Unit 1: Basic Accounting Procedures: Journal Entries

CH 2A

"Experience are like waves, they come to you on shore of life, drag the sand from beneath your feet, but each wave makes you stand on a new base,"

DOUBLE ENTRY SYSTEM OF ACCOUNTING

1. Origin: Modern Accounting is based on Double Entry System which was developed in the 15th Century in Italy by Luca Pacioli, a philosopher turned mathematician. His work / treatise "Summa de Arithmetica, Geometria and Proportioni et Proportionalita" ("Everything about Arithmetic Geometry, Proportions and Proportionality"), forms the basis of present-day double entry system.
2. Meaning:
   (a) The Double Entry System is a system which analyses transactions and events into two aspects, as per the Dual Aspect Concept. In accounting terms, these two aspects are called Debit and Credit.
   (b) The Double Entry system recognizes and records both the aspects (i.e. Debit and Credit) of every transaction and event in a systematic manner.
3. Significance / Advantages: The Double Entry System -
   (a) Ensures arithmetical accuracy of accounting process, so that at all points of time the total of Debits equal to the sum of Credits.
   (b) Provides basis for the fundamental accounting equation, i.e. Equity + Liabilities= Assets.
   (c) Permits maintenance of accounts, in as much details as necessary, and provides a useful information system for decision -making process.
   (d) Provides smooth and effective comparison of financial information over various time periods.
   (e) Helps in ascertainment of the correct profit / loss; along with details thereof, i.e. result of operations or performance during the period.
   (f) Aids in reporting the financial position as on a particular date, i.e. Balance Sheet can be prepared.
   (g) Ensures compliance with legal requirements, e.g. Companies Act requires maintenance of -accounting records under Double-Entry System only.

ACCOUNT - MEANING

1. Meaning: Under the Double Entry System, the Dual Aspects (Debit and Credit) relating to each transaction under each of Assets / Liabilities / Incomes / Expenses are presented in a "T" Form. This is called as an Account.
2. An "Account" represents a detailed record of transactions and changes that have occurred in a particular Asset, Liability, Expenses, Loss, Gain or Capital during an accounting period.
3. The Left Hand Side of the "T" Form Account is called Debit side (in short Dr.), and the Right Hand Side of the Account is called as Credit Side (in short Cr.).
4. The terms Debit (Dr.) and Credit (Cr.) only describe the two sides of the Account. (Note: Debit and Credit does not mean unfavourable and favourable respectively.)

Model Format of an "Account"

Dr. ◄——► Left Side ◄——————► Account ◄——————► Right Side ◄——► Cr.

Date	Particulars	Ref.	Amount (₹)	Date	Particulars	Ref.	Amount (₹)
	Opening Bal.		XXX		---- Transactions		XXX
	---- Transactions		XXX				XXX
			XXX				XXX
			XXX		Closing Bal.		XXX
	Total		XXXXX		Total		XXXXX

Notes:

(a) "Ref." represents 'Reference" - The source from which the transactions are recorded in the Account.

(b) Entries on the left side are prefixed by "TO". Entries on the right side are "BY".

(c) Opening Balance will be on the left side for Debit Balance accounts. It will be on credit side for Credit Balance Accounts.

APPROACHES TO ACCOUNTING – 2 METHODS

To analyse the Dual Aspect of each transaction, the following approaches can be applied —

1. Accounting Equation Approach: Here, the dual aspect of each transaction is identified by reference to the impact on the basic accounting equation, i.e. Equity + Liabilities = Assets.

2. Traditional Approach: Each transaction is recorded in the books by reference to the rules of Debit and Credit only. These Rules are called Golden Rules of Accounting.

ACCOUNTING EQUATION APPROACH

1. Basis: The transactions that are to be recorded on the debit side (left side) and on the credit side (right side) depends on the nature of item for which account is to be prepared i.e. whether the account represents an Asset / Liability /Expense / Income / Capital.

2. The rules for debiting / crediting the various account types are given below
   (a) Increase in Equity / Liabilities / Incomes represent Credits, while decreases thereof are Debits.
   (b) Increase in Assets / Expenses represent Debits, while decreases thereof are Credits.

3. Nature of Balance: An A/c may have any ONE of the following balances - (Only one type of balance possible at a time)

"Debit Balance Account"	Total of Debit Side > Total of Credit Side
"Credit Balance Account"	Total of Credit Side > Total of Debit Side
"Nil Balance Account"	Total of Debit Side = Total of Credit Side

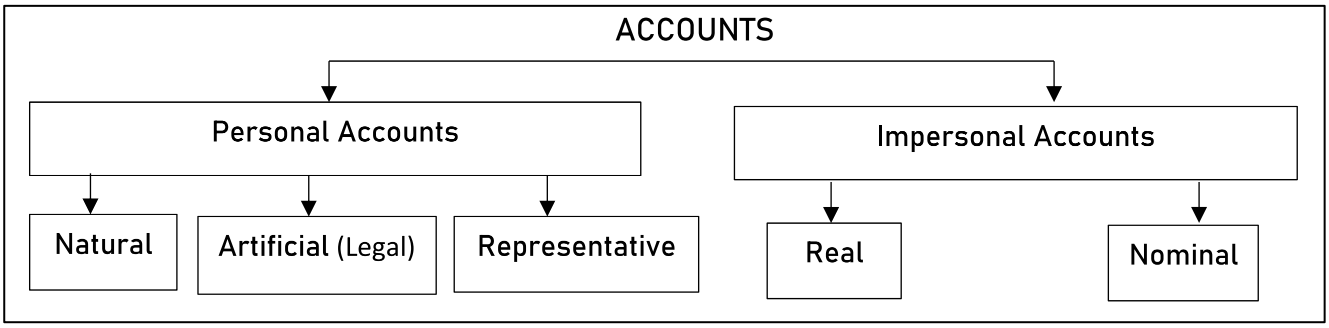
4. Type of Account and Nature of Balance:

Type of Account	Debit Side Records	Credit Side Records	Nature of Balance
Assets	Increases	Decreases	Debit Balance
Liabilities	Decreases	Increases	Credit Balance
Capital	Decreases	Increases	Credit Balance
Incomes	Decreases	Increases	Credit Balance
Expenses	Increases	Decreases	Debit Balance

TRADITIONAL APPROACH – GOLDEN RULES OF ACCOUNTING

1. This is commonly used method for accounting the transactions. These rules form basis for accounting.
2. Principle: The Golden Rules of Accounting in respect of the Double Entry System are –

Nature of Account	When Debited	When Credited
1. Personal Account	Debit the Receiver	Credit the Giver
2. Real Account	Debit What comes in	Credit What goes out
3. Nominal Account	Debit All Expenses and Losses	Credit All Incomes and Gains



	Type of Account	Description and Examples
Personal Accounts	Natural Personal Accounts	All Accounts which record transactions of Natural human beings, i.e. Ram, Lakshman, Krishna, Joseph, Kabir, Debtors, Creditors etc.
Personal Accounts	Artificial (Legal) Personal Accounts	All Accounts which record the transactions with other business entities having separate legal status for accounting purposes, i.e. Ram Industries Ltd. (Company), Government, Co-operative Societies, Clubs, etc.
Personal Accounts	Representative Personal Accounts	All Accounts which indirectly represent persons. *For Example* Name of the Account — Indirectly represents Capital Account — Owner Outstanding Expenses — Service Provider / Supplier Prepaid Expenses — Service Provider / Supplier Accrued Incomes — Customers Pre Received Income — Customers
Impersonal Accounts	Real Accounts	All Accounts which record transactions relating to Assets of the Firm (but not except those covered under Personal A/c above - i.e. Debtors, Prepaid expenses etc.) *For Example*: Building, Machinery, Cash, Investments, etc.
Impersonal Accounts	Nominal Accounts	All Accounts which record transactions relating to – • Incomes / Gains, e.g. Sales, Rent / Interest / Dividend / Commission Received, Profit on Sale of Fixed Assets, etc. • Expenses / Losses, e.g. Salary, Wages, Rent Paid, Insurance, Bad Debts, Depreciation, Discounts allowed, etc.

MEANING OF PROFITS / LOSSES AND FINANCIAL POSITION

1. Profit / Losses: The Main Purpose of a business is to achieve profits. "Profits" means Excess of Incomes over expenses. "Losses" refers to excess of Expenses over Incomes. Hence, Profits / Losses are concerned with Incomes / Gains and Expenses / Losses of the business. (Otherwise called as Operating Results)
2. Financial Position: It refers the wealth of the business. A business is wealthier when it has more assets and less outside liabilities. Hence, Financial Position is concerned with the assets and Liabilities of the business.

DETERMINATION OF PROFITS / LOSSES AND FINANCIAL POSITION

1. The Operating Results and Financial Position of the business can be determined through any of the following methods (a) Accounting Equation Approach (b) Traditional Approach.

2. Using Accounting Equation Approach:

Purpose	Method of Determination
Determination of Profits / Losses	Step I: Find difference between [Closing Capital – Opening Capital] Step II: If Difference > 0 = Profits; If Difference < 0 = Losses Note: Capital = Total Assets – Total Liabilities
Determination of Financial Position	A Statement is prepared showing all ASSETS on right side and all LIABILITIES on left side. Total of Assets and Liabilities shall be equal.

3. Using Traditional Approach: (This is the popular method)

Purpose	Method of Determination
Determination of Profits / Losses	2 Accounts –"Trading Account & Profit & Loss Account' prepared Those two accounts compare the Incomes and Expenses to ascertain the profits.
Determination of Financial Position	Balance Sheet is prepared: It is a Statement showing all ASSETS on right side and of all LIABILITIES on left side. The Total of Assets and Liabilities shall be equal.

JOURNAL - MEANING

1. Meaning:
   (a) Journal is the Book of Primary Entry / Book of Original Entry.
   (b) It is the Initial Accounts Book in which the transactions are RECORDED on their occurrence.
   (c) Entry is made in this book to show which Account should be debited and which Account should be credited.
2. Features of Journal:
   (a) Once a transaction happens, it is analysed to determine the Debit aspect and Credit aspect and entered in Journal.
   (b) All transactions are first recorded in the Journal Book as and when they occur. Hence, the Journal is maintained in chronological, i.e. Date -wise order.
   (c) The Journal is referred to as Subsidiary Book (as entries are posted from this book into Ledger subsequently.)

3. Purposes of Journal: Based on Dual Aspect Concept, every transaction has two equal aspects - Debit and Credit. Hence, it is essential to identify the accounts which are involved and to decide the accounts to be debited / credited.
4. Journalising: Recording entries in Journal is called "Journalising the Entries". Each entry is called as "Journal Entry".
5. Source for recording: The sources available for recording in the Journal are (a) Vouchers (b) Documents (c) Invoices.
   (Note: Source documents means all documents in books which contain financial records & act as evidence of transactions)
6. The format of the Journal is as under –

Date	Particulars	Ledger Folio (LF)	Debit Amt (₹)	Credit Amt (₹)
(1)	(2)	(3)	(4)	(5)
31.01.23	Cash A/c Dr.	100	10,000	
	To X A/c	250		10,000
	(Being Cash received from X			

Narration

Cash A/c is in 100th Page in Ledger

EQUAL

7. Types of Journal Entries:

Type	Meaning
Simple Journal Entry	One Debit and One Credit present for equal amount
Compound Journal Entry	It is a journal entry which contains one debit and two or more credits / two or more debits and one credit/ two or more debits and credits.

8. Advantages of Journal:
   (a) Since Journal is maintained in chronological, i.e. date wise order, complete information on day-to-day transactions can be obtained.
   (b) Journal forms the basis for posting the entries into the Ledger subsequently.
   (c) Narration to Journal Entries provides explanation for the nature and purpose of transaction.

9. Subsidiary Books: In certain cases, instead of Journal, Subsidiary Books are maintained.

ACCOUNTING FOR GST

Introduction to GST

Goods and Services Tax (GST) is a comprehensive Indirect Tax* which has subsumed multiple Indirect Taxes in India such as State Value added Tax (VAT) which was levied on sale of goods, Excise Duty, which was levied on manufacture or production of goods, Service Tax which was levied on provision of services etc. GST is a single tax on the supply of goods and services, right from the manufacturer to consumer.

** An indirect tax is a tax whose incidence is borne by the consumers who ultimately consume the product or service. The immediate liability to pay the tax may fall upon another person such as a manufacturer or provider of service or seller of goods, but the same is collected from the person purchasing the goods (recipient of goods or services).*

Salient features of GST

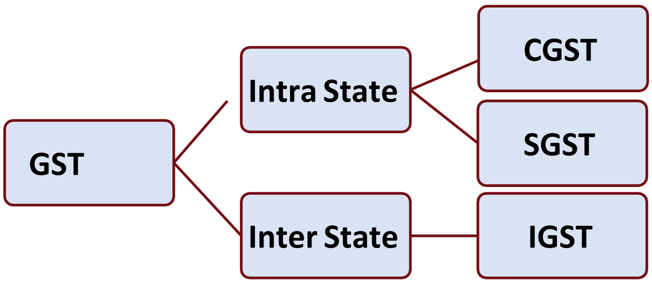
a) GST is levied on supply i.e., manufacture or sale of goods and provision of services. In other words, supply is taxable event which own its occurrence creates or attracts the liability to pay tax.
b) Under GST, tax is levied only on the value added at each stage of the supply chain.
c) GST is a destination-based consumption tax, i.e. the tax is levied at the place where the goods or services are consumed, rather than the place where they are produced.
d) There is no tax on tax or cascading of taxes under GST system.
e) Under GST, there is a harmonization of laws, procedures and rates of tax across the country.

Types of Taxes under GST

Before going through the types of taxes under GST, it is important to understand the concept of intra-State supply and inter-State supply under GST which determines the type of tax to be charged by the supplier. The Concept of intra-state supply & inter-state supply depends upon on the location of the supplier & place of supply (place where goods/services are consumed. As a general rule, where the location of the supplier and the place of supply of goods or services are in the same State/Union territory, it is treated as intra-State supply of goods or services respectively.
Similarly, where the location of the supplier and the place of supply of goods or services are in (i) two different States or (ii) two different Union Territories or (iii) a State and a Union territory, it is treated as inter-State supply of goods or services respectively.

GST has a dual aspect with the Centre and States simultaneously levying on a common tax base. There are three main components of GST which are:
a) Central Goods and Service Tax (CGST) is levied and collected by the Centre on the "Intra - State" supply of goods and services.
b) State Goods and Services Tax (SGST) is levied and collected by the State Governments (including Union Territories with legislature, for example Delhi, Pondicherry, Jammu and Kashmir) on "Intra state" supply of goods and services
c) Union Territory Goods and Service Tax (UTGST) is levied and collected by Union Territories without Legislatures [i.e. Andaman and Nicobar Islands, Lakshadweep, Ladakh, Dadra and Nagar Haveli & Daman and Diu and Chandigarh] on "intra-state" supply of goods and services.
d) Integrated Goods and services tax (IGST): It is the GST levied on the "inter state" supply of goods and services and is collected by the Centre. IGST is equivalent to the sum total of CGST and SGST.

GST is a "Consumption Based Tax" i.e. the tax is received by the State in which the goods or services are consumed & not by the state in which the goods and services are manufactured.



Input and Output GST

The tax paid by the recipient on procurement of goods /services is called Input tax. An entity at each stage is permitted to avail credit of GST paid on the purchase of goods and /or availment of services and can set off this credit against the GST payable on the goods and/or services supplied by him. Thus, the final consumer bears the GST charged in the supply chain, with set-off benefits at all the previous stages. Hence, the tax will be levied only on the value added, which results in avoiding double taxation.

For example, if tax payable by a manufacturer on the output, i.e. final product is ₹750 and he has already paid tax on ₹500 on input, i.e. purchases, then he can claim 'Input Credit' of ₹500 and he needs to deposit only ₹250 in cash.

Output tax means the GST charged on supply of goods or services made by a supplier.

Input tax means the credit of Input tax already paid.

Utilisation of Input Tax Credit under GST

Tax credit of CGST, SGST and IGST can be utilized in the following manner:

- Utilization of IGST Credit: IGST credit has to be first utilized against IGST liability and if any balance is still available, the same can be utilized against CGST or/and SGST in any order and in any proportion.
- Utilization of CGST Credit: CGST credit has to be first utilized against CGST liability and if any balance is available, same can be utilized against IGST. However, CGST credit cannot be utilized against SGST.
- Utilization of SGST Credit: SGST credit has to be first utilized against SGST liability and if any balance is available, same can be utilized against IGST. However, SGST credit cannot be utilized against CGST.

	Input GST (credit can be availed, hence asset)	Output GST (charged to the consumer, payable by the supplier, hence liability)
Nature	At the time of purchases of goods (including fixed assets) or services, Input GST A/c (CGST & SGST or IGST) is debited.	At the time of sale of goods/assets or supply of services, Output GST A/c (CGST & SGST or IGST) is credited.
Intra-state transaction	CGST paid is debited to "Input CGST A/c" & SGST paid is debited to Input SGST".	CGST charged is credited to "Output CGST A/c" and SGST charged is credited to "Output SGST A/c "
Inter-state transaction	IGST paid is debited to "Input IGST A/c".	IGST charged is credited to "Output IGST A/c"

Reversal of GST	Input GST paid at the time of purchase are reversed in the following situations: • Purchases Return • Drawings • Goods distributed as free samples • Goods distributed as gift (if the same does not qualify as "supply under GST"). • Goods lost in fire or theft. • Input tax credit of supplies which are not allowed to be availed by recipient.	Output GST charged is reversed when the goods are returned by the purchaser.
Utilization of Input tax credit	Input GST A/c is credited when tax is paid by utilizing input tax.	

Double entry book-keeping with GST

The Double entry book-keeping records need to show the GST values separately so that the purchases, expenses and sales are posted net i.e. without the addition of GST.

Journal entry in case of Purchase of Goods or services

Purchases A/c	Dr.	Net Amount (excluding GST)	
Input GST A/c	Dr.	Amount of GST	
To Account Payable/Creditors			Gross Amount (including GST)

Journal entry in case of Sales of Goods or services

Account Receivable/Debtors A/c	Dr.	Gross Amount (including GST)	
To Sales A/c			Net Amount (excluding GST)
To Output GST			Amount of GST

Journal entry in case of Utilization of Input Tax Credit towards payment of Output Tax

Output CGST A/c Dr.	Amount of GST liability
Output SGST A/c Dr.	Amount of GST liability
Output IGST A/c Dr.	Amount of GST liability
To Input CGST A/c	Amount of output GST liability paid utilizing Input CGST
To Input SGST A/c	Amount of output GST liability paid utilizing Input SGST
To Input IGST A/c	Amount of output GST liability paid utilizing Input IGST

ASSIGNMENT QUESTIONS

Question 1 *(ICAI Study Material)* Pg no.______

Following are the transactions entered into by R after he started his business. Show how various accounts will be affected by these transactions:

2023 April		(₹ in 000)
1.	R started business with	5,000
2.	He purchased furniture for	1,200
3.	Paid salary to his clerk	1,100
4.	Paid rent	1,150
5.	Received interest	2,000

Solution

2023 April	Explanation	Accounts Involved	Nature of Accounts	How affected	Debit (₹ in 000)	Credit (₹ in 000)
1.	₹ 5,000 cash invested in business	Bank and R's Capital	Asset Capital	Increased Increased	5,000	5,000
2.	Purchased furniture for ₹ 1,200	Furniture and Bank	Asset Asset	Increased Decreased	1,200	1,200
3.	Paid ₹ 1,100 salary to employee	Salary & Bank	Expense Asset	Increased Decreased	1,100	1,100
4.	Paid Rent ₹ 1,150	Rent & Bank	Expense Asset	Increased Decreased	1,150	1,150
5.	Received interest ₹ 2,000	Cash & Interest	Asset Income	Increased Increased	2,000	2,000

Question 2 *(ICAI Study Material)* Pg no.______

Make accounting equation from following information available at the beginning of accounting period:

Particulars	(₹ in 000)
Capital	51,000
Loan	11,500
Trade payables	5,700
Fixed Assets	12,800
Inventory	22,600
Trade receivables	17,500
Cash and Bank	15,300

At the end of the accounting period the balances appear as follows:

Particulars	(₹ in 000)
Capital	?
Loan	11,500
Trade payables	5,800
Fixed Assets	12,720
Inventory	22,900
Trade receivables	17,500
Cash and Bank	15,600

(a) Reset the equation and find out profit.
(b) Prepare Balance Sheet at the end of the accounting period.

Question 3 *(ICAI Study Material)/(RTP May 2018)/(May 2021)/(Nov 2022) (Similar)* *Pg no.*_____

Prepare Journal Entries for the following transactions in the books of Gamma Bros.

a) Employees had taken inventory worth ₹ 1,00,000 (Cost price ₹ 75,000) on the eve of Deepawali and the same was deducted from their salaries in the subsequent month.
b) Wages paid for erection of Machinery ₹ 18,000
c) Income tax liability of proprietor ₹ 17,000 was paid out of petty cash.
d) Purchase of goods from Naveen of the list price of ₹ 2,00,000. He allowed 10% trade discount, ₹ 5,000 cash discount was also allowed for quick payment.

Question 4 *(ICAI Study Material)* *Pg no.*_____

Mr. Dravid has provided following details related to his financials. Find out the missing figures:

Particulars	(₹ in 000)
Profits earned during the year	5,000
Assets at the beginning of year	A
Liabilities at the beginning of year	12,000
Assets at the end of the year	B
Liabilities at the end of the year	C
Closing capital	35,000
Total liabilities including capital at the end of the year	50,000

Question 5 *(RTP Nov 2018) / (Nov 2019) / (Nov 2020) / (May 2023) (Similar)* *Pg no.*_____

Pass journal entry in each of the following cases.

a) A running business purchased by Mohan with following assets & liabilities: Cash ₹ 2,000, Land ₹ 4,000, Furniture ₹ 1,000, Stock ₹ 2,000, Creditors ₹ 1,000, Bank Overdraft ₹ 2,000.
b) Goods distributed by way of free samples, ₹ 1,000.
c) Rahim became insolvent & could pay only 50 paise in a rupee. Amount due from him ₹ 600.

Question 6 *(ICAI Study Material)* *Pg no.*_____

Journalise the following transactions in the books of Mr. Rohit:

i. Purchased goods from Sahil for ₹ 50,000 plus CGST and SGST @ 9% each.
ii. Purchased goods from Sam for ₹ 40,000 at a trade discount of 10% plus CGST and SGST @ 9% each. ₹ 20,000 was paid immediately and balance payable after 3 months.
iii. Goods costing ₹ 20,000 withdrawn for personal use. Such goods were purchased by paying CGST and SGST @ 9% each.
iv. Paid rent to Gagandeep for ₹ 20,000 plus CGST and SGST @ 6% each.
v. Goods costing ₹ 5,000 (before trade discount of 10%) returned to Sam. Such goods were purchased by paying CGST and SGST @ 9% each.
vi. Purchased furniture for ₹ 44,800 including IGST @ 12%.
vii. Purchased machinery from M/s Symphony industries for ₹ 1,40,000 plus CGST and SGST @ 9% each. Paid ₹ 1,00,000 immediately and balance to be paid after two months.

Solution

In the books of Mr. Rohit

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
(i)	Purchases A/c Dr.		50,000	
	Input CGST A/c (50,000 x 9%) Dr.		4,500	
	Input SGST A/c (50,000 x 9%) Dr.		4,500	
	To Sahil's A/c			59,000

	(Being goods purchased from Sahil, CGST and SGST paid @ 9% each)			
(ii)	Purchases A/c (40,000 x 90%) Dr.		36,000	
	Input CGST A/c (36,000 x 9%) Dr.		3,240	
	Input SGST A/c (36,000 x 9%) Dr.		3,240	
	To Sam's A/c			22,480
	To Bank A/c			20,000
	(Being goods purchased from Sam, CGST and SGST payable @ 9% each)			
(iii)	Drawings A/c* Dr.		23,600	
	To Purchase A/c			20,000
	To Input CGST A/c (20,000 x 9%)			1,800
	To Input SGST A/c (20,000 x 9%)			1,800
	(Being goods withdrawn for personal use and input GST and input SGST debited at the time of purchase reversed)			
(iv)	Rent A/c Dr.		30,000	
	Input CGST A/c (30,000 x 6%) Dr.		1,800	
	Input SGST A/c (30,000 x 6%) Dr.		1,800	
	To Gagandeep A/c			33,600
	(Being rent paid to Gagandeep)			
(v)	Sam's A/c Dr.		5,310	
	To Purchases Return A/c ** (5,000 – 10% trade Discount)			4,500
	To Input CGST A/c (4,500 x 9%)			405
	To Input SGST A/c (4,500 x 9%)			405
	(Being goods returned to Sam and input CGST & SGST debited at the time of purchases reversed)			
(vi)	Furniture A/c (WN 1) Dr.		40,000	
	Input IGST A/c Dr.		4,800	
	To Bank A/c			44,800
	(Being furniture purchased paid IGST @ 12%)			
(vii)	Machinery A/c Dr.		1,40,000	
	Input CGST A/c (1,40,000 x 9%) Dr.		12,600	
	Input SGST A/c (1,40,000 x 9%) Dr.		12,600	
	To Bank A/c			1,00,000
	To Symphony Industries			65,200
	(Being machinery purchased and paid ₹ 1,00,000 immediately, CGST and SGST @ 9% each)			

* The input tax availed earlier is reversed, because these goods are 'consumed' by Mr. Rohit himself. Since he cannot 'sell' goods to himself and charged output tax, the input tax thereon is reversed, since in this case Mr. Rohit himself is the ultimate consumer of those goods.

** Since goods are returned to the supplier, the input tax credit availed earlier on those goods is to be reversed, since these goods are no longer available to be sold.

Working Note:

1. Furniture purchased is including IGST @ 12%. So, value of furniture excluding IGST = ₹ 44,800 × 100/112 = ₹ 40,000. IGST = ₹ 40,000 × 12% = ₹ 4,800.

Question 7 *(ICAI Study Material)* Pg no.______

Journalise the following transactions in the books of Ms. Nidhi traders for the month of July, 2022

3 Sold Goods for ₹ 50,000, charged CGST and SGST @ 6% each.
4 Sold goods to Surjeet for ₹ 28,000 including CGST and SGST @ 6% each.
5 Received ₹ 25,200 from Surjeet in full settlement of his account of ₹ 28,000.
6 Sold goods to Kapil for ₹ 30,000 charged IGST @ 12%. Received ₹ 12,000 immediately and balance to be received after one month.
10 Kapil was allowed rebate of ₹ 5,000 as goods supplied to him were defective. These goods were sold by charging IGST @ 12%.
12 Sold goods to Manpreet for ₹ 1,00,000 at trade discount of 20% and charged IGST @ 12%
13 Goods of list price ₹ 20,000 returned by Manpreet.
17 Received commission of ₹ 15,000, charged CGST and SGST @ 6% each.

Solution

In the Books of Ms. Nidhi
Journal

July 2022	Particulars	L.F.	Dr. (₹)	Cr. (₹)
3	Bank A/c Dr.		56,000	
	To Sales A/c			50,000
	To Output CGST A/c			3,000
	To Output SGST A/c			3,000
	(Being goods sold for cash, charged CGST and SGST @ 6% each)			
4	Surjeet's A/c Dr.		28,000	
	To Sales A/c			25,000
	To Output CGST A/c			1,500
	To Output SGST A/c			1,500
	(Being goods sold to Surjeet, charged CGST and SGST @ 6% each)(refer W.N.)			
5	Bank A/c Dr.		25,200	
	Discount Allowed A/c Dr.		2,800	
	To Surjeet A/c			28,000
	(Being amount received from Surjeet in full settlement of ₹ 14,000 after allowing him discount of ₹ 1,400)			
6	Bank A/c Dr.		12,000	
	Kapil's A/c Dr.		21,600	
	To Sales A/c			30,000
	To Output IGST A/c			3,600
	(Being goods sold to Kapil, charged IGST @ 12% and received ₹ 12,000 in cash and balance receivable after one month)			
10	Rebate A/c * Dr.		5,000	
	Output IGST A/c Dr.		600	
	To Kapil's A/c			5,600
	(Being rebate allowed on goods sold to Kapil, Output IGST charged at the time of sales, now reversed)			

12	Manpreet's A/c Dr.		89,600	
	To Sales A/c (1,00,000 x 80%)			80,000
	To Output IGST A/c (80,000 x 12%)			9,600
	(Being goods sold to Manpreet at trade discount of 20% and charged IGST @ 12%)			
13	Sales Return A/c Dr.		16,000	
	Output IGST A/c Dr.		1,920	
	To Manpreet A/c			17,920
	(Being goods returned by Manpreet and Output IGST charged at the time of sales now reversed)			
17	Cash A/c Dr.		16,800	
	To Commission A/c			15,000
	To Output CGST A/c (15,000 x 6%)			900
	To Output SGST A/c (15,000 x 6%)			900
	(Being commission received charged CGST and SGST @ 6% each)			

*Since rebate is on account of defective goods which cannot be sold/utilized further by Kapil, the output GST charged thereon is also reversed. This treatment is like that of Sales Return. If rebate was on account of other reasons (such as prompt payment), Output IGST would not be reversed.

Working Note:

Goods sold to Surjeet is including CGST and SGST @ 6% each. So, sales excluding CGST and SGST = ₹ 28,000 × 100/112 = ₹ 25,000. CGST and SGST = ₹ 25,000 × 6% = ₹ 1,500 each.

Question 8 *(ICAI Study Material)* Pg no.______

Record the following transactions in a Journal, assuming CGST and SGST@ 6% each.

(i) Sold goods to Mukesh at the list price of ₹ 50,000 less 20% trade discount.

(ii) Sold goods to Mukesh at the list price of ₹ 1,00,000 less 20% trade discount and 5% cash discount.

(iii) Sold goods to Mukesh at the list price of ₹ 1,50,000 less 20% trade discount and 5% cash discount. Out of the amount due 60% is received out of which three-fourth is received by cheque.

Solution

Journal

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
(i)	Mukesh A/c Dr.		44,800	
	To Sales A/c			40,000
	To Output CGST A/c			2,400
	To Output SGST A/c			2,400
	(Being goods sold to Mukesh at a trade discount of 20% charged CGST and SGST @ 6% each)			
(ii)	Discount Allowed A/c Dr.		4,000	
	Bank A/c Dr.		85,600	
	To Sales A/c			80,000
	To Output CGST A/c			4,800
	To Output SGST A/c			4,800
	(Being goods sold to Mukesh at a trade discount of 20% and 5% cash discount, charged CGST and SGST @ 6% each)*			

(iii)	Discount Allowed A/c (1,20,000 x 5%) Dr.		6,000	
	Bank A/c Dr.		57,780	
	Cash A/c Dr.		19,260	
	Mukesh's A/c (refer W. N.) Dr.		51,360	
	To Sales A/c (1,50,000 x 80%)			1,20,000
	To Output CGST A/c (1,20,000 x 6%)			7,200
	To Output SGST A/c (1,20,000 x 6%)			7,200
	(Being goods sold to Mukesh at a trade discount of 20% and 5% cash discount and received 60%, charged CGST and SGST @ 6% each)			

Note: After allowing cash discount of ₹ 4,000 (₹ 80,000 × 5%), the balance of ₹ 85,600 is received. Since discount is on account of prompt payment, output CGST and SGST is computed on value determine after deducting trade discount.

Working Note: After allowing cash discount of ₹ 6,000 on ₹ 1,20,000, 60% of the balance amount i.e. ₹ 1,28,400 (₹ 1,20,000 + 12% GST ₹ 14,400 – discount ₹ 6,000) is paid in cash and by cheque.
Hence, the amount paid in cash and cheque = ₹ 1,28,400 × 60% = 77,040.
Amount paid by cheque = ₹ 77,040 × 3/4 = ₹ 57,780
Amount paid in cash = ₹ 77,040 x 1/4 = 19,260
Mukesh's A/c = (₹ 1,20,000 + ₹ 14,400 – ₹ 6,000 – ₹ 57,780 – ₹ 19,260) = ₹ 51,360

PRACTICE QUESTIONS

MULTIPLE CHOICE QUESTIONS

1) The rent paid to landlord is credited to
   a) Landlord's account
   b) Rent account
   c) Cash account

2) In case of a debt becoming bad, the amount should be credited to
   a) Trade receivables account
   b) Bad debts account
   c) Cash account

3) A Ltd. has a ₹ 35,000 account receivable from Mohan. On January 22, Mohan makes a partial payment of ₹ 21,000 to A Ltd. The journal entry made on January 22 by A Ltd. to record this transaction includes:
   a) A credit to the cash received account of ₹ 21,000
   b) A credit to the Accounts receivable account of ₹ 21,000
   c) A debit to the cash account of ₹ 14,000

4) Which financial statement represents the accounting equation – Assets = Liabilities + Owner's equity:
   a) Income Statement
   b) Statement of Cash flows
   c) Balance Sheet.

5) Which account is the odd one out?
   a) Office furniture & Equipment.
   b) Freehold land and Buildings.
   c) Inventory of materials.

6) The debts written off as bad, if recovered subsequently are
   a) Credited to Bad Debts Recovered Account
   b) Credited to Trade receivables Account.
   c) Debited to Profit and Loss Account.

7) In Double Entry System of Book-keeping every business transaction affects:
   a) Two accounts
   b) Two sides of the same account.
   c) The same account on two different dates.

8) A sale of goods to Ram for cash should be debited to:
   a) Ram
   b) Cash
   c) Sales

ANSWERS MCQs

1. (c) 2. (a) 3. (b) 4. (c) 5. (c) 6. (a) 7. (a) 8. (b)

TRUE / FALSE

State with reasons whether the following statement is true or false:

1) In Accounting Equation Approach, Equity + Long Term Liabilities = Fixed Assets + Current Assets – Current Liabilities
2) In the Traditional Approach, a debtor becomes receiver.
3) The rule of nominal account states that all expenses & losses are recorded on credit side.
4) Journal Proper is also called subsidiary book.
5) Capital account has a debit balance.
6) Purchase account is a nominal account.
7) All the personal & real account are recorded in P&L Acc.
8) Asset side of balance sheet contains all the personal & nominal accounts.
9) Capital account is personal account.
10) Journal is also known as book of original entry.
11) Patent Rights is in the nature of Nominal Account.
12) Goodwill is not a fictitious asset.
13) Goodwill is a current asset.
14) Outstanding expenditure is a nominal account.
15) Patent Right is in the nature of Real Account.
16) The return of goods by a customer should be debited to Return Outward Account.
17) Goods worth ₹ 600 taken by the proprietor for personal use should be credited to purchase account.
18) Rent paid account is a Nominal Account whereas, Rent received account is a Real Account.
19) Goods worth ₹ 600 taken by the proprietor for personal use should be credited to Capital Account.
20) Capital + Long Term Liabilities = Fixed Assets + Current Assets + Cash – Current Liabilities

Solution

1) True: As per modern accounting equation approach-it is the basic formula in the accounting process.
2) True: In the traditional approach, a debtor becomes receiver.
3) False: The rule of nominal account states that all expenses & losses are recorded on debit side
4) True: It is one of the books where in the transactions not entered in other books are entered in this book
5) False: Capital account has a credit balance
6) True: As it is considered as an expense.
7) False: All the personal & real accounts are recorded in balance sheet
8) False: Asset side of balance sheet contains all the personal & real accounts
9) True: As it in the name of the proprietor who is bringing in the capital to the business
10) True: As the transactions are entered first in this book as a first hand record.
11) False: - It is a Real A/c because it is an intangible asset.
12) True: - Goodwill is an intangible asset.
13) False: - Goodwill is a fixed asset and is in the nature of Real A/c. It is not a fictitious asset but an intangible asset.
14) False: - It is a personal account as it represents a liability due to some person.
15) True: - It is an intangible asset and is in the nature of Real account.
16) False: - It is debited to Return Inwards A/c.
17) True: - Goods taken by the proprietor for personal use should be debited to Drawings Account and Credited to Purchase Account.

18) False: - Rent is an either income or expense so it is a nominal account whether it is received or receivable or paid or payables.
19) False: Goods taken by the proprietor for personal use should be credited to Purchases Account as less goods are left in the business for sale.
20) False: The right hand side of the equation includes cash twice – once as part of current assets and another separately. The basic accounting equation is Equity + Long Term Liabilities = Fixed Assets + Current Assets – Current Liabilities

SHORT NOTE ON CLASSIFICATION OF ACCOUNTS

Accounts are broadly classified into assets, liabilities and capital. The basic accounting equation specifies broad categories, which are as follows:

1) Assets: These are resources controlled by the enterprise as a result of past events and from which future economic benefits are expected to flow to the enterprise, namely cash, stock of goods, land, buildings, machinery etc.
2) Liabilities: These are financial obligations of an enterprise other than owner's equity namely long term loans, creditors, outstanding expenses etc.
3) Capital: It generally refer to the amounts invested in an enterprise by its owner(s), the accretion to it or a reduction in it. Since capital is affected by expenses and incomes of revenue nature, there are two more categories of accounts, namely expenses and incomes. The difference between incomes and expenses are taken into capital account.
   - Expenses: These represents those accounts which show the amount spent or even lost in carrying on operations.
   - Incomes: These represent those accounts which show the revenue amounts earned by the enterprise.

However, traditionally accounts are classified as follows:

1) Personal Accounts: These accounts relate to persons, institutions, debtors or creditors.
2) Impersonal Accounts: These represent accounts which are not personal. These can be further sub-divided as follows:
   - Real Accounts: These accounts relate to assets of the firm but not debt e.g. accounts relating to land, buildings, cash in hand etc.
   - Nominal accounts: These accounts relate to expenses, losses, gains, revenues etc.

HOMEWORK QUESTIONS

Question 1 *(ICAI Study Material)* *Pg no._____*

Analyse transactions of M/s Sahil & Co. for the month of March, 2023 on the basis of double entry system by adopting the following approaches:
(A) Accounting Equation Approach.
(B) Traditional Approach.
Transactions for the month of March, 2023 were as follows (figures are in '000):
1. Sahil introduced capital through bank of ₹ 4,000.
2. Cash withdrawn from the City Bank ₹ 200.
3. Loan of ₹ 500 taken from Mr. Y.
4. Salaries paid for the month of March, 2023, ₹ 300 and ₹ 100 is still payable for the month of March, 2023.
5. Furniture purchased ₹ 500.

What conclusions one can draw from the above analysis?

Question 2 *(ICAI Study Material)* *Pg no._____*

Journalise the following transactions. Also state the nature of each account involved in the Journal entry.
1) December 1, 2023, Ajit started business with capital ₹ 4,00,000
2) December 3, he withdrew cash for business from the Bank ₹ 2,000.
3) December 5, he purchased goods making payment through bank ₹ 15,000.
4) December 8, he sold goods ₹ 16,000 and received payment through bank.
5) December 10, he purchased furniture and paid by cheque ₹ 2,500.
6) December 12, he sold goods to Arvind ₹ 2,400.
7) December 14, he purchased goods from Amrit ₹ 10,000.
8) December 15, he returned goods to Amrit ₹ 500.
9) December 16, he received from Arvind ₹ 2,300 in full settlement.
10) December 18, he withdrew goods for personal use ₹ 1,000.
11) December 20, he withdrew cash from business for personal use ₹ 2,000.
12) December 24, he paid telephone charges ₹ 110.
13) December 26, amount paid to Amrit in full settlement ₹ 9,450.
14) December 31, paid for stationery ₹ 200, rent ₹5,000 and salaries to staff ₹ 2,000 from bank
15) December 31, goods distributed by way of free samples ₹ 2,000.

Question 3 *(ICAI Study Material)* *Pg no._____*

Show the classification of the following Accounts under traditional and accounting equation approach: (a) Building; (b) Purchases; (c) Sales; (d) Bank Fixed Deposit; (e) Rent; (f) Rent Outstanding; (g) Cash; (h) Adjusted Purchases; (i) Closing Inventory; (j) Investments; (k) Trade receivables; (l) Sales Tax Payable, (m) Discount Allowed; (n) Bad Debts; (o) Capital; (p) Drawings; (q) Interest Receivable account; (r) Rent received in advance account; (s) Prepaid salary account; (t) Bad debts recovered account; (u) Depreciation account, (v) Personal income-tax account.

Question 4 *(ICAI Study Material)* *Pg no._____*

Transactions of Ramesh for April are given below. Journalise them.

2023	Particulars	Amount
April 1	Ramesh started business with	10,00,000
April 3	Bought goods for cash	50,000

April 5	Drew cash from bank	10,000
April 13	Sold to Krishna- goods on credit	1,50,000
April 20	Bought from Shyam goods on credit	2,25,000
April 24	Received payment from Krishna Allowed him discount	1,45,000 5,000
April 28	Paid Shyam cash Discount allowed	2,15,000 10,000
April 30	Cash sales for the month	8,00,000
	Paid Rent	50,000
	Paid Salary	1,00,000

Question 5 *(ICAI Study Material)* *Pg no._____*

Calculate the missing amount for the following

	Assets	Liabilities	Capital
(a)	15,00,000	2,50,000	?
(b)	?	1,50,000	75,000
(c)	14,50,000	?	13,75,000
(d)	57,00,000	-2,80,000	?

Question 6 *(ICAI Study Material)* *Pg no._____*

Show the effect of increase = (+), decrease = (-) and no change = (0) on the assets:

a. Purchased office furniture, payment to be made next month.
b. Collected cash for repair services
c. Goods sold on credit.
d. Withdrawal of cash by the owner for personal use.
e. Hired an employee as sales manager of the north wing.
f. Returned goods worth ₹ 50,000.
g. One of our debtor agreed to pay his dues to Mr. C who is a creditor of the company with the same amount being due to him.
h. Entered into an agreement with Mehta & Co. to purchase all raw materials from their company from next year.

Also give reasons for your answers.

Question 7 *(ICAI Study Material)* *Pg no._____*

Following is the information provided by Mr. Gopi pertaining to year ended 31st March 2023. Find the unknowns, showing computation to support your answer:

Particulars	₹	Particulars	₹
Machinery	12,00,000	Trade Receivables	B
Accounts Payable	1,00,000	Loans	C
Inventory	60,000	Closing Capital	D
Total Liabilities including capital	14,15,000	Opening Capital	10,00,000
Cash	A	Loss incurred during the year	35,000
Bank	80,000	Capital Introduced during year	1,00,000

Additional Information: During year sales of ₹ 15,55,000 was made of which ₹ 15,00,000 have been received.

Question 8 *Pg no._____*

Find out the profit for the year through accounting equation approach:-

Particulars	31.03.2020	31.03.2021
Capital	1,00,000	?
12% Bank Loan	1,00,000	1,00,000
Trade Payables	75,000	70,000
Fixed Assets	1,25,000	1,10,000
Trade Receivables	75,000	80,000
Inventory	70,000	80,000
Cash & Bank	5,000	6,000

Question 9 *(RTP May 2022)* *Pg no._____*

You are required to pass necessary journal entries in the books of Kewal:

a) Cheque amounting ₹ 9,000 from Hari Krishan in full settlement of his account for ₹ 10,000.
b) Withdrawn for personal use: Goods (Sales Price ₹ 8,000, Cost ₹ 6,000), cash ₹1,000
c) Goods costing ₹ 3,000 (Sale price ₹4,000) distributed as free samples.
d) Received commission ₹ 10,000, half of which does not relate of current year and is received in advance.
e) Purchased second hand machinery from Jawahar for ₹30,000 against a cheque. Goods of ₹ 12,000 (Cost ₹ 9,000) used in repairs of this machinery which is necessary to make it ready for working.

Question 10 *(RTP May 2023)* *Pg no._____*

Write a short note on Journal.

Question 11 *(CA Foundation June 2023) (5 Marks)* *Pg no._____*

What are the importance of Journal?