Chapter–2

Book-Keeping

LEARNING OBJECTIVES

In this chapter we will study:

Introduction

Types of Books of Account

Book-keeping Process

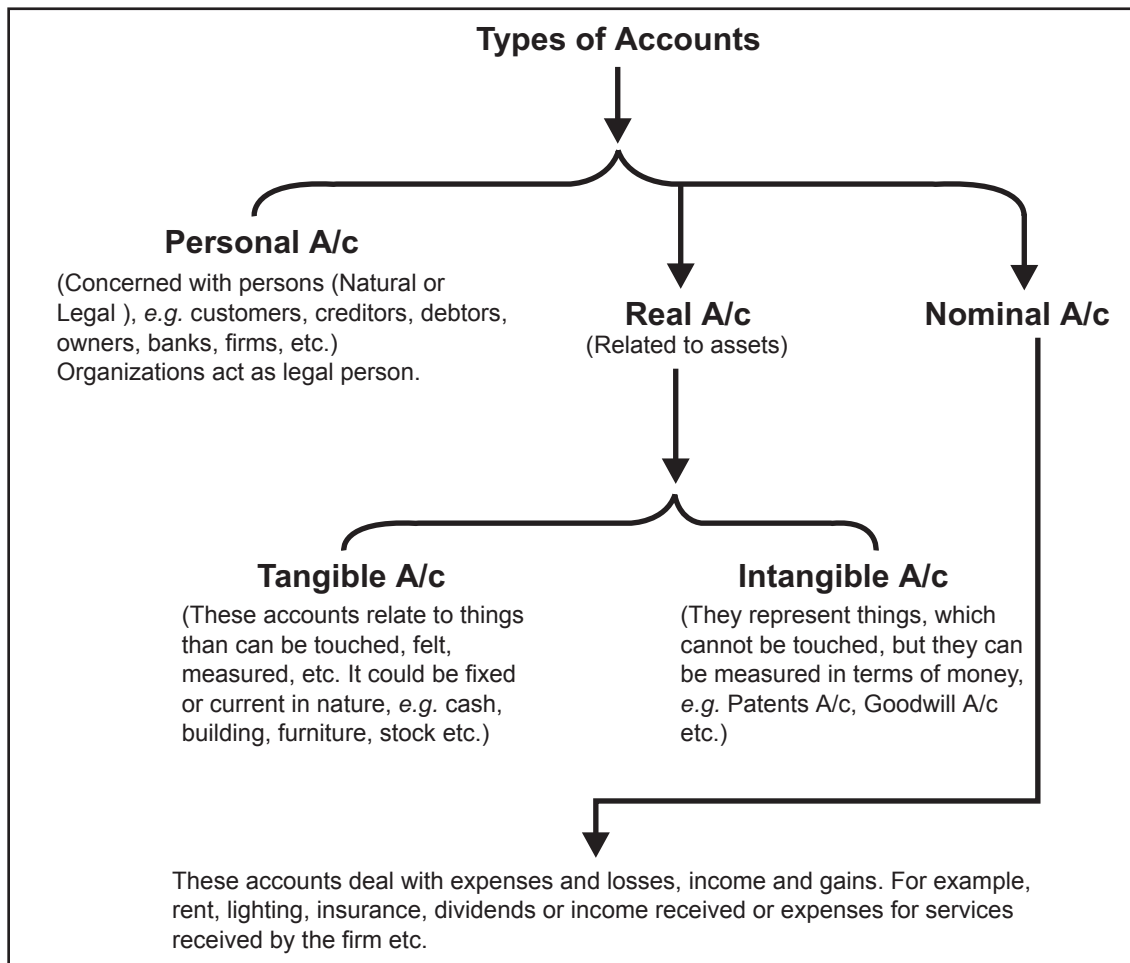Types of Error During Book-keeping Process

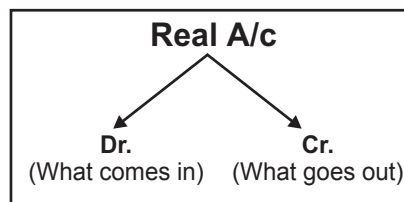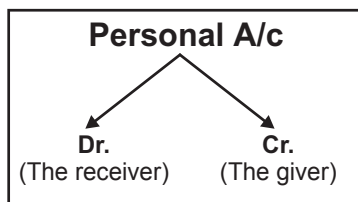Data Flow Diagram (DFD) for Book-keeping Process

❑   *Important terms*

2.1 INTRODUCTION

Book-keeping means maintaining books of accounts.

2.2 TYPES OF BOOKS OF ACCOUNT

Types of Accounts

Personal A/c

(Concerned with persons (Natural or Legal), *e.g.* customers, creditors, debtors, owners, banks, firms, etc.)
Organizations act as legal person.

Real A/c
(Related to assets)

Nominal A/c

Tangible A/c

(These accounts relate to things than can be touched, felt, measured, etc. It could be fixed or current in nature, *e.g.* cash, building, furniture, stock etc.)

Intangible A/c

(They represent things, which cannot be touched, but they can be measured in terms of money, *e.g.* Patents A/c, Goodwill A/c etc.)

These accounts deal with expenses and losses, income and gains. For example, rent, lighting, insurance, dividends or income received or expenses for services received by the firm etc.

2.2.1 Ground Rule for Entry in Books of Account

Personal A/c

Dr.
(The receiver)

Cr.
(The giver)

Real A/c

Dr.
(What comes in)

Cr.
(What goes out)

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┌─────────────────────────────┐
│        Nominal A/c          │
│         ╱       ╲           │
│       ↙           ↘         │
│      Dr.           Cr.      │
│ (All expenses and  (All income and │
│     losses)        gains)   │
└─────────────────────────────┘
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The above ground rule for entry in books of account leads to following another set of rules:

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┌─────────────────────┐   ┌─────────────────────┐
│     Liability       │   │       Asset         │
│      ╱     ╲        │   │      ╱     ╲        │
│    ↙         ↘      │   │    ↙         ↘      │
│   Dr.         Cr.   │   │   Dr.         Cr.   │
│ (Decrease) (Increase)│   │ (Increase) (Decrease)│
└─────────────────────┘   └─────────────────────┘

┌─────────────────────┐   ┌─────────────────────┐
│     Expense         │   │       Income        │
│      ╱     ╲        │   │      ╱     ╲        │
│    ↙         ↘      │   │    ↙         ↘      │
│   Dr.         Cr.   │   │   Dr.         Cr.   │
│ (Increase) (Decrease)│   │ (Decrease) (Increase)│
└─────────────────────┘   └─────────────────────┘
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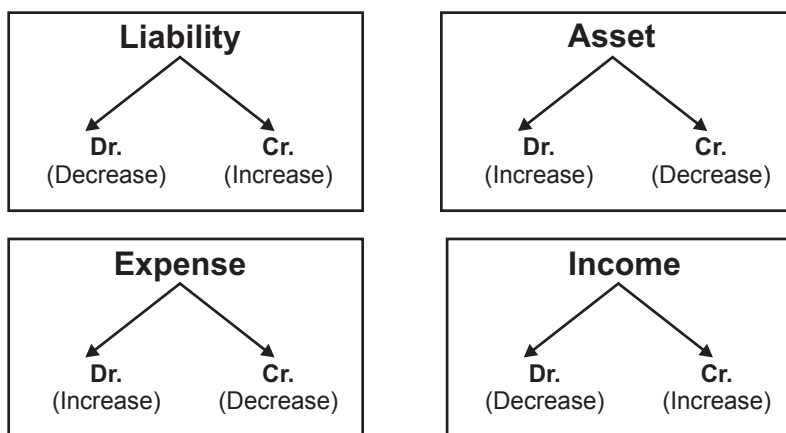
2.3 BOOK-KEEPING PROCESS

The steps involved in book-keeping process are as follows:

Step 1: Identifying financial transactions/events (Vouchers)

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Step 2: Recording of transactions/events (Journals)

↓

Step 3: Classifying transactions/events (Ledgers)

↓

Step 4: Summarizing transactions (Trial balance only)

Step 1: Identifying financial transactions/events (Vouchers)
Identifying financial transactions/events means there must be some documentary evidence against transaction to be recorded in books of account *e.g.* cash memo shows cash sale, invoice/bill shows credit sale/purchase, debit note shows goods returned, report of store manager regarding closing stock etc.

These business documents are called source documents and are used in identifying transactions/events to be recorded in books of accounts known as journalisation *i.e.* journal entry.

Step 2: Recording of transactions/events (Journals)
Recording of transaction is done through source documents. Journal is a primary book of accounting. It contains chronological record of transactions. Given below are rules for journal entry followed by some illustrations of journal entries.

Rule for Journal entry
The rules for journal entry in case of **independent transactions** are as follows:

Rule 1: Identify whether the given transaction is credit transaction or cash transaction or mix of these two. Personal A/c will appear only when there is credit transaction (fully or partly).

Rule 2: List all the accounts other than Rule 1 involved in given transaction.

Rule 3: Find out the nature of each account listed under Rule 1 and Rule 2 stated above (Nature means personal A/c, real A/c and nominal A/c).

Rule 4: Apply the **ground rule for entry in books of account** stated above for each account and find out which account is debiting and which account is crediting.

Rule 5: First write the name of accounts, which are debiting followed by the name of accounts, which are crediting with prefix **'To'** in the format given below alongwith narration.

Journal Entry

Date	Particulars	L.F.	Debit (Rs.)	Credit (Rs.)
	(<Narration>)			

Rule 6: In case of **dependent transaction** involving cash flow and name of party, party's (personal) A/c and Cash A/c or Bank A/c both should be opened to figure out reference of parent transaction. Thus Rule 6 should be combined with Rule1 (Refer to transaction dated March 21, 2003 under **illustration 4**).

*Note***:**

1. A narration should be written after each journal entry since it narrates the transaction.
2. L.F. stands for Ledger Folio. The transactions entered in journal are later on posted to the ledger. This is given for easy reference.
3. A/c stands for account.
4. Cash transaction includes cash receipt and cash payment arising out of operational activity *e.g.* cash sales, cash purchase, salary paid etc. are cash transactions whereas cash received through owner and bank by way of loan, are credit transactions as owner providing capital and bank providing loans, are creditors and hence according to **Rule 1** stated above personal A/c need to be opened. In case of owner's contribution 'Capital A/c' whereas in case of bank 'Loan A/c' in the name of bank, should be opened.
5. It is evident from journal entry **Rule 5** shown above that book-keeping process follow double entry book-keeping system popularly known as **Mercantile System**.
   "Every transaction involves at least two parties, one for receiving aspect (Dr. entry) and another for giving aspect (Cr. entry), therefore, to record a single transaction simultaneously two books of account are needed (one for Dr. entry and another for Cr. entry). This is known as double entry book-keeping system or mercantile system." **(See Illustrations shown below)**

Illustration 1: Subhra started a business with a capital of Rs. 50,000 on July 1, 2003.

Rule 1: Credit transaction (owner is creditor according to separate entity concept), therefore Subhra's account, *i.e.* capital account will be opened.

Rule 2: Account involved in given transaction other than Capital A/c is Cash A/c. Thus in this case, two accounts are involved:

Subhra's account, *i.e.* Capital account; and Cash account

Rule 3: Capital A/c is a personal A/c and Cash A/c is a real A/c

Rule 4: As per the rules of debit and credit applicable to personal A/c "debit the receiver, credit the giver". As business is a separate entity (entity concept), Subhra is giving money so her account should be credited *i.e.* Capital A/c ....Cr

According to the rules of real A/c "debit what comes in, credit what goes out". In this transaction, cash is coming into the business, so it should be debited.

Cash A/c ....Dr.

Rule 5: Write first the name of account, which is debiting *i.e.* Cash A/c followed by Capital A/c which is crediting with prefix 'To'.

Journal Entry

Date	Particulars	L.F.	Debit (Rs.)	Credit (Rs.)
2003 July 1	Cash A/c .... Dr. To Capital A/c (Being commencement of business)		50,000	50,000

(Narration)

Illustration 2. Paid salary Rs. 5,000 to Mr. A by his employer.

Rule 1: Cash transaction, therefore Mr. A's A/c will not be opened.

Rule 2: Thus accounts involved in given transaction are

(*i*) Salary A/c and

(*ii*) Cash Account

Rule 3: Salary A/c is a nominal A/c and Cash A/c is a real A/c

Rule 4: According to the rules of nominal A/c "Debit all expenses and losses, credit all income and gains". For the business it is an expense, so debit it.

Salary A/c........Dr

According to the rules of real A/c "Debit what comes in, Credit what goes out". In this transaction, cash is going out from the business, so it should be credited.

Cash A/c ....Cr

Rule 5: Write first the name of account, which is debiting followed by name of account, which is crediting with prefix 'To'.

Journal entry

Date	Particulars	L.F.	Debit (Rs.)	Credit (Rs.)
	Salary A/c .....Dr. To Cash A/c (Being salary of Rs. 5000 paid to Mr. A)		5,000	5,000

Illustration 3. Purchased goods on credit for Rs. 3,000 from Mr. B.

Rule 1: Credit transaction because of credit purchase, therefore Mr. B's A/c will be opened.
Rule 2: Thus accounts involved in given transaction are
    (*i*) Mr. B's A/c and
   (*iii*) Purchase A/c
Rule 3:
    (*iv*) Mr. B's A/c is a personal A/c and Purchase A/c is a nominal A/c
Rule 4: According to the rules stated above
       Mr B's A/c… Cr (as it is a personal A/c and Mr. B is the giver of goods)
       Purchase A/c…Dr (Expense, so Dr. entry)
Rule 5: Write first the name of account, which is debiting followed by name of account, which is crediting with prefix 'To'.

Journal entry

Date	Particulars	L.F	Debit (Rs.)	Credit (Rs.)
	Purchase A/c….Dr. To Mr. B'/s A/c (Being purchase of goods on credit)		3000	3000

Illustration 4: Journalize the transactions given below in the books of Pankaj.

2003
March 1   Pankaj started business with Rs. 50,000. He opens a bank account and deposits Rs. 20,000.
March 2   Bought furniture for Rs. 5,000 and machinery for Rs. 10,000.
March 3   Purchased goods for Rs. 14,000.
March 6   Sold goods for Rs. 8,000.
March 8   Purchased goods from M/s Chowdhry and Co. Rs. 11,000.
March 10 Paid telephone rent for the year by cheque Rs. 500.
March 11 Bought one typewriter for Rs. 2,100 from 'Universal Typewriter Co.' on credit.
March 15 Sold goods to Ram for Rs. 12,000.
March 17 Sold goods to Raj Kumar for Rs. 2,000 in cash.
March 19 Amount withdrawn from bank for personal use Rs. 15,00.
March 21 Received cash from Ram Rs. 11,900 and discount allowed Rs. 100.
March 22 Paid Rs. 5,800 into bank.
March 23 Bought 50 shares in ABC Co. Ltd. at 60 per share, brokerage paid Rs. 20.
March 25 Goods worth Rs. 1,000 found defective were returned to M/s Chowdhry and Co. and balance of the amount due to them settled by issuing a cheque in their favour.
March 28 Sold 20 shares of ABC Co. Ltd. at Rs. 65 per share, brokerage paid, Rs. 20.
March 28 Purchased good worth Rs. 2100 from Bhuwan and supplied them to Raghvendra for Rs. 3000.
March 30 Raghvendra returned goods worth Rs. 100, which in turn were sent to Bhuwan.
March 30 Issued a cheque for Rs. 1,000 in favour of landlord for rent of March.
March 30 Paid salaries of Rs. 1,500 to staff and received Rs. 2,000 from travelling salesman for goods sold by him, after deduction the travelling expenses of Rs. 100.

Journal

Date	Particulars	L.F.	Debit (Rs.)	Credit (Rs.)
2003 March 1	Cash A/c ....Dr. To Capital A/c (being commencement of business)		50,000	50,000
	Bank A/c ....Dr To Cash A/c (being cash deposited in bank)		20,000	20,000
March 2	Machinery and furniture A/c ..Dr. To Cash A/c (being purchase of machinery and furniture for Cash)		15,000	15,000
March 3	Purchase A/c ....Dr. To Cash A/c (being purchase of goods)		14,000	14,000
March 6	Cash A/c To Sales A/c (being goods sold for cash)		8,000	8,000
March 8	Purchase A/c ...Dr. To M/s Chowdhry and Co. (being purchase of goods from M/s Chowdhry and Co. on credit)		11,000	11,000
March 10	Telephone Rent A/c ...Dr. To Bank A/c (being telephone expenses paid by cheque)		500	500
March 11	Typewriter A/c ...Dr. To Universal Typewriter Co. A/c (being purchase of typewriter on credit)		2,100	2,100
March 15	Ram A/c ...Dr. To Sales A/c (being goods sold to Ram on credit)		12,000	12,000

Date	Particulars	L.F.	Debit (Rs.)	Credit (Rs.)
March 17	Cash A/c …Dr. To Sales A/c (being sale of goods for cash)		2,000	2,000
March 19	Drawing A/c …Dr. To Bank A/c (being withdrawal of cash for personal use by the owner)		1,500	1,500
March 21	Cash A/c …Dr. Discount allowed A/c …Dr. To Ram A/c (being cash received from Ram in full settlement and allowed him Rs. 100 as discount)		11,900 100	12,000
March 22	Bank A/c ...Dr. To Cash A/c (being cash deposited in bank)		5,800	5,800
March 23	Investment A/c …Dr. Brokerage A/c …Dr. To Cash A/c (being purchase of shares @ Rs. 60 per share from ABC Co. Ltd., payment of Rs. 20 as brokerage)		3,000 20	3,020
March 25	M/s Chowdhry and Co. …Dr. To Return Outward A/c To Bank A/c (being goods returned to M/s Chowdhry and Co. and final settlement by issuing a cheque)		11,000	1,000 10,000
March 28	Cash A/c …Dr. To Investment A/c		1,300	1,300
March 28	Investment A/c ...Dr. To Profit & Loss A/c (being 20 shares of XY and Co. Ltd. sold at Rs. 65 per share and profit transferred to Profit & Loss A/c)		100	100

Date	Particulars	L.F.	Debit (Rs.)	Credit (Rs.)
March 28	Brokerage A/c …Dr. To Cash A/c (being brokerage of Rs. 20 written off as an expense)		20	20
March 28	Purchase A/c …Dr. To Bhuwan A/c (being purchase made on credit from Bhuwan)		2,100	2,100
March 28	Raghvendra A/c …Dr. To Sales A/c (being credit sales made to Raghvendra)		3,000	3,000
March 29	Return Inward A/c …Dr. To Raghvendra A/c (being goods returned by Raghvendra)		100	100
March 29	Bhuwan A/c …Dr. To Return Outward A/c (being goods purchased from Bhuwan returned)		100	100
March 30	Rent A/c …Dr To Bank A/c (being rent paid to landlord for April)		1,000	1,000
March 30	Salary A/c …Dr. To Cash A/c (Being salary paid to staff)		1,500	1,500
March 30	Cash A/c …Dr. Travelling Expenses A/c. Dr. To Sales A/c (being cash received from travelling salesman after deduction the expenses)		1,900 100	2,000

Note: Return inward and return outward is also termed as sales return and purchase return respectively.

Working notes:

The above transactions are carried out in the following way:

Note: P⇨Personal A/c, R⇨Real A/c, N⇨Nominal A/c, Dr.⇨Debit, Cr.⇨Credit

1. Transaction on March 1

Rule 1	*Rule 2*	*Rule 3*	*Rule 4*
	A/Cs Involved	*Nature*	*Apply ground Rule for entry in books of account*
Credit transaction	Capital A/c	P	Pankaj is giver, so Cr. his A/c. Capital denotes owner's A/c and is liability.
	Cash A/c	R	Cash comes in, so Dr. it

	A/Cs Involved	*Nature*	*Apply ground Rule for entry in books of account*
Contra transaction	Bank A/c	R	Money received by bank, so Dr. it. (what comes in)
	Cash A/c	R	Cash goes to bank, so Cr. it. (what goes out)

2. Transaction on March 2

Rule 1	*Rule 2*	*Rule 3*	*Rule 4*
	A/Cs Involved	*Nature*	*Apply ground Rule for entry in books of account*
Cash transaction	Machinery and furniture A/c	R	Assets coming in business, so Dr. it
	Cash A/c	R	Cash goes out, so Cr. it

3. Transaction on March 3

Rule 1	*Rule 2*	*Rule 3*	*Rule 4*
	A/Cs Involved	*Nature*	*Apply ground Rule for entry in books of account*
Cash transaction	Purchase A/c	N	Money spent on buying goods. So Dr. it
	Cash A/c	R	Cash goes out, so Cr. it

4. Transaction on March 6

Rule 1	*Rule 2*	*Rule 3*	*Rule 4*
	A/Cs Involved	*Nature*	*Apply ground Rule for entry in books of account*
Cash transaction	Cash A/c	R	Cash comes in, so Dr. it.
	Sales A/c	N	Income due to Sales, so Cr. it

5. Transaction on March 8

Rule 1	*Rule 2*	*Rule 3*	*Rule 4*
	A/Cs Involved	*Nature*	*Apply ground Rule for entry in books of account*
Credit transaction	Purchase A/c	N	Money spent on buying goods, so Dr. it.
	Chowdhry and Co. A/c	P	Goods given by Chowdhry and Co. on credit, so Cr. it.

6. Transaction on March 10

Rule 1	*Rule 2*	*Rule 3*	*Rule 4*
	A/Cs Involved	*Nature*	*Apply ground Rule for entry in books of account*
Cash transaction	Telephone Rent A/c	N	Expenditure on phone, so Dr. it.
	Bank A/c	R	Cheque payment, so Cr. it.

7. Transaction on March 11

Rule 1	*Rule 2*	*Rule 3*	*Rule 4*
	A/Cs Involved	*Nature*	*Apply ground Rule for entry in books of account*
Credit transaction	Typewriter A/c	R	Typewriter comes in, so Dr. it.
	Universal Typewriter Co. A/c	N	Universal Typewriter Co. has given on credit, so Cr. it.

8. Transaction on March 15

Rule 1	*Rule 2*	*Rule 3*	*Rule 4*
	A/Cs Involved	*Nature*	*Apply ground Rule for entry in books of account*
Credit transaction	Ram A/c	P	Goods recd. by Ram, so Dr. it.
	Sales A/c	N	Income due to Sales, so Cr. it.

9. Transaction on March 17

Rule 1	*Rule 2*	*Rule 3*	*Rule 4*
	A/Cs Involved	*Nature*	*Apply ground Rule for entry in books of account*
Cash transaction	Cash A/c	R	Cash comes in, so Dr. it.
	Sales A/c	N	Income due to sales, so Cr. it.

10. Transaction on March 19

Rule 1	*Rule 2*	*Rule 3*	*Rule 4*
	A/Cs Involved	*Nature*	*Apply ground Rule for entry in books of account*
Cash transaction	Drawings A/c	P	Money received by owner, so Dr. it.
	Bank A/c	R	Money from bank goes out, so Cr. it.

11. Transaction on March 21

Rule1-cum-Rule 6	*Rule 2*	*Rule 3*	*Rule 4*
	A/Cs Involved	*Nature*	*Apply ground Rule for entry in books of account*
Dependent	Cash A/c	R	Cash comes in, so Dr. it.
transaction (Parent trans-	Discount Allowed A/c	N	Discount given, so it is an expense, so Dr. it.
-action is trans- -action dated March 15, 2003)	Ram A/c (Personal A/c)	P	Money given by Ram (giver), so Cr. it.

12. Transaction on March 22

Rule 1	Rule 2	Rule 3	Rule 4
	A/Cs Involved	Nature	Apply ground Rule for entry in books of account
Contra transaction	Bank A/c	R	Money recd. by bank, so Dr. it. (what comes in)
	Cash A/c	R	Cash goes out, so Cr. it. (what goes out)

13. Transaction on March 23

Rule 1	Rule 2	Rule 3	Rule 4
	A/Cs Involved	Nature	Apply ground Rule for entry in books of account
Cash transaction	Investment A/c	R	Shares purchased *i.e.* comes in, so Dr. it.
	Brokerage A/c	N	Payment to broker, an expense, so Dr. it.
	Cash A/c	R	Cash goes out, so Cr. it.

14. Transaction on March 25

Rule 1	Rule 2	Rule 3	Rule 4
	A/Cs Involved	Nature	Apply ground Rule for entry in books of account
Cash transaction	Chowdhry and Co. A/c	P	Goods recd. By Chowdhry and Co.(Receiver), so Dr. it.
	Return Outward A/c	N	Reduction of an expenditure (Purchases), so Cr. it.
	Bank	R	Money given by the bank *i.e.* goes out, so Cr. it.

15. Transactions on March 28

Rule 1	Rule 2	Rule 3	Rule 4
	A/Cs Involved	Nature	Apply ground Rule for entry in books of account
Cash transaction	Cash A/c	R	Cash comes in, so Dr. it.
	Investment A/c	R	Shares sold, so Cr. it.

Rule 1	Rule 2	Rule 3	Rule 4
	A/Cs Involved	Nature	Apply ground Rule for entry in books of account
Cash transaction	Cash A/c	R	Cash comes in, so Dr. it.
	Sales A/c	N	Income due to Sales, so Cr. it.

Rule 1	Rule 2	Rule 3	Rule 4
	A/Cs Involved	Nature	Apply ground Rule for entry in books of account
Credit transaction	Investment A/c	R	Profit Rs. 5/- per share [20 × 5 =100] transferred (Asset A/c decreases), so Dr. it.
	Profit & Loss A/c	N	Selling shares is not the core business so whatever profit realized will be entered in Profit & Loss A/c, so Cr. it.

Rule 1	*Rule 2*	*Rule 3*	*Rule 4*
	A/Cs Involved	*Nature*	*Apply ground Rule for entry in books of account*
Cash transaction	Brokerage A/c	N	Payment to broker, *i.e.* expense, so Dr. it.
	Cash A/c	R	Cash given to broker, so Cr. it.

Rule 1	*Rule 2*	*Rule 3*	*Rule 4*
	A/Cs Involved	*Nature*	*Apply ground Rule for entry in books of account*
Credit transaction	Purchase A/c	N	Expense on buying goods, so Dr. it.
	Bhuwan A/c	P	Sundry creditor (Bhuwan) is giving goods, so Cr. his A/c.

Rule 1	*Rule 2*	*Rule 3*	*Rule 4*
	A/Cs Involved	*Nature*	*Apply ground Rule for entry in books of account*
Credit transaction	Raghvendra A/c	P	Sundry debtor (Raghvendra) receives goods, so Dr. it.
	Sales A/c	N	Income due to sales, so Cr. it.

16. Transactions on March 29 and 30

Rule 1	*Rule 2*	*Rule 3*	*Rule 4*
	A/Cs Involved	*Nature*	*Apply ground Rule for entry in books of account*
Credit transaction	Return Inward A/c	N	Income decreases due to return, so Dr. it.
	Raghvendra A/c	P	Sundry debtor (Raghvendra) returns goods (giver), so Cr. his A/c.

Rule 1	*Rule 2*	*Rule 3*	*Rule 4*
	A/Cs Involved	*Nature*	*Apply ground Rule for entry in books of account*
Credit transaction	Bhuwan A/c	P	Sundry creditor (Bhuwan) receives goods (Receiver), so Dr. it.
	Return-Outward A/c	N	Income enhances due to return outward, so Cr. it.

Rule 1	*Rule 2*	*Rule 3*	*Rule 4*
	A/Cs Involved	*Nature*	*Apply ground Rule for entry in books of account*
Cash transaction	Rent A/c	N	Rent paid (Expense), so Dr. it.
	Bank A/c	R	Cheque issued by bank (goes out), so Cr. it.

Rule 1	Rule 2	Rule 3	Rule 4
	A/Cs Involved	*Nature*	*Apply ground Rule for entry in books of account*
Cash transaction	Salary A/c	R	Expenditure on salary, so Dr. entry.
	Cash A/c	R	Cash goes out, so Cr. it.

Rule 1	Rule 2	Rule 3	Rule 4
	A/Cs Involved	*Nature*	*Apply ground Rule for entry in books of account*
Cash transaction	Cash A/c Travelling	R	Cash comes in, so Dr. it.
	Expenses A/c	N	Expense on travelling, so Dr. entry.
	Sales A/c	N	Income due to Sales, so Cr. it.

Some important transactions along with journal (primary) entries, are given below:

1. Invoice received from Shyam Rs. 5000.
2. Goods returned to Shyam or Shyam admitted claim for Rs. 900.
3. Invoice sent to Shyam ——Rs. 2000.
4. Goods returned by Shyam or Shyam's claim admitted Rs. 200.
5. Outstanding salary or salary owing Rs. 2500.
6. Prepaid Insurance or unexpired insurance or insurance paid in advance Rs. 1500.
7. Amount withdrawn by proprietor for personal/domestic/private use Rs. 2000.
8. Goods taken by proprietor for personal/domestic/private use Rs. 1000.
9. Goods given as charity Rs. 800.
10. Shyam paid Rs. 800 in full settlement against Rs. 900 due to him.
11. Shyam becomes bankrupt and paid only Rs 500 against Rs 900 total amount due to him.
12. An amount previously written off as bed debts has now been recovered from Shyam, the old debtor for Rs. 400.
13. Distribution of good as free sample ———Rs. 1000.
14. Loss of goods by fire/theft ————Rs. 500.
15. Distribution of goods to employees ————Rs. 500.
16. Loss of cash by Fire/theft ————Rs. 300.
17. Rs. 5000 as advance received from Mohan against the order for supply of goods worth Rs. 15000.
18. Supplied goods worth Rs. 15000 against previous order from Mohan.
19. Paid income tax amounting Rs. 10000 through cheque.
20. Refund of Income tax ———Rs. 2000.
21. Interest on advance payment of income tax received ——Rs. 1000.
22. Received a VPP (Value Paid Parcel) for goods worth Rs. 1000. Sent an employee with Rs. 1200 for collection of goods. The employee paid Rs. 100 for auto charges and returned the balance.

S.No.	Particulars	L.F.	Debit (Rs.)	Credit (Rs.)
1	Purchase A/c ...Dr. To Shyam A/c (being goods purchased from Shyam)		5,000	5,000
2	Shyam A/c ...Dr. To Purchase Return A/c or Return outward A/c (being goods returned to Shyam)		900	900
3	Shyam A/c ...Dr. To Sales A/c (being goods sold to Shyam)		2,000	2,000
4	Sales Return A/c or Return inward A/c To Shyam A/c (being goods returned by Shyam)		200	200
5	Salary A/c ...Dr. To Outstanding salary A/c (being salaries remaining unpaid)		2,500 2,500	
6	Prepaid Insurance A/c ...Dr. To Insurance A/c (being insurance paid in advance)		1,500	1,500
7	Drawing A/c ...Dr. To Cash A/c (being amount withdrawn by the proprietor)		2,000	2,000
8	Drawing A/c ...Dr. To Purchase A/c (being goods taken by proprietor)		1,000	1,000
9	Charity A/c ...Dr. To Purchase A/c (being goods given as charity)		800	800
10	Cash A/c ...Dr. Discount allowed A/c ...Dr. To Shyam A/c (being cash received from Shyam in full settlement and allowed him Rs. 100 as discount)		800 100	900

S.No.	Particulars	L.F.	Debit (Rs.)	Credit (Rs.)
11	Cash A/c ...Dr. Bad debt A/c ....Dr. To Shyam A/c (being Shyam became bankrupt and paid only Rs. 500)		500 400	 900
12	Cash A/c ...Dr. To Bad debt recovered A/c (being recovery of bad debt previously written off)		400 400	
13	Free samples A/c or Advertisement A/c ...Dr. To Purchase A/c (being distribution of goods as free samples)		1,000	 1,000
14	Loss of goods by fire/theft A/c ...Dr. To Purchase A/c (being loss of goods by fire/theft)		500	 500
15	Salary A/c ...Dr. To Purchase A/c (being distribution of goods among employees)		500	 500
16	Loss by fire/theft ...Dr. To Cash A/c (being loss of cash by fire/theft)		300	 300
17	Cash A/c ...Dr. To Advance from Mohan A/c (being goods supplied to Mohan against advance)		5,000	 5,000
18	Mohan A/c ...Dr. Advance from Mohan A/c ...Dr. To Sales A/c (being goods supplied to Mohan against advance)		10,000 5,000	 1,5000
19	Capital A/c ...Dr. To Bank A/c (being payment of income tax through cheque vide receipt no.—— dated ———)		10,000	 10,000

S.No.	Particulars	L.F.	Debit (Rs.)	Credit (Rs.)
20	Cash A/c ...Dr To Capital A/c (being refund of income tax)		2,000	2,000
21	Cash A/c ...Dr To Capital A/c (being Interest on advance payment of income tax received)		1,000	1,000
22	Purchase A/c ...Dr Cartage A/c ...Dr To Cash A/c (being received a VPP (Value Paid Parcel) for goods worth Rs. 1000)		1,000 100	1,100

Practical System of Journalisation of Financial Transactions/Events:

In actual practice, journalisation does not mean recording of transactions in chronological order using only one format of journal entry as shown in **illustration 3** above.

In manual accounting system, the transactions are categorized as per their nature and, for each type of transaction, a separate Journal (primary book) is available where the same has to be recorded. These primary books can be of the following types:

(*a*) **Purchase Day Book**	:	It records credit purchase of goods.
(*b*) **Sales Day Book**	:	It records credit sale of goods.
(*c*) **Return Outward Book**	:	It records good returned to the supplier(s).
(*d*) **Return Inward Book**	:	It records good returned by the customer(s).
(*e*) **Bills Receivable Book**	:	It records bills accepted by customers.
(*f*) **Bills Payable Book**	:	It records bills raised by suppliers.
(*g*) **Cash Book**	:	It records cash (and bank) receipts and payments.
(*h*) **Journal Proper**	:	It records all residual transactions.

All the above journals are called *daybooks* because transactions are recorded here date-wise.

In computerized accounting system, say, accounting through 'Tally'[1] voucher creation itself act as recording of transactions *i.e.* Journalisation. Depending upon nature of transactions, different types of vouchers are used in tally for Voucher creation/Journalisation.

The important vouchers used by tally for Voucher creation/Journalisation are described below:

(*a*) **F4: Contra**	:	To create Contra Voucher—it records transaction between Cash A/c (cash in hand) and Bank A/c (cash at bank).
(*b*) **F5: Payment**	:	To create Payment Voucher
(*c*) **F6: Receipt**	:	To create Receipt Voucher
(*d*) **F7: Journal**	:	To create Journal Voucher
(*e*) **F8 : Sales**	:	To create Sales Voucher—it records credit sale of goods.
(*f*) **F9 : Purchase**	:	To create Purchase Voucher—it records credit purchase of goods.

---

1. **Tally'** is the widely accepted Accounting Software (S/w) approved by Chartered Accountant Association of India.

*Note***:**
1. F4, F5, F6, F7, F8, F9 are functional key's available on keyboard of computer.
2. Subsequent information like different ledgers, trial balance, income statement, balance sheet, fund flow statement and Statement of ratio analysis etc. is automatically generated by tally.
3. For details on Tally see **chapter eleven**.

Specimen of voucher creation in TALLY is shown below:
Specimen for Payment Voucher Creation

Step 3: Classifying Transactions (ledger entry)
After the Journal entry (*i.e.* recording transactions in primary books), all the amounts are posted to respective ledgers known as *secondary books*. In Journal, each transaction is dealt separately while in the ledger, they appear in a classified form under the particular account. A separate ledger is opened for each type of account. These ledgers are termed as **general ledger**. A ledger has two sides:
  (*i*) Debit Side
 (*ii*) Credit side
    Posting is done in the relevant side of the Ledger based on the Journal entry. By posting, we mean the transfer of debit and credit entries from the Journal to their respective accounts in the Ledger. Reference

to the Journal Page number is given in Journal Folio (JF) column of Ledger Accounts. The format for Ledger A/c is as follows:

< Ledger head >

Dr.   *Cr.*

Date	*Particulars*	*JF*	*Amount (Rs.)*	*Date*	*Particulars*	*JF*	*Amount (Rs.)*
	*To balance c/f				*By balance b/d		
	Total		=		Total		=

(***Note:** Only one will appear.)

Rule for ledger entry

    Rule 1: While making posting in the ledger, the concerned account, which has been debited or credited in the Journal, should also be debited or credited in the Ledger with same amount in the format shown above. But reference has to be given of the other account, which has been credited or debited in the Journal, as the case may be.

    Rule 2: Use prefix 'To' with the accounts, which appear on the debit side and 'By' with the accounts, which appear on the credit side of the ledger A/c.

Remark

In actual practice, however, similar types of ledger accounts are kept in one ledger book e.g., bank having manual system of accounting, maintains different ledger books like ledger book on Saving A/c containing ledger accounts of the entire Saving A/c holders. Similarly ledger accounts of different fixed assets are maintained in fixed asset ledger book.

    On the basis of nature of ledger accounts, there are three categories of ledger books viz.

    (*i*) Personal books

    (*ii*) Real books

    (*iii*) Nominal books

    Example of personal book is **ledger book on saving account** (mentioned above) as it deals with people *i.e.,* saving account holders. Similarly **fixed asset Ledger book** will be categorized under real books.

    Ledgers for Illustration 3: In Illustration 3, twenty-three accounts are created. So 23 ledger accounts will be maintained.

Capital A/c

Dr.   Cr.

Date	Particulars	JF	Amount (Rs.)	Date	Particulars	JF	Amount (Rs.)
March 30	**To balance c/f**		**50,000**	March 1	By cash		50,000
			50,000				50,000
				March 31	**By balance b/f**		**50,000**

Cash A/c

Dr.   Cr.

Date	Particulars	JF	Amount (Rs.)	Date	Particulars	JF	Amount (Rs.)
March 1	To Capital A/c		50,000	March 1	By Bank A/c		20,000
March 6	To Sales A/c		8,000	April 2	By Machinery and Furniture A/c		15,000
March 17	To Sales A/c		2,000	March 3	By Purchase A/c		14,000
March 21	To Ram A/c		12,000	March 21	Discount allowed A/c		100
March 28	To Investment A/c		1,300	March 22	By Bank A/c		5,800
					By Investment A/c		3,000
March 28	To Profit & Loss A/c		100	March 23	By Brokerage A/c		20
March 30	To Sales A/c		1,900	March 28	By Brokerage A/c		20
				March 30	By Salary A/c		1,500
				March 30	By Travelling expenses A/c		100
				March 30	**By balance c/f**		**15,760**
			75,300				75,300
March 31	**To balance b/f**		**15,760**				

Bank A/c

Dr.   Cr.

Date	Particulars	JF	Amount (Rs.)	Date	Particulars	JF	Amount (Rs.)
March 1	To Cash A/c		20,000	March 10	By Telephone Rent A/c		500
March 22	To Cash A/c		5,800	March 19	By Drawings A/c		1,500
March 29	To Return Outward A/c		1,000	March 25	By Chowdhry and Co. A/c		11,000
				March 30	By Rent A/c		1,000
				March 30	**By balance c/f**		**12,800**
			26,800				26,800
March 31	**To balance b/f**		**12,800**				

Purchase A/c

Dr.   Cr.

Date	Particulars	JF	Amount (Rs.)	Date	Particulars	JF	Amount (Rs.)
March 3	To Cash A/c		14,000				
March 8	To Chowdhry and Co. A/c		11,000				
March 28	To Bhuwan A/c		2,100	March 30	**By balance c/f**		27,100
			27,100				27,100
March 31	**To balance b/f**		**27,100**				

Sales A/c

Dr.   Cr.

Date	Particulars	JF	Amount (Rs.)	Date	Particulars	JF	Amount (Rs.)
March 30	**To balance b/d**		**27,000**	March 6	By Cash A/c		8,000
				March 15	By Ram A/c		12,000
				March 17	By Cash A/c		2,000
				March 28	By Raghvendra A/c		3,000
				March 30	By Cash A/c		2,000
			27,000				27,000
				March 31	**By balance b/d**		**27,000**

Return Inward A/c

Dr.   Cr.

Date	Particulars	JF	Amount (Rs.)	Date	Particulars	JF	Amount (Rs.)
March 29	To Raghvendra A/c		100	March 30	By balance b/d		**100**
			100				100
March 31	**To balance b/d**		**100**				

Return Outward A/c

Dr.   Cr.

Date	Particulars	JF	Amount (Rs.)	Date	Particulars	JF	Amount (Rs.)
March 30	**To balance b/d**		**1,100**	March 25	By Chowdhry and Co. A/c		1,000
				March 29	By Bhuwan A/c		100
			1,100				1,100
				March 31	**By balance b/d**		**1,100**

Investment A/c

Dr.   Cr.

Date	Particulars	JF	Amount (Rs.)	Date	Particulars	JF	Amount (Rs.)
March 23	To Cash A/c		3,000	March 28	By Cash A/c		1,300
March 28	To Profit & Loss A/c		100	March 30	**By balance b/d**		**1,800**
			3,100				3,100
March 31	**To balance b/d**		**1,800**				

Machinery and Furniture A/c

Dr.   Cr.

Date	Particulars	JF	Amount (Rs.)	Date	Particulars	JF	Amount (Rs.)
March 2	To Cash A/c		15,000	March 30	**By balance b/d**		**15,000**
			15,000				15,000
March 31	**To balance b/d**		**15,000**				

Raghvendra A/c (Sundry Debtor)

Dr.   Cr.

Date	Particulars	JF	Amount (Rs.)	Date	Particulars	JF	Amount (Rs.)
March 28	To Sales A/c		3,000	March 29	By Return Inward A/c		100
				March 30	**By balance b/d**		**2,900**
			3,000				3,000
March 31	**To balance b/d**		**2,900**				

Chowdhry and Co. A/c (Sundry Creditor)

Dr.   Cr.

Date	Particulars	JF	Amount (Rs.)	Date	Particulars	JF	Amount (Rs.)
March 25	To Return Outward A/c		1,000	March 8	By Purchase A/c		11,000
March 25	To Bank A/c		10,000				
			11,000				11,000

Ram A/c (Sundry Debtor)

Dr.   Cr.

Date	Particulars	JF	Amount (Rs.)	Date	Particulars	JF	Amount (Rs.)
March 15	To Sales A/c		12,000	March 21	By Cash A/c		12,000
			12,000				12,000

Bhuwan A/c (Sundry Creditor)

Dr.   Cr.

Date	Particulars	JF	Amount (Rs.)	Date	Particulars	JF	Amount (Rs.)
March 29	To Return Outward A/c		100	March 28	By Purchase A/c		2,100
March 30	**To balance c/d**		**2,000**				
			2,100				2,100
				March 31	**By balance b/d**		**2000**

Telephone Rent A/c

Dr.   Cr.

Date	Particulars	JF	Amount (Rs.)	Date	Particulars	JF	Amount (Rs.)
March 10	To Bank A/c		500	March 30	**By balance b/d**		500
			500				500
March 31	**To balance c/d**		**500**				

Typewriter A/c

Dr.   Cr.

Date	Particulars	JF	Amount (Rs.)	Date	Particulars	JF	Amount (Rs.)
March 11	To Universal Typewriter Co. A/c		2,100	March 30	**By balance b/d**		2,100
			2,100				2,100
March 31	**To balance c/d**		**2,100**				

Universal Typewriter Co. A/c

Dr.   Cr.

Date	Particulars	JF	Amount (Rs.)	Date	Particulars	JF	Amount (Rs.)
March 30	**To balance c/d**		**2,100**	March 11	By Typewriter A/c		2,100
			2,100				2,100
				March 31	**By balance b/d**		**2,100**

Drawing A/c

Dr.   Cr.

Date	Particulars	JF	Amount (Rs.)	Date	Particulars	JF	Amount (Rs.)
March 19	To Bank A/c		1,500	March 30	**By balance b/d**		**1,500**
			1,500				1,500
March 31	**To balance c/d**		**1,500**				

Discount Allowed A/c

Dr.   *Cr.*

Date	Particulars	JF	Amount (Rs.)	Date	Particulars	JF	Amount (Rs.)
March 21	To Ram A/c		100	March 30	**By balance b/d**		**100**
			100				100
March 31	**To balance c/d**		**100**				

Salary A/c

Dr.   *Cr.*

Date	Particulars	JF	Amount (Rs.)	Date	Particulars	JF	Amount (Rs.)
March 30	To Cash A/c		1,500	March 30	**By balance b/d**		**1,500**
			1,500				1,500
March 31	**To balance c/d**		**1,500**				

Profit & Loss A/c

Dr.   *Cr.*

Date	Particulars	JF	Amount (Rs.)	Date	Particulars	JF	Amount (Rs.)
March 30	**To balance c/d**		100	March 28	By Investment A/c		100
			100				100
				March 31	**By balance b/d**		**100**

Travelling Expenses A/c

Dr.   *Cr.*

Date	Particulars	JF	Amount (Rs.)	Date	Particulars	JF	Amount (Rs.)
March 30	To Sales A/c		100	March 30	**By balance b/d**		**100**
			100				100
March 31	**To balance c/d**		**100**				

Rent A/c

Dr.   *Cr.*

Date	Particulars	JF	Amount (Rs.)	Date	Particulars	JF	Amount (Rs.)
March 30	To Bank A/c		1,000	March 30	**By balance b/f**		**1,000**
			1,000				1,000
March 31	**To balance c/f**		**1,000**				

Brokerage A/c

Dr.   Cr.

Date	Particulars	JF	Amount (Rs.)	Date	Particulars	JF	Amount (Rs.)
March 23	To Cash A/c		20	March 30	**By balance b/f**		40
March 28	To Cash A/c		20				
			40				40
March 31	**To balance c/f**		**40**				

Note: The balance is put on the side of the account, which is smaller, and a reference is given that it has been carried forward (c/f) or 'c/d' to the next period.

In the next period, a reference is given that the opening balance has been brought forward (b/f) or 'b/d' from the previous period.

Step 4: Summarizing Transactions/Events (Trial balance only)

TRIAL BALANCE

The trial balance is a statement containing the various ledger balances on a particular date. Trial balance checks the accuracy of ledger balances. The two sides of the trial balance should match. If the two sides do not match then there must be some arithmetical discrepancy in the books of accounts which need to be detected.

Trial balance for illustration 3:

Trial Balance
As on 30th March 2003

Particulars	Debit Amount (Rs.) Dr.	Credit Amount (Rs.) Cr.
Capital A/c		50,000
Cash A/c	15,760	
Bank A/c	12,800	
Purchase A/c	27,100	
Sales A/c		27,000
Machinery and Furniture A/c	15,000	
Investment A/c	1,800	
Brokerage A/c	40	
Typewriter A/c	2,100	
Universal Typewriter and Co. A/c		2,100
Rent A/c	1,000	
Salary A/c	1,500	
Return Inward A/c	100	
Return Outward A/c		1,100
Drawings A/c	1,500	
Raghvendra A/c	2,900	

Contd...

Particulars	Debit Amount (Rs.) Dr.	Credit Amount (Rs.) Cr.
Travelling Expenses A/c	100	
Profit & Loss A/c		100
Discount Allowed A/c	100	
Telephone Rent A/c	500	
Bhuwan A/c		2,000
Total	**82,300**	**82,300**

Note: A clear scrutiny of trial balance reveals the following rule:

Dr. Column All expenses/losses and assets

Cr. Column All income/gains and liabilities

Suspense Account

If both the sides of the trial balance do not match then a Suspense A/c may be opened to put the difference. This is a temporary account, which has to be written off at the earliest after the error is detected and rectified. If the credit side is less, then the Suspense A/c will be credited. But if the credit side is more, then this account will be debited.

Objective of Trial Balance

The trial balance is prepared with the following objectives:

1. **Helps in detecting arithmetical errors:**

   In case of manual accounting, if there is arithmetical error in calculation of amounts in primary and secondary books, trial balance will not agree and hence need to be detected before preparing final accounts.

2. **Helps in providing ledgers at a glance:**

   Trial balance is Summarizing Transactions/Events as it contains list of all ledger accounts along with their balances. In absence of trial balance it would have been very difficult to assess the position of different ledger accounts from primary and secondary books.

3. **Helps in preparation of final accounts:**

   The ultimate end of maintaining books of account is to ascertain the result of business operation and to provide the picture of assets and liabilities. This is done through preparing income statement and balance sheet, known as final accounts on the basis of information supplied by the trial balance. Thus trial balance acts as a source statement for preparing final accounts.

4. **Helps in identifying items for adjustments in final accounts:**

   While making final accounts certain adjustments regarding closing stock, outstanding and prepaid expenses etc. are to be made. The information furnished by trial balance helps in identifying those items for adjustments in preparing final accounts.

2.4 TYPES OF ERRORS DURING BOOK-KEEPING PROCESS

During book-keeping process starting from Recording of Transaction to Summarizing Transaction (trial balance) number of errors may occur because of lack of knowledge of accountant and because of clerical and arithmetical error. However these errors minimize in case of computerized accounting system (*i.e.* using accounting software for maintaining accounting transactions).

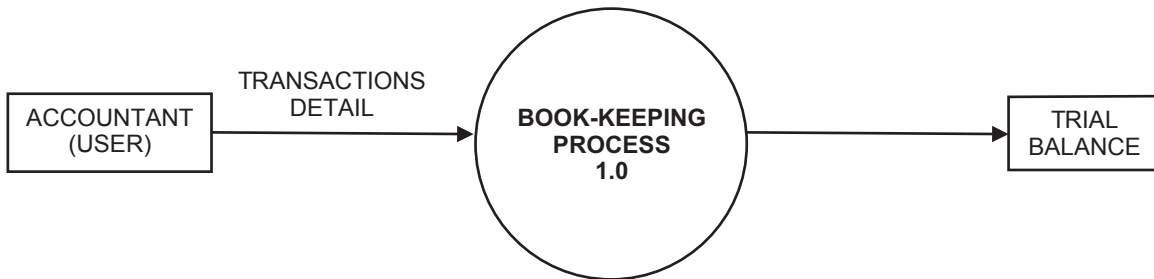Following is the types of error alongwith its impact over trial balance.

(A) Errors when trial balance agrees: The possible cause of such errors are,

(*a*) Error of accounting principle *e.g.* treating a revenue expense as capital expenditure or vice-versa or treating the sale of a fixed asset as ordinary sale.

(*b*) Clerical errors *e.g.* omitting an entry completely from the primary books, error in voucher entry (primary entry) in terms of amount and in terms of voucher type.

(B) Errors when trial balance does not agree: The possible cause of such errors are clerical errors *e.g.* posting the wrong amount in the ledger, omitting to post the ledger account from the primary books, posting an amount on the wrong side, wrong balancing/totalling of ledger account.

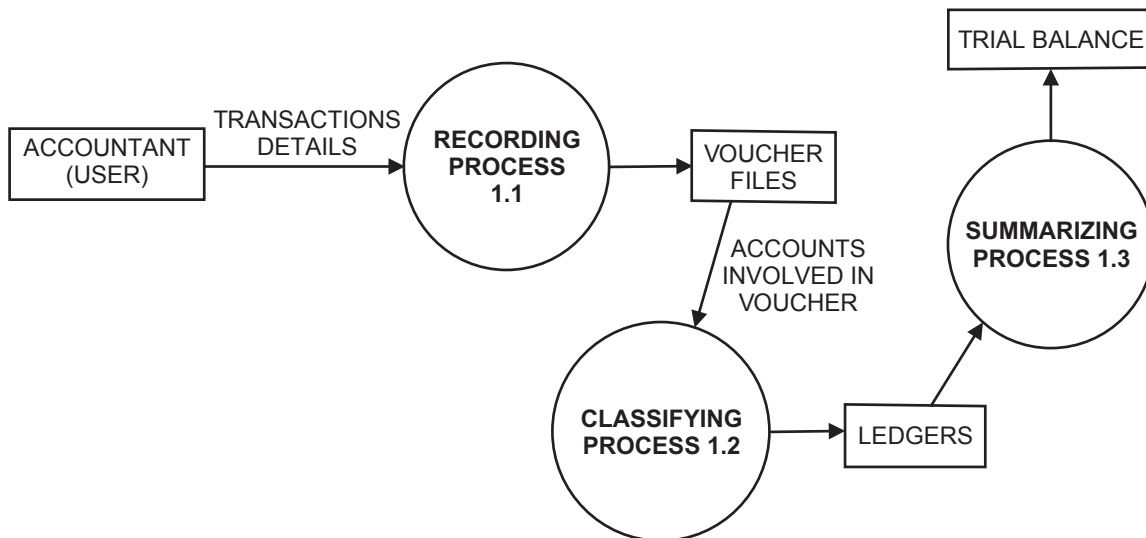## 2.5 DATA FLOW DIAGRAM (DFD) FOR BOOK-KEEPING PROCESS

This part is exclusively for I.T. professionals (programmers) as an aid in understanding mechanism involved in book-keeping process regarding data flow.

Context level DFD, Ist Level DFD and IInd Level DFD for book-keeping process are shown on next page:
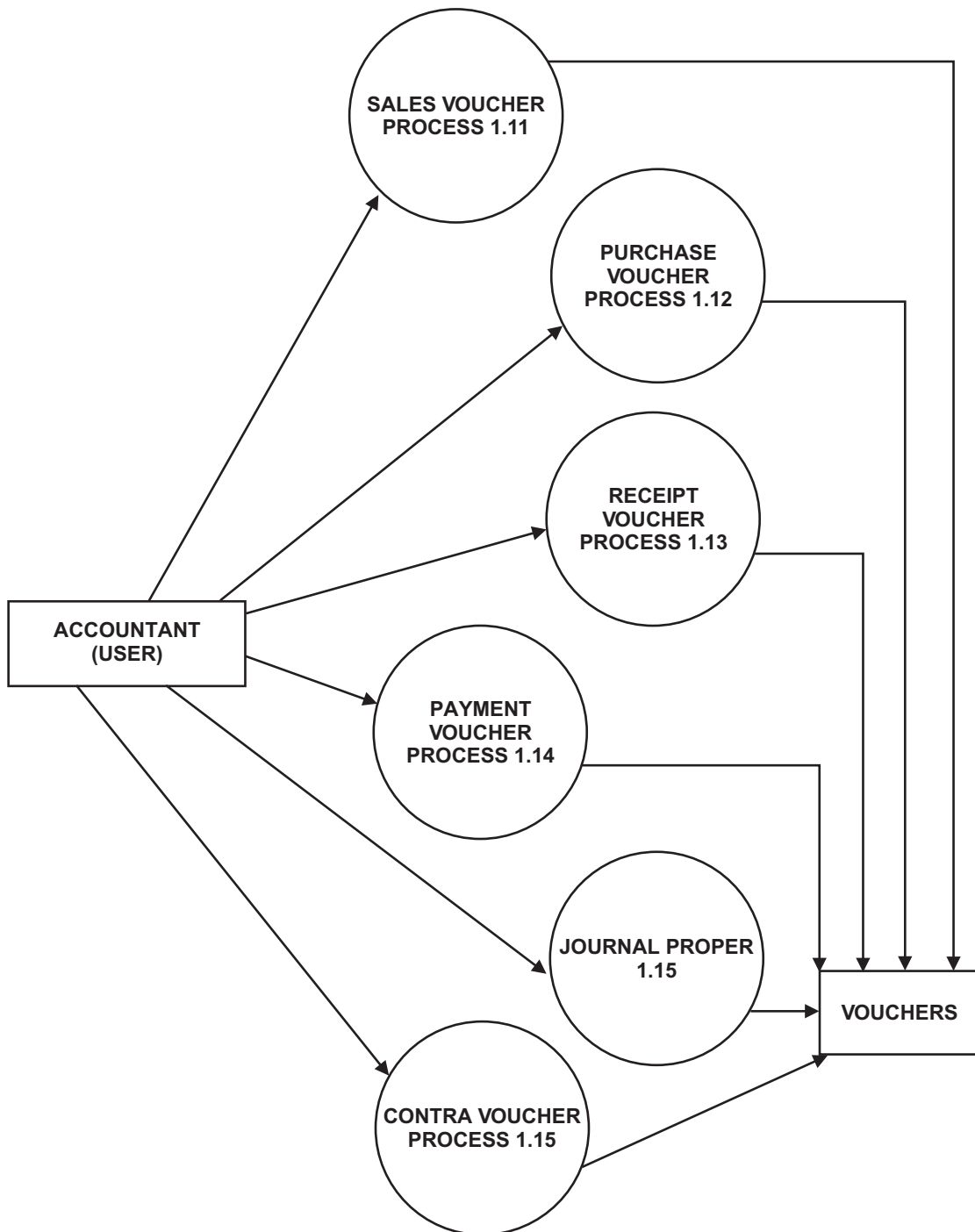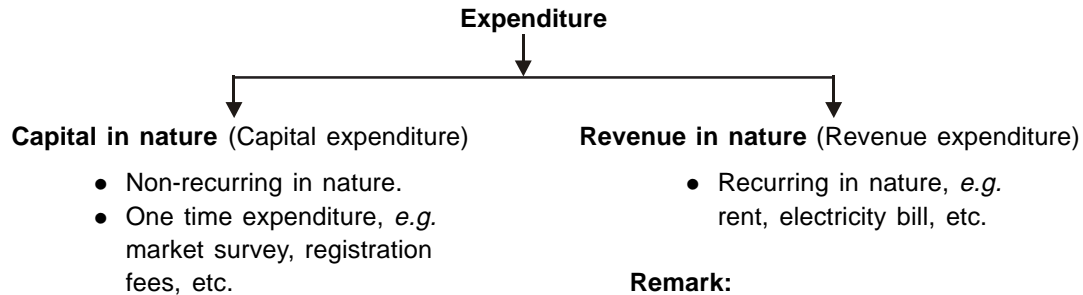
1.5 CONTEXT LEVEL DFD

1st LEVEL DFD

IInd LEVEL DFD

Important Terms

Expenditure

Expenditure

↓

Capital in nature (Capital expenditure)	**Revenue in nature** (Revenue expenditure)
• Non-recurring in nature.	• Recurring in nature, *e.g.* rent, electricity bill, etc.
• One time expenditure, *e.g.* market survey, registration fees, etc.	

Remark:

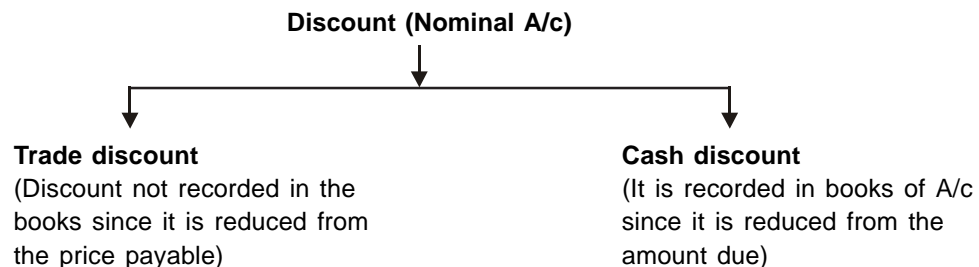**Deferred Revenue Expenditure:** A revenue expenditure whose benefit is to continue for period of two or more years. Such expenditure is written off not in one year but over a period of two or three years. For example, expenditure incurred on heavy advertisement, preliminary expenditure, etc.

Discount

An allowance or a deduction allowed from an amount due, is discount. Discount payable is an expense of the organization whereas discount received is an income.

Discount (Nominal A/c)

↓

Trade discount	**Cash discount**
(Discount not recorded in the books since it is reduced from the price payable)	(It is recorded in books of A/c since it is reduced from the amount due)

Investments

Investment account is a capital account as buying and selling policies and shares is not the core business. It cannot be shown in Purchase A/c. It is a real account and a separate investment account has to be maintained.

Sundry Creditors

Group of creditors are called sundry creditors. In case of purchases on credit, which are recurring in nature, usually the name of the individual creditor is not mentioned in the books, though their names can be written in narration. They are trade creditors whose individual accounts might be prepared for convenience. Capital purchases on credit are made in the name of the creditor. In case of purchases, which are recurring in nature, Sundry creditors A/c is maintained.

Brokerage
It is a amount paid to broker against trading of securities and hence is an expense.

Drawings
Cash or goods taken by the owner of the business for his personal use. For example, payment of salaries to employees is not a drawing. But, if the owner takes money from the business for the payment of his own expenses, then this is a drawing. Drawings reduce the capital of the owner.

Books of Account

Books of Account
→
Primary Books   Secondary Books
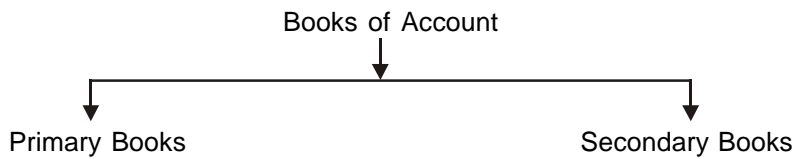
Primary Books
Primary books are books for primary entry and are used for recording business transactions/events, which are of financial nature.

Primary Book (Journals) in Manual Environment	Primary Book (Journals) in Computerized Environment
• Subsidiary books like sale, purchase, cash book etc., and Journal proper, are books of primary entry used for recording of business transactions/events, which are of financial nature.	• Different vouchers like receipt, payment, sale, purchase, contra and Journal vouchers are used for recording of transactions/events, which are of financial nature.

Secondary Books
Secondary books are used for ledger entry *i.e.* classifying the transactions/events recorded in primary books.

Secondary Books (Ledgers) in Manual Environment	Secondary Books (Ledgers) in Computerized Environment.
• For classifying the recorded transactions/ events, different ledger books are maintained. • Ledger book contains similar type of A/cs. • Cash book acts as primary as well as secondary books.	• Ledger A/cs are automatically generated and are grouped as per requirement.

Exercises

Q. 1. Describe book-keeping process.

Q. 2. Differentiate between primary books and secondary books.

Q. 3. Explain the advantages of trial balance, also give the format for trial balance.

Q. 4. Describe the possible errors during book-keeping process.

Q. 5. Pass the necessary journal entries of the following information, post them into ledgers and prepare trial balance.

2002		Rs.
Jan. 1	Started business with cash ……………………………………………………..	30,000
Jan. 2	Deposited into bank ……………………………………………………....	10,000
Jan. 5	Purchased machinery for cash……………………………………………	5,000
Jan. 9	Purchased goods from ABC Ltd. at the list price of Rs. 5,000 He allowed 5% trade discount. Payment made by cheque.	
Jan. 11	Paid for electric charges……………………………………………………..	50
Jan. 11	Paid rent for January, 2002…………………………………………………	500
Jan. 11	Stationery purchased………………………………………………………	100
Jan. 11	Drew for private use ……………………………………………………...	1000
	(Payment in all cases made by cheque)	
Jan. 20	Sold goods to M/s Pankaj & Co. ……………………………………………..	4000
Jan. 26	Paid rent for next three months upto April, 2002…………………………..	1500
Jan. 28	Received a cheque from M/s Pankaj & Co. for Rs. 3,275 in full settlement and sent the cheque to bank	
Jan. 29	Cheque of M/s Pankaj & Co. dishonoured	
Jan. 30	Salaries due to clerk. …………………………………………………	200
Jan. 31	Received a new cheque from M/s Pankaj & Co. for Rs. 3,500	
Jan. 31	Interest on capital ……………………………………………………………..	50

Q. 6. Pass the necessary journal entries with the following information, post them into ledgers and prepare Trial balance.

2001		Rs.
March 1	Purchased goods for cash …………………………………………..................	2,000
March 3	Purchased goods from Sunil ……………………………………..................	7,000
March 5	Sold goods to M/s Black & White for cash…………………………………	1,500
March 8	Sold goods to Rahul	800
March 9	Paid salaries…………………………………………………..….…….	500
March 10	Payment received from Rahul in full settlement of his account…..............	750
March 13	Received commission………………………………………………...............	15
March 16	Deposited into bank………………………………………………...............	1,400
March 18	Paid general trade expenses………………………………………..............	40
March 22	Withdrew from bank for office use……………………………………............	500
March 24	Paid rent …………………………………………………………..................	125
March 27	Paid cash to Sunil in full settlement of his account……………...................	6,800
March 31	Paid for miscellaneous expenses………………………………..................	200

Q. 7. Journalize the following transactions:

(a) Mohan is declared insolvent. I received from his official receiver a first and final dividend of 60 P in a rupee on a debt of Rs. 3000.

(b) Received a V.P.P. for Rs. 700. Sent a worker to take delivery of it and he paid Rs.10 for cartage.

(c) Received interest on loan from the debtor, Rs. 1,500.

(d) Provide interest on Capital (10,000) at 6% for six months.

(e) Received Rs. 800 from Narayana in full settlement of a debt to his account for Rs. 850.

Q. 8. Pass the necessary journal entries with the following information, post them into ledgers and prepare trial balance.

2002		Rs.
Feb. 1	Paid salaries..	1,500
	Paid rent..	900
Feb. 3	Drew for private use..	250
Feb. 4	Received commission..	100
Feb. 5	Loan taken from A.K. Das...	4,000
Feb. 5	Received Rs. 2,000 from Sohan in full settlement of his account for..	2,500
Feb. 6	Purchased goods for cash...	900
Feb. 17	Cash sales..	500
Feb. 18	Bought goods from XYZ & Co. valued at Rs. 5,500 less 10% trade discount	
Feb. 20	Paid wages to workers..	200
Feb. 23	Paid office-expenses..	50
Feb. 28	Rent received...	200

Q. 9. Record the following transactions in the journal and post them into ledgers.

  (*i*) Commenced business with cash Rs. 50,000.

 (*ii*) Paid rent in advance Rs. 800.

(*iii*) Purchased goods for cash Rs. 18,000 and for credit Rs. 10,000.

(*iv*) Bought scooter for personal use for Rs. 6,000 and the payment made out of business money.

 (*v*) Received cash for a bad debt written off last year Rs. 200.

(*vi*) Mr. A, a debtor of the firm became insolvent. A first and final payment @ 75 paise in a rupee was received from his official receivers towards his total dues of Rs. 500.

Q. 10. Describe the objective of trial balance.

Q. 11. Draw context level, 1st level and 2nd level DFD (Data Flow Diagram) for Accounting Information System (AIS).