

## 4.5 Illustrations

### Example 1:

January 1, 2004 – Saravanan started business with Rs. 1,00,000.

#### Analysis of Transaction

Step 1	Determine the two accounts involved in the transaction.	Cash Account	Capital Account
Step 2	Classify the accounts under personal, real or nominal.	Real Account	Personal Account
Step 3	Find out the rules of debit and credit.	2(a) Debit what comes in.	1(b) Credit the giver
Step 4	Identify which account is to be debited and credited.	Cash A/c is to be debited	Capital A/c is to be credited

### Solution :

#### Journal

Date	Particulars	L.F	Debit		Credit	
			Rs.	P.	Rs.	P.
2004 Jan 1	Cash A/c Dr. To Capital A/c (The amount invested in the business)	12 45	1,00,000	–	1,00,000	–

The Ledger Folio column indicates 12 against Cash Account which means that Cash Account is found in page 12 in the ledger and this debit of Rs.1,00,000 to Cash A/c can be seen on that page. Similarly 45 against Capital A/c indicates the page number in which Capital account is found and the credit of Rs.1,00,000 indicated there in.

### Example 2:

Jan. 3, 2004 : Received cash from Balan Rs. 25,000

#### Analysis of Transaction

Step 1	Determine the two accounts involved in the transaction.	Cash Account	Balan Account
Step 2	Classify the accounts under personal, real or nominal.	Real Account	Personal Account
Step 3	Find out the rules of debit and credit.	2(a) Debit what comes in.	1(b) Credit the giver
Step 4	Identify which account is to be debited and credited.	Cash A/c is to be debited	Balan A/c is to be credited

### Solution :

#### Journal

Date	Particulars	L.F	Debit		Credit	
			Rs.	P.	Rs.	P.
2004 Jan 3	Cash A/c Dr. To Balan's A/c (Cash received from Balan)	12 81	25,000	–	25,000	–

The Ledger Folio column indicates 12 against Cash Account which means that Cash Account is found in page 12 in the ledger and this debit of Rs.25,000 to Cash A/c can be seen on that page. Similarly 81 against Balan A/c indicates the page number in which Balan Account is found and the credit of Rs.25,000 indicated there in.

**Example 3:** July 7, 2004 – Paid cash to Perumal Rs.37,000.

**Analysis of Transaction**

Step 1	Determine the two accounts involved in the transaction.	Perumal Account	Cash Account
Step 2	Classify the accounts under personal, real or nominal.	Personal Account	Real Account
Step 3	Find out the rules of debit and credit.	1(a) Debit the receiver	2(b) Credit what goes out
Step 4	Identify which account is to be debited and credited.	Perumal A/c is to be debited	Cash A/c is to be credited

**Solution :** **Journal**

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

**Example 4:** Feb. 7, 2004 – Bought goods for cash Rs. 80,000.

**Analysis of Transaction**

Step 1	Determine the two accounts involved in the transaction.	Purchases Account	Cash Account
Step 2	Classify the accounts under personal, real or nominal.	Real Account	Real Account
Step 3	Find out the rules of debit and credit.	2(a) Debit what comes in	2(b) Credit what goes out
Step 4	Identify which account is to be debited and credited.	Purchases A/c is to be debited	Cash A/c is to be credited

**Solution:** **Journal**

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

**Example 5:** March 10, 2004 – Cash sales Rs.90,000.

**Analysis of Transaction**

Step 1	Determine the two accounts involved in the transaction.	Cash Account	Sales Account
Step 2	Classify the accounts under personal, real or nominal.	Real Account	Real Account
Step 3	Find out the rules of debit and credit.	2(a) Debit what comes in	2(b) Credit what goes out
Step 4	Identify which account is to be debited and credited.	Cash A/c is to be debited	Sales A/c is to be credited

**Solution:** **Journal**

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

**Example 6:** March 15, 2004 – Sold goods to Jaleel on credit Rs.1,00,000.

**Analysis of Transaction**

Step 1	Determine the two accounts involved in the transaction.	Jaleel Account	Sales Account
Step 2	Classify the accounts under personal, real or nominal.	Personal Account	Real Account
Step 3	Find out the rules of debit and credit.	1(a) Debit the receiver	2(b) Credit what goes out
Step 4	Identify which account is to be debited and credited.	Jaleel A/c is to be debited	Sales A/c is to be credited

**Solution :** **Journal**

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

**Example 7:** March 18, 2004 – Purchased goods from James on credit Rs.1,50,000.

**Analysis of Transaction**

Step 1	Determine the two accounts involved in the transaction.	Purchases Account	James Account
Step 2	Classify the accounts under personal, real or nominal.	Real Account	Personal Account
Step 3	Find out the rules of debit and credit.	2(a) Debit what comes in	1(b) Credit the giver
Step 4	Identify which account is to be debited and credited.	Purchases A/c is to be debited	James A/c is to be credited

**Solution :** **Journal**

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

**Example 8:** March 20, 2004 – Returned goods from Jaleel Rs.5,000.

**Analysis of Transaction**

Step 1	Determine the two accounts involved in the transaction.	Sales Return Account	Jaleel Account
Step 2	Classify the accounts under personal, real or nominal.	Real Account	Personal Account
Step 3	Find out the rules of debit and credit.	2(a) Debit what comes in	1(b) Credit the giver
Step 4	Identify which account is to be debited and credited.	Sales return A/c is to be debited	Jaleel A/c is to be credited

**Solution :** **Journal**

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

**Example 9:** March 25, 2004 – Goods returned to James Rs.7,000.

**Analysis of Transaction**

Step 1	Determine the two accounts involved in the transaction.	James Account	Purchases return Account
Step 2	Classify the accounts under personal, real or nominal.	Personal Account	Real Account
Step 3	Find out the rules of debit and credit.	1(a) Debit the receiver	2(b) Credit what goes out
Step 4	Identify which account is to be debited and credited.	James A/c is to be debited	Purchases return A/c is to be credited

**Solution :** **Journal**

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

**Example 10:** March 25, 2004 – Paid salaries in cash Rs.6,000.

**Analysis of Transaction**

Step 1	Determine the two accounts involved in the transaction.	Salaries Account	Cash Account
Step 2	Classify the accounts under personal, real or nominal.	Nominal Account	Real Account
Step 3	Find out the rules of debit and credit.	3(a) Debit all expenses & losses	2(b) Credit what goes out
Step 4	Identify which account is to be debited and credited.	Salaries A/c is to be debited	Cash A/c is to be credited

**Solution:** **Journal**

Date	Particulars	LF	Debit		Credit	
			Rs.	P.	Rs.	P.
2004 March 25	Salaries A/c Dr. To Cash A/c (Salaries paid)		6,000	–	6,000	–

**Example 11:** April 14, 2004 – Commission received Rs.5,000.

**Analysis of Transaction**

Step 1	Determine the two accounts involved in the transaction.	Cash Account	Commission Account
Step 2	Classify the accounts under personal, real or nominal.	Real Account	Nominal Account
Step 3	Find out the rules of debit and credit.	2(a) Debit what comes in	3(b) Credit all incomes & gains
Step 4	Identify which account is to be debited and credited.	Cash A/c is to be debited	Commission A/c is to be credited

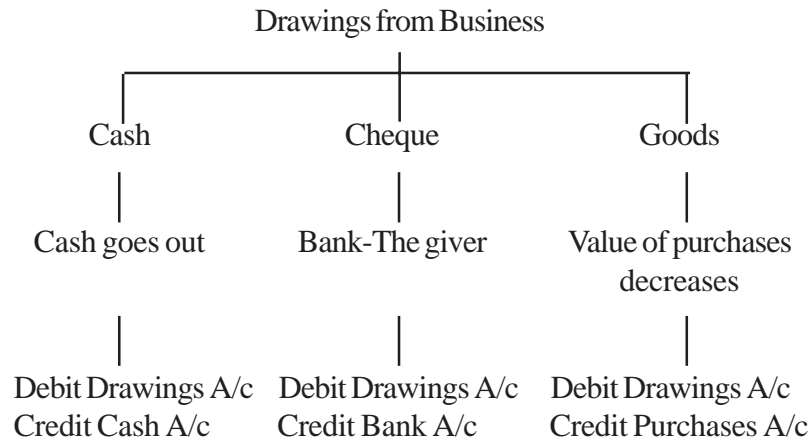
**Solution:** **Journal**

Date	Particulars	LF	Debit		Credit	
			Rs.	P.	Rs.	P.
2004 April 14	Cash A/c Dr. To Commission A/c (Commission received)		5,000	–	5,000	–

**4.5.1 Capital and Drawings**

It is important to note that business is treated as a separate entity from the business man. All transactions of the business have to be analysed from the business point of view and not from the proprietor's

point of view. The amount with which a trader starts the business is known as **Capital**. The proprietor may withdraw certain amounts from the business to meet personal expense or goods for personal use. It is called **Drawings**.



**Example 12:** January 31, 2004 – Saravanan withdrew for personal use Rs. 20,000.

#### Analysis of Transaction

Step 1	Determine the two accounts involved in the transaction.	Drawings Account	Cash Account
Step 2	Classify the accounts under personal, real or nominal.	Personal Account	Real Account
Step 3	Find out the rules of debit and credit.	1(a) Debit the receiver	2(b) Credit what goes out
Step 4	Identify which account is to be debited and credited.	Drawings A/c is to be debited	Cash A/c is to be credited

#### Solution: Journal

Date	Particulars	L.F	Debit		Credit	
			Rs.	P.	Rs.	P.
2004 Jan. 31	Drawings A/c Dr. To Cash A/c (The amount withdrawn for personal use)		20,000	–	20,000	–

#### 4.5.2 Bank Transactions

Bank transactions that occur often in the business concerns are cash paid into bank, cheques and bills received from customers paid into bank for collection, payment of cheques for expenses and cheques issued to suppliers or creditors. When a cheque is received treat it as cash.

**Example 13:** January 18, 2004 – Opened a current account with Indian Overseas Bank Rs.10,000.

#### Analysis of Transaction

Step 1	Determine the two accounts involved in the transaction.	Bank Account	Cash Account
Step 2	Classify the accounts under personal, real or nominal.	Personal Account	Real Account
Step 3	Find out the rules of debit and credit.	1(a) Debit the receiver	2(b) Credit what goes out
Step 4	Identify which account is to be debited and credited.	Bank A/c is to be debited	Cash A/c is to be credited

#### Solution: Journal

Date	Particulars	L.F	Debit		Credit	
			Rs.	P.	Rs.	P.
2004 Jan 18	Indian Overseas Bank A/c Dr. To Cash A/c (Opened a current A/c.)		10,000	–	10,000	–

**Example 14:** Feb 3, 2004 – Rent paid by cheque Rs. 5,000.

**Analysis of Transaction**

Step 1	Determine the two accounts involved in the transaction.	Rent Account	Bank Account
Step 2	Classify the accounts under personal, real or nominal.	Nominal Account	Personal Account
Step 3	Find out the rules of debit and credit.	3(a) Debit all expenses & losses	1(b) Credit the giver
Step 4	Identify which account is to be debited and credited.	Rent A/c is to be debited	Bank A/c is to be credited

**Solution:** **Journal**

Date	Particulars	L.F	Debit		Credit	
			Rs.	P.	Rs.	P.
2004 Feb 3	Rent A/c Dr. To Bank A/c (Rent paid by cheque No.)		5,000	–	5,000	–

**Example 15:** March 5, 2004 – Received cheque from Elavarasan Rs.20,000.

**Analysis of Transaction**

Step 1	Determine the two accounts involved in the transaction.	Cash Account	Elavarasan Account
Step 2	Classify the accounts under personal, real or nominal.	Real Account	Personal Account
Step 3	Find out the rules of debit and credit.	2(a) Debit what comes in	1(b) Credit the giver
Step 4	Identify which account is to be debited and credited.	Cash A/c is to be debited	Elavarasan A/c is to be credited

**Solution:** **Journal**

Date	Particulars	L.F	Debit		Credit	
			Rs.	P.	Rs.	P.
2004 March 5	Cash A/c Dr. To Elavarasan A/c (Cheque received but not paid into bank)		20,000	–	20,000	–

**Example 16:** March 15, 2004 – Cheque received from Santhosh Rs.30,000 and immediately banked.

**Analysis of Transaction**

Step 1	Determine the two accounts involved in the transaction.	Bank Account	Santhosh Account
Step 2	Classify the accounts under personal, real or nominal.	Personal Account	Personal Account
Step 3	Find out the rules of debit and credit.	1(a) Debit the receiver	1(b) Credit the giver
Step 4	Identify which account is to be debited and credited.	Bank A/c is to be debited	Santhosh A/c is to be credited

**Solution:** **Journal**

Date	Particulars	L.F	Debit		Credit	
			Rs.	P.	Rs.	P.
2004 March 15	Bank A/c Dr. To Santhosh A/c (Cheque received and immediately banked)		30,000	–	30,000	–



bad debts account is debited because the unrealised amount is a loss to the business and the customer's account is credited.

**Example 21 :** Jamuna who owed us Rs.10,000 is declared insolvent and 25 paise in a rupee is received from her on 15th July, 2003.

**Solution:**

#### Journal

Date	Particulars	LF	Debit		Credit	
			Rs.	P.	Rs.	P.
2003	Cash A/c Dr.		2,500	–		
July 15	Bad Debts A/c Dr. To Jamuna A/c (25 paise in a rupee received on her insolvency)		7,500	–	10,000	–

#### Bad Debts Recovered

Some times, it so happens that the bad debts previously written off are subsequently recovered. In such case, cash account is debited and bad debts recovered account is credited because the amount so received is a gain to the business.

**Example 22:** Received cash for a Bad debt written off last year Rs.7,500 on 18th January, 2004.

**Solution:**

#### Journal

Date	Particulars	LF	Debit		Credit	
			Rs.	P.	Rs.	P.
2004	Cash A/c Dr.		7,500	–		
Jan 18	To Bad debts recovered A/c (Bad debts recovered)				7,500	–

#### 4.5.5 Opening Entry

Opening Entry is an entry which is passed in the beginning of each current year to record the closing balance of assets and liabilities of the previous year. In this entry asset accounts are debited and liabilities and capital account are credited. If capital is not given in the question, it will be found out by deducting total of liabilities from total of assets.

**Example 23:** The following balances appeared in the books of Malarkodi as on 1st January 2004 – Cash Rs. 7,000, Bank Rs.70,000, Stock Rs.80,000, Furniture Rs.10,000, Computer Rs.50,000, Debtors Rs.33,000 and Creditors Rs.90,000.

The opening entry is

#### Journal

Date	Particulars	LF	Debit		Credit	
			Rs.	P.	Rs.	P.
2004	Cash A/c Dr.		7,000	–		
Jan 1	Bank A/c Dr.		70,000	–		
	Stock A/c Dr.		80,000	–		
	Debtors A/c Dr.		33,000	–		
	Furniture A/c Dr.		10,000	–		
	Computer A/c Dr.		50,000	–		
	To Creditors A/c				90,000	–
	To Capital A/c (Balancing figure) (Assets and liabilities brought forward)				1,60,000	–

#### 4.5.6 Advantages

The main advantages of the Journal are:

1. It reduces the possibility of errors.
2. It provides an explanation of the transaction.
3. It provides a chronological record of all transactions.

#### 4.5.7 Limitations

The limitations of the Journal are:

1. It will be too long if all transactions are recorded here.
2. It is difficult to ascertain the balance of each account.