in a rupee is received from his estate.

Answer :

Books of Harpreet Bros.

Journal

S. No.	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
(a)	Bad Debt A/c Dr. To Rohit (Debtors) (Due from Rohit became bad debt)		1,000	1,000
(b)	Drawings A/c Dr. To Purchases A/c (Goods withdrawn by proprietor for personal use)		2,000	2,000
(c)	Depreciation A/c Dr. To Machinery A/c (Depreciation charged on machinery for two months)		500	500
(d)	Interest on Capital A/c Dr. To Capital A/c (Interest on capital at 6% due for 9 months)		6,750	6,750
(e)	Bad Debt A/c Dr. Cash A/c Dr. To Rahul (Debtor) (Received from Rahul 60 paise in a rupee and rest amount considered as bad debt)		800 1,200	2,000

Q15. Prepare Journal from the transactions given below :

	Rs
(a) Cash paid for installation of machine	500
(b) Goods given as charity	2,000
(c) Interest charge on capital @ 7% p.a. when total capital were	70,000
(d) Received Rs 1,200 of a bad debts written-off last year.	
(e) Goods destroyed by fire	2,000
(f) Rent outstanding	1,000
(g) Interest on drawings	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	7,000

Answer :

Journal

S. No.	Particulars	L.F.	Debit Am ount Rs	Credit Am ount Rs
(a)	Machinery A/c To Cash A/c (Cash paid for installation of machinery)	Dr.	500	500
(b)	Charity A/c To Purchases A/c (Goods given as charity)	Dr.	2,000	2,000
(c)	Interest on Capital A/c To Capital A/c (Interest on capital charged @ 7% p.a.)	Dr.	4,900	4,900
(d)	Cash A/c To Bad Debt Recovered A/c (Cash received on from debtors which was previously written off as bad)	Dr.	1,200	1,200
(e)	Goods Destroyed by Fire A/c To Purchases A/c (Goods destroyed by fire)	Dr.	2,000	2,000

Q16. Journalise the following transactions, post to the ledger:

2005		Rs
Nov. 01	Business started with (i) Cash (ii) Goods	1,50,000 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 Discount allowed	6,800 200
Nov. 30	Salary paid 3,000	

Answer :

Journal

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
2005				
Nov.01	Cash A/c	Dr.	1,50,000	
	Stock A/c	Dr.	50,000	
	To Capital A/c			2,00,000
	(Started business with cash and goods)			
Nov.03	Purchases A/c	Dr.	30,000	
	To Harish			30,000
	(Goods purchased from Harish)			
Nov.05	Cash A/c	Dr.	12,000	
	To Sales A/c			12,000

Q17. Journalise the following transactions in the journal of M/s. Goel Brothers and post them to the ledger.

2006		Rs
Jan. 0	Started business with cash	1,65,000
1		
Jan. 0	Opened bank account in PNB	80,000
2		
Jan. 0	Goods purchased from Tara	22,000
4		
Jan.0	Goods purchased for cash	30,000
5		
Jan.0	Goods sold to Naman	12,000
8		
Jan.1	Cash paid to Tara	22,000
0		
Jan.1	Cash received from Naman	11,700
5		
	Discount allowed	300
Jan. 1	Paid wages	200
6		
Jan. 1	Furniture purchased for office use	5,000
8		
Jan. 2	Withdrawn from bank for personal use	4,000
0		
Jan. 2	Issued cheque for rent	3,000
2		
Jan. 2	Goods issued for house hold purpose	2,000
3		
Jan. 2	Drawn cash from bank for office use	6,000
4		
Jan. 2	Commission received	1,000
6		
Jan. 2	Bank charges	200
7		
Jan. 2	Cheque given for insurance premium	3,000
8		
Jan. 2	Paid salary	7,000
9		
Jan. 3	Cash sales	10,000
0		

Answer :

Books of M/s Goel Brothers

Journal

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
2006				
Jan.01	Cash A/c To Capital A/c (Started business with cash)	Dr.	1,65,000	1,65,000
Jan.02	Bank A/c To Cash A/c (Bank account opened with PNB)	Dr.	80,000	80,000
Jan.04	Purchases A/c To Tara (Goods purchased from Tara)	Dr.	22,000	22,000
Jan.05	Purchases A/c To Cash A/c (Goods purchased for cash)	Dr.	30,000	30,000
Jan.08	Naman To Sales A/c (Sale of goods to Naman)	Dr.	12,000	12,000
Jan.10	Tara To Cash A/c (Cash paid to Tara)	Dr.	22,000	22,000
Jan.15	Cash A/c Discount Allowed A/c To Naman (Cash received from Naman and discount allowed)	Dr. Dr.	11,700 300	12,000

Q18. Give journal entries of M/s. Mohit traders; post them to the Ledger from the following transactions:

Aug ust, 2005		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	4,00

Answer :

Books of M/s. Mohit Traders

Journal

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
2005				
Aug.01	Cash A/c To Capital A/c (Commenced business with cash)	Dr.	1,10,000	1,10,000
Aug.02	Bank A/c To Cash A/c (Bank account opened with H.D.F.C)	Dr.	50,000	50,000
Aug.03	Furniture A/c To Cash A/c (Furniture purchased)	Dr.	20,000	20,000
Aug.07	Purchases A/c To Cash A/c (Goods purchased for cash)	Dr.	30,000	30,000
Aug.08	Purchases A/c To M/s. Hema Traders (Goods purchased from M/s. Hema Traders)	Dr.	42,000	42,000
Aug.10	Cash A/c To Sales A/c (Goods sold for cash)	Dr.	30,000	30,000
Aug.14	M/s. Gupta Traders To Sales A/c (Goods sold to M/s. Gupta traders)	Dr.	12,000	12,000

Q19. Journalise the following transaction in the Books of the M/s. Bhanu Traders and Post them into the Ledger.

December, 2005		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

Answer :

Books of M/s. Bhanu Traders

Journal

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
2005				
Dec.01	Cash A/c To Capital A/c (Started business with cash)	Dr.	92,000	92,000
Dec.02	Bank A/c To Cash A/c (Cash deposited into bank)	Dr.	60,000	60,000
Dec.04	Purchases A/c To Himani (Goods purchased from Himani)	Dr.	40,000	40,000

Q20. Journalise the following transaction in the Book of M/s. Beauti tradeRs Also post them in the ledger.

Date	Particulars	Rs
Dec. 2005		
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

Answer:

Books of Beauti Traders

Journal

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
2005				
Dec.01	Cash A/c To Capital A/c (Started business with cash)	Dr.	2,00,000	2,00,000
Dec.02	Office Furniture A/c To Cash A/c (Office furniture purchased)	Dr.	30,000	30,000
Dec.03	Bank A/c To Cash A/c (Opened a current account)	Dr.	1,00,000	1,00,000
Dec.05	Computer A/c	Dr.	2,50,000	

Q21. Journalise the following transaction in the books of Sanjana and post them into the ledger:

January, 2006		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

Answer :

**Books of Sanjana
Journal Entries**

S.No.	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
2006				
Jan.01	Cash A/c	Dr.	6,000	
	Bank A/c	Dr.	55,000	
	Stock A/c	Dr.	40,000	
	Tarun	Dr.	10,000	
	To Rohan			6,000
	To Capital A/c			1,05,000
	(Balance brought from the last month)			
Jan.05	Karuna	Dr.	15,000	
	To Sales A/c			15,000
	(Goods sold to Karuna)			

Long Answer Type Questions:

Q1. Describe the events recorded in accounting systems and the importance of source documents in those systems?

Answer : It is beyond human capabilities to memorise each financial transaction and that is why, source documents have their own importance in accounting system. They are considered as an evidence of transactions and can be presented in the court of law. Transactions supported by evidence can be verified. Source documents also ensure that transactions recorded in the books are free from personal biases.

A few events that are supported by source document are given below.

1. Sale of goods worth Rs 200 on credit, supported by sales invoice/bill
2. Purchase of goods worth Rs 500 on credit, supported by purchase invoice/bill
3. Cash sales worth Rs 1,000, supported by cash memo
4. Cash purchase of goods worth Rs 400, supported by cash memo
5. Goods worth Rs 100 returned by customer, supported by credit note

6. Return of goods purchased on credit worth Rs 200, supported by debit note
7. Payment worth Rs 1,200 through bank, supported by cheques
8. Deposits into bank worth Rs 500, supported by pay-in slips.

Out of the above events, only those events that can be expressed in monetary terms, are recorded in the books of accounts. However, the non-monetary events are not recorded in accounts; for example, promotion of manager cannot be recorded but increment in salary can be recorded at the time when salary is paid or due.

Source document in accounting is important because of the below given reasons.

1. It provides evidence that transaction has actually occurred.
2. It provides information about the date, amount and parties involved and other details of a particular transactions.
3. It acts as an evidence in the court of law.
4. It helps in verifying the transaction during the auditing process.

Q2. Describe how debits and credits are used to analyse transactions.

Answer :

Debit originated from the Italian word debito, which in turn is derived from the Latin word debeo, which means 'owed to proprietor' and credit comes from the Italian word credito, which is derived from the Latin word credo, which means belief, i.e., 'owed by proprietor'.

According to the dual aspect concept, all the business transactions that are recorded in the books of accounts, have two aspects- debit and credit. The dual aspect can be better understood by the help of an example; bought goods worth Rs 500 on cash. This transaction affects two accounts with the same amount simultaneously. As goods are brought in exchange of cash, so the cash balances in the business reduce by Rs 500, i.e. why the cash account is credited. Simultaneously, the amount of goods increases by Rs 500, so purchases account will be debited. Debit and credit depend on the nature of accounts involved; such as assets, expenses, income, liabilities and capital. There are five types of Accounts.

1. Assets- These include all properties or legal rights owned by a firm for its operations, such as cash in hand, plant and machinery, bank, land, building, etc. All assets have debit balance. If assets increase, they are debited and if assets decrease, they are credited.

For example, furniture purchased and payment made by cheque. The journal entry is:

Furniture A/c Dr.
To Bank A/c

Here, furniture and bank balance, both are assets to the firm. As furniture is purchased, so furniture account will increase, and will be debited. On the other hand, payment of furniture is being made by cheque that reduces the bank balance of the business, so bank account will be credited.

2. Expense- It is made to run business smoothly and to carry day to day business activities.

All expenses have debit balance. If an expense is incurred, it must be debited.

For example, rent paid. The journal entry is:

Rent A/c Dr.
To Cash A/c

Here, rent is an expense. All expenses have debit balance. Hence, rent is debited. On the other hand, as rent is paid in cash that reduces the cash balances, so cash account is credited.

3. Liability- Liability is an obligation of business. Increase in liability is credited and decrease in liability is debited.

For example, loan taken from bank. The journal entry is:

Bank A/c Dr.

To Bank Loan A/c

Here, loan from bank is a liability to the firm. As all liabilities have credit balance, so loan from bank has been credited because it increases the liabilities.

4. Income- Income means profit earned during an accounting period from any source. Income also means excess of revenue over its cost during an accounting period. Income has credit balance because it increases the balance of capital.

For example, rent received from tenant. The journal entry is:

Cash A/c Dr.

To Rent A/c

Here, rent is an income; hence, rent account has been credited and cash has been debited, as rent received increases the cash balances.

5. Capital- Capital is the amount invested by the proprietor in the business. Capital has credit balance. Increase in capital is credited and decrease in capital is debited

For example, additional capital introduced by owner. The journal entry is:

Cash A/c Dr.

To Capital A/c

As additional capital is introduced, so the amount of capital will increase, i.e. why, capital account is credited. On the other hand, as capital is introduced in form of cash, so the cash balances decrease, i.e. why, cash account is debited.

Q3. Describe how accounts are used to record information about the effects of transactions?

Answer :

Every transaction is recorded in the original book of entry (journal) in order of their occurrence; however, if we want to know that how much we receive from our debtors or how much to pay to the creditors, it is not possible to determine at a single movement. Hence, we prepare accounts to know the position of business activities in the meantime.

There are some steps to record transactions in accounts; it can be easily understood with the help of an example.

Sold goods to Mr A worth Rs 50,000 on 12th April and received payment Rs 40,000 on 25th April. The following journal entries will be recorded:

	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
Apr.12	A's A/c Dr. To Sales (Goods sold on credit to Mr. A)	22 18	50,000	50,000
Apr.25	Cash A/c Dr. To A's A/c (Cash received from Mr. A)	13 22	40,000	40,000

Step 1- Locate the account in ledger, i.e., Mr A's Account.

Step 2- Enter the date of transaction in the date column of the debit side of Mr A's Account.

Step 3- In the 'Particulars' column of the debit side of Mr A's Account, the name of corresponding account is to be written, i.e., 'Sales'.

Step 4- Enter the page number of the ledger in the Journal Folio (J.F.) column of Mr A's Account.

Step 5- Enter the amount in the 'Amount' column.

Step 6- Same steps are to be followed to post entries in the credit side of Mr A's Account.

Step 7- After entering all the transactions for a particular period, balance the account by totalling both sides and write the difference in shorter side, as 'Balance c/d'.

Step 8- Total of account is to be written on either sides.

Q4 . What is a journal? Give a specimen of journal showing at least five entries.

Answer : Journal is derived from the French word Jour, means daily records. In this book, transactions are recorded in order of their occurrence, i.e., in chronological order from the source document. It is also termed as the book of original entry and each transaction is termed as journal entry.

Performa of Journal
In the books of.....

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

Date- Date of transaction is recorded in the order of their occurrence.

Particulars- Details of business transactions like, name of the parties involved and the name of related accounts, are recorded.

L.F.- Page number of ledger account when entry is posted.

Debit Amount- Amount of debit account is written.

Credit Amount- Amount of credit account is written.

1)	Started business with cash Rs 1,00,000	Date
2)	Open a bank account Rs 20,000	April 01
3)	Purchase goods for cash Rs 25,000	April 03
4)	Goods sold for cash Rs 30,000	April 04
5)	Goods sold to Mr. X Rs 2,000	April 05
		April 06

Books of Mr A
Journal

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
April 1	Cash A/c To Capital A/c (Started business with cash)	Dr.	1,00,000	1,00,000
April 3	Bank A/c To Cash A/c (Bank account opened with cash)	Dr.	20,000	20,000
April 4	Purchase A/c To Cash (Goods purchased for cash)	Dr.	25,000	25,000
April 5	Cash A/c To Sales A/c (Goods sold for cash)	Dr.	30,000	30,000
April 6	Mr. X's A/c	Dr.	2,000	

Q5. Differentiate between source documents and vouchers.

Answer :

Basis of Difference	Source Documents	Vouchers
Meaning	It refers to the documents in writing, containing the details of events or transactions.	When source document is considered as evidence of an event or transaction, then it is called voucher.
Purpose	It is used for preparing accounting vouchers.	It is used for analysing the transactions.
Recording	It acts as a basis for preparing accounting voucher that helps in recording.	It acts as a basis for recording transactions.
Preparation	It is prepared at the time when an event or a transaction occurs.	It can be prepared either when an event or a transaction occurs, or later on.
Legality/Validity	It can be used as evidence in the court of law.	It can be used for assessing the authentication of transactions.
Prepared By	It is prepared by the persons who are directly involved in the transactions, or who are authorised to prepare or approve these documents.	It is prepared by the authorised persons or by the accountants.
Examples	Cash memo, invoice, and pay-in-slip, etc.	Cash memo, invoice, pay-in-slip (if used as evidence), debit note, credit note, cash vouchers, transfer vouchers, etc.