

Decision making using financial accounting
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Lecture - 15


Journal - 2

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For Week - 4

From the following transactions of Nadarun and Co. you are required to pass the necessary journal entries, post them to a ledger, prepare the Profit & Loss account and Balance Sheet. All figures are in INR.

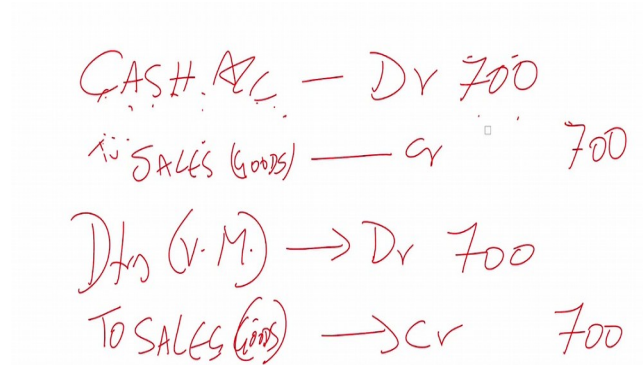
1- Nadarun commenced business with capital of	10,000
2- Deposited in the bank	3,000
3- Bought goods from E. engineer	2,000
4- Sold goods to V. Rajaram for cash	700
5- Sold goods to Vijay Merchant	700
6- Received cash from Vijay Merchant	680
7- Allowed discount to Vijay Merchant	20
8- Sold goods to Jayshim	600
9- Received cheque from Jayshim on account	500
10- Paid E. engineer on account	1000
11- Received discount on payment to E. engineer	80
12- Bought goods from Subramaniam	900
13- Sold goods for cash to Pattandi	900
14- Sold goods to Chandrasekar on credit	400
15- Jayashim returned goods	20
16- Returned goods to E. engineer	100
17- Cash purchases	200
18- Cash sales	375
19- Withdraw from bank for office use	1000
20- Provided loan to Anamath	200
21- Bought goods from Sardega	300
22- Sold goods to Thankad for cash	400
23- Paid for office rent	150
24- Paid for office salaries	250
25- Paid for general expenses	25
26- Purchased goods from Abidali	100
27- Withdraw from bank for personal use	500
28- Bought stationary for cash	25



Continuing from there, we did about 4 transactions. Now, let us look at the 5th transaction out there. It says, if you actually see this received cash from Vijay Merchant 680 dollars, allowed a discount of what do you call it as discount of discount to Vijay Merchant rupees 20 dollars. But if you actually see this there is one transaction which specifically there is it is actually it is in the 4th sorry, in this particular 4th transaction we saw that and then if he is look at the 5th transaction, 6th transaction and so on etcetera.

Now, there is one more basic transaction out here in this particular case; in this particular case. It says that if you actually go back and take care of read this entire if we go to your statement out here it says that sold goods to Vijay Merchant rupees 700 they saw a transaction.

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CASH A/C — Dr 700
To SALES (Goods) — Cr 700
D/Hs (V.M.) → Dr 700
TO SALES (Goods) → Cr 700



It says that sold goods if you look at, what you call it as a 5th transaction out here, sold goods to Vijay Merchant rupees 700. When it says sold goods to Vijay Merchant rupees 700, then what is happening? First thing, sales is happening. When sales is happening what is happening? Goods are going out of your company. When goods are going out of your company out there, then what happens? Debit what comes in, credit what goes out. What is going out? Goods are going out. I said to sales what do you call it as credit out there and then it is 700.

Now, it says debit the receiver, credit the giver; debit the receiver, credit the giver, who is gay.. who that is who is receiving that credit from me Vijay Merchant that is what we call it as debtors, what we call it as Vijay Merchant is receiving that credit from you in the form of rupees 700, as I talked to you about earlier. That is debit in this particular case goods are going out that is sorry goods are going out in this particular case if you actually see that, goods are going out that is goods are there that is your asset is reducing.

Please understand your asset is reducing goods are going out today, nobody can I go. No, no sales means it should be in what do you call it as the nominal account principal because you say debit all incomes and expenditure, and losses credit all income and gain, and sale is an income, sale is not an income. Sale basically, what is an income what we are talking about? Profit, then we are talking about gain. He sale a gain as of now it is the

amount for which you have sold minus whatever is the cost of this particular good is what we call it as a gain.

As of now it is not this entire thing is not a gain, this is basically sale; that means, goods are going out that is all what I have done. That is who is giving the credit, who is giving the getting the credit? That is Vijay Merchant is getting the credit out there, so I have taken it as about rupees 700 to Vijay Merchant out there that is what basically I have done.

I am going back to the previous transaction. In this particular case, initially what was the transaction out there? Transaction initially was basically we said that entire goods are sold on cash and then it is 700, I am just knocking it off knocking of the extra because they as an example what I talked to you about that Raghavan to sold goods to Raghavan on credit that is because you are able to see that basic credit part of it in this particular case out here.

In this what you see? Debit that is debtors, that is Vijay Merchant is debtor for me, that is I he is getting the benefit from me. Now, sales, goods are going out, credit out there that is also taken care of. If I move to the next transaction out here, it says received I am going to take the next two true transaction that is 6th and 7th transaction together. Here I am going to take the 6th and 7th transaction together. Received cash from Vijay Merchant and allowed him a discount of what is called as rupees 20 dollars out there. In the sense, it says that received cash from Vijay Merchant 680 dollars allowed him a discount, allowed discount of Vijay Merchant rupees 20 rupees.

Now, what is happening first and foremost? There is what is called as cash that is coming in, debit what comes in. What is coming in? Cash is coming in. Cash account debited. Rupees how much is cash coming in? Cash coming in not 700, cash is coming in to go to the extent of about 680.

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CASH Ac → Dr 680
DIS GIVEN → Dr 20
TO VM (DHS) → Cr 700

DHS (JAYSHIMA) Ac Dr 600
SALES (GOODS) → Cr 600



Now, who is giving the cash debit the receiver, credit the giver. Who is giving the cash? That is the person who is giving the cash is basically Vijay Merchant out there, debit the receiver, credit the giver. Vijay Merchant is giving the cash that is what you call it as creditors out there, he is giving the cash out there. So, I am debit the receiver credit the giver. How much are you give, how much was he supposed to give? If you look at the previous aspect out here, if you look at the previous transaction, how much was he supposed to give? He was supposed to give me 700 dollars out here.

How much is he giving me as of now? He is giving me is basically, he was willing to give me 700, I have given a discount of 20 dollars to him. So, cash basically I got 680. How much was he supposed to give? He was supposed to give me 700. Why I have written 700? Read the next transaction in this case. Allowed him a discount of 20 dollars, that this he is willing to give 700, you have allowed a discount of 20. When you allow a discount of 20 what is it for you? Is it an income? Is it an expenditure? Is it a loss? It is an expenditure, it is a loss for you. So, when it is a loss for you what happens? Debit the all expenses and losses, credit all incomes and gains, so I will say discount given debit 20 dollars.

So, what happens? He was supposed to pay me 700 dollars, he has come with 700 dollars to me yeah, out of that I have taken say I have taken a cash of 680 dollars, I given him a discount of 20 dollars. So, as far as he is concerned the 700 dollars which he was sup-

posed to pay is complete, if the transaction is completely closed out there that is where what happens.

In this particular case you see, it is not only the two aspects that gets affected there are 3 basic aspects account worked out here, that is one is discount given or discount given, discount allowed that is the other name what we will use. There is a discount allowed account there is given 20 dollars debit what, debit all expenses and losses it is an expenditure as a loss I have debited it. Then there is something cash that is coming in. I have credit. I have basically what have I done? I have debited cash that is coming to you my picture that is 680 dollars.

And then, I who is giving this credit? Who is giving this cash? Vijay Merchant is giving the cash, that is I am receiving money from basically my creditors out there in the process out there that is basically I have trade off I am sorry not creditor, I am extremely sorry out here it is basically my debtor I am extremely sorry, my debtors out here. I have received cash from my debtors out here 700 dollars and the matter is issues over.

Now, I moved to the next transaction. If I look at that is I have taken the 7th transaction over, now I am looking at the 8th transaction in the prices. If I have to look at the 8th transaction out here it says that sold goods to Jayashima rupees 600. Now, what is happens? What is the entry in this particular case? You have sold goods to Jayashima. When you have sold goods to Jayashima, does it say anywhere that you have sold it for cash?

It does not say. It just says sold goods to Jayashima. That means, what do we assume? We assume it is on credit. When it is on credit what happens? When there is a sale what is happening? Goods are going out. When there is a goods are going out, what happens? Goods account or sales account is basically debit what comes in, credit what goes out. So, what is going out? Goods is going out. I credit. And then what is the amount sir? The amount is basically to the extent of about 600.

Now, what is happening? You have sold goods to Jayashima. Now, somebody is receiving the benefit of your credit sale. Who is receiving the benefit of your credit sale? The person who is receiving the benefit of your credit sale in this particular case is Jayashima, that is what we call it as your debtors account or Jayashima in this particular case that is he is receiving how much is that is he has to pay me what we call it as 600 dollars. Do not worry, do not worry about this writing, we have input all these things in

an excel sheet which I show, which also we will share with you when we finish this. We have input all these things in an excel sheet. It is better more legibly written out there, so which also we will share with you as we go along in this particular case out there.

Next, to move ahead from here it says that the next aspect. Received a cheque from Jayashima on account rupees 500 dollar, 500. Received a cheque from Jayashima rupees 500 out there, that is all what it says, yeah. Received cheque from Jayashima rupees 500. When you receive a cheque from Jayashima, what is happening? You have received a cheque from Jayashima, something is coming in. Moment you have a cheque, you are depositing in the bank. What is happening to the bank account? Bank account is increasing. When bank account is increasing, what is the principal what you use? Debit what comes in, credit what goes out.

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BANK AC - Dr	500
To Dr's (JAYA)	500
<hr/>	
Dr's (ENGINEER) Dr	1030
BANK AC - Cr	1000
Dis Received -> Cr	30



So, what is coming into you there is what is called as a bank balance that is coming into you that is what you call it as bank account, debited rupees 600, if I am not; found we.

Student: 500.

Yeah 500, ok. 500 out here. And then who is giving this? Jayashima is coming it. What is Jayashima? He is one of the debtors to me that is Jayashima is going it to me. How much is he giving it? He is giving 500. Somebody will immediately argue, no no, he has to give 600; he has given only 500, 100 rupees you have like discount, you have take

take discount. Do I have to take that discount yes or no? If you actually see this is there anywhere, is it mentioned that a discount of 100 rupees was given to him? Now here, we have mentioned he was he was to pay me 600, out of that 600 he was to pay me. Now, he has paid me 500, still 100 rupees is due from him, unless, until, otherwise, mentioned. I repeat unless, until, otherwise, mentioned it is extremely difficult for you to record it or for you to take as what is called as discount that is basically take me either discount you have received or discount you have allowed.

So, in this particular case there is no mention, I am not taking anything with regard to whether it is a discount given or discount, yeah, discount given or what is called as discount received or anything. So, I am just saying that I have record it as 500 and I will still say that another 100 rupees is still due from Jayashima in the process; one.

Next, it says that paid E engineer on account rupees 1000. Similar, exactly similar. If you go back at some stage you had bought what do you call it as; what is called as goods from E engineer to the extent of rupees 2,000. You will actually see it out here the last transaction, purchase of goods rupees 2,000, under creditors E engineer rupees 2,000 out there.

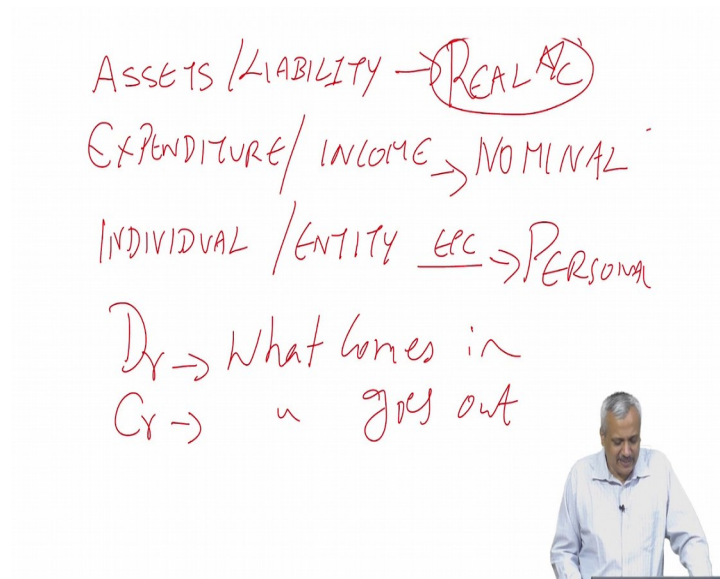
Now, what have you done? Out of the 2,000 dollars that you that you basically owe E engineer you have paid him about what do you call it as, you paid him about 1000 rupees. When you pay 1000 rupees what happens? Your cash or bank account basically reduces in the process. So, what happens? When cash goes out of the business, when the cash goes out of the business, when we say cash goes out to the business debit what comes in, credit what goes out. What is going out? Cash basically is going out of the business rupees 1000.

Student: (Refer Time: 13:49).

I will say I am using cash and bank both synonymously in this particular case. What I have you used? Basically, let us it is on account when it says in normally it says that it is paid E engineer, that is it says that paid E engineer on account, when it says it is paid E engineer on account normally it is not cash, normally when you say on account and everything normally we will say when payment is made we will normally say it is basically bank account out here. I will say bank account either of it both happen I said for you.

Now, in this case you are paying that is debit, that is what is it debit what comes in, credit what goes out, money is going out paid over, good, done. What is happening? It is actually, if you go back think a little more it says that debit the receiver, credit the giver. Who is basically? Debit the if you actually see that debit the receiver, credit the giver in this particular case out there. In this particular case, is it debit the receiver, credit the giver? Please check up out there. If you actually see this debit the receiver, credit the giver in this particular case. I agree. You saw you saw that.

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Now, let me go back. In this particular case, it says, in this particular case it says E engineer that is paid debit the receiver. Who is receiving the money? E engineer is receiving the money. So, what do you do? Debit the receiver I will say debtors out there, that is what is called as E engineer is receiving the money debit the receiver that is credit the giver. I have debited the receiver not creditor by for me cash is going out I have credited what is called as cash out there. Am I with you on this so far so clear. Now, let me move on.

If a Bhuvan out there received a discount on payment to E engineer rupees 30 in this particular case; received a discount of from to pay on payment to E engineer rupees 30. I should have taken this transaction also together along with it. So, that means, what happens? You have received what is called as a discount out there. That means, what is happening? You have received, you have paid 1000 dollars in cash, you have received an-

other 30 dollars discount. Discount here you have received means what is it? Is it a gain or a or a or a loss for you? It is a gain for me. I have received discount. I do not have to pay much. So, when I have received discount what happen? Debit all expenditures and losses, credit all incomes and gains, discount received, credit I have got 30 dollars out there.

Now, what is the total money that you owe E engineer? You earlier owed him 2,000 rupees. Now, how much you owe him? You do not owe him 1000 rupees, you owe him only 970 rupees. Why? Because 30 rupees on this payment he has given you a discount out there. So, how much do you owed him? You owed him 2,000 rupees earlier, now you owe him only 970 rupees. Why? Because 1000 rupees you have paid in cash, 30 rupees you have received a discount from him in the process. So, that transaction again has what you call it as 3 components out here as in the earlier case as what we basically saw in this particular earlier case, in the earlier case what we saw we receive what is called as 3 components out here.

Next, I am continue; I am going to continue next. If I continue next it says that bought goods from Subramanyam 900. It says nothing but, bought goods from Subramanyam. When you say bought goods from Subramanyam in this particular case, when you buy goods what is happening; when you buy goods what is happening? Goods are coming into your factory that is what you call it as purchases.

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PURCHASES (GOODS) - DR 900
 TO CRS (SUBRAMAN.) - CR 900

 CASH AC - DR 900
 TO Sales (GOODS) - CR 900

 Sales Returns (GOODS) - DR 900
 TO CASH - CR 850
 no gain → S.R - CR 50



How much is the money amount? If I look, if I see this amount is about 900 and then it says, it does not say cash, it just says you have bought it. When it says you have bought it; obviously, you have bought it on credit out there. When you have bought it on credit that is who is giving you the credit? Debit the receiver, credit the giver. Who is giving you this credit; who is giving you this credit, in this case particularly, credit? Subramanyam is giving the credit, so I will credit his account out there. Very simple, straight, simple and straight I have just finished it out there.

Next, if I sort of move on from here it says sold goods for cash to Pataudi rupees 900. I have taken very simple figures out there. Sold goods for cash to Pataudi rupees 900. What is happening in this case? Cash is coming in, first cash is coming in. So, debit what comes in, cash comes in, cash account debited rupees 900. Now, what is happening? Sir, who is the giver? Pataudi for why he is. Why are you bothered about Pataudi? You have sold goods, you have received the cash, there is nothing due, forget about it to whom you sold. Now, what is happened? Debit what comes in, credit what goes out. What is going out that is basically goods are going out of the factory that is what we credit and that is rupees 900.

Student: What is this transaction, there Pataudi wants to return this goods, sir.

If Pataudi is for example, now, the question that he has asked me is what happens Pataudi has bought the goods and gone. Now, he comes back after in 1 hour and says no I do not like the goods I want to return the goods to you. Very simple, what has happened? If he return the goods and imagine you are also have a policy of free return 100 percent return, 100 percent you are buying back the whole thing, that is moment he returns the goods you buy back and then give him the cash. Then what happens in this particular case? This just gets reversed, gets reverse in the sense goods are coming in to me, debit what comes in, goods are coming in that is what I say sales returns that is there is what is called as return of the sale that is debtors. What is the value? 900.

And now, what is happening? Another asset is going out. What is the asset that is going out? The asset that is going out in this particular case is cash out there 900 has gone out, simple. You might argue when he returns the goods I will pay him cash, but I will not pay him entire 900, I will pay him only about 850. Perfectly all right. Then what happens? What is a catch? He has returned goods how much? He has returned goods to the

extent of about 900. What is the amount of cash you are given? The amount of cash I have given is only 850. What is the other 50 for you? Other 50 is it gain or an income for you. Am I with you?

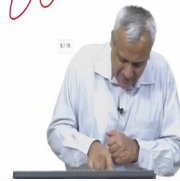
If it is a gain or an income for you, what happens, what is the principle? Debit all expenses and losses, credit all incomes and gains, that is I will say to gain because of sales returns another 50 dollars out there this is also credit, this is also credit out there. So, what happens? This 900 basically gets taken care of in the process. Am I with you? Are you following? Ok.

Now, let us go on to the next transaction as we go along. Please note, when we prepare the income statement and balance sheet out here we may not use this particular transaction at all because this is the transaction which we have created as of now which is not part of our text out there. So, we may not use this transaction sort of way, but it is as of now for understanding it is perfectly all right out here.

Next, I would say if it Pataudi is over, next I will say sold goods to Chandra Shekar on credit rupees 400. I have sold goods on credit to Chandra Shekar. When I have sold goods to on credit to Chandra Shekar, what is happening? Debit what comes in, credit what goes out, debit the receiver, credit the giver. Please note there is no cash in it, there is credit sale. Who is receiving the benefit of this credit? So, for you who is receiving the benefit of this credit? Chandra Shekar is receiving the benefit of this basic credit out here; that is debtors all this Chandra is receiving the benefit of his credit and then Chandra is receiving the benefit of this that is how much is he receiving out here, he is receiving goods to the extent of about 400 dollars already know.

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Drs (Chandra) → Dr 400
To Sales (Goods) → Cr 400
Sales Returns → Dr 20
To JAYASHIMA (Drs) → Cr 20
CRS (E-ENGINEER) → Dr 100
Purchase Returns → Cr 100



Now, what is happening? As far as I am concerned the goods are going out of my factory. So, basically sales I will say what is called as goods are going out of my factory, then debit the what comes in, credit what goes out. What is going out? Goods are going out and I credit to the extent of about 400 dollars out here.

Now, sir why are you writing drs next to Chandra, why are you writing crs? Please note, debtors when I say is a consolidated of consolidation of all the entities all the entities individuals etcetera who owe money to my company for the purchases that they have made. So, all these will be grouped under the broad head what is called as debtors in the balance sheet when we write about. As of now we will maintain individual account Chandra, Subramanyam etcetera, but when we prepare a balance sheet we will group all these together that is where I will write as debtors and the same thing what we do with a creditors also. Am I with this?

Then next transaction. I will basically go ahead in this, next transaction out here if I have to move to the next basic transaction out here it says Jayashima returned goods to the extent of rupees 20 dollars, rupees 20. You sold goods to Jayashima on some particular thing that is you sold goods to Jayashima for 680 dollars out here, somewhere I said sold goods to Jayashima for 600, a 600 dollars.

Now, what is happening? Out of the 600 dollars he is getting me, he is getting back to me 20 dollars worth of goods. So, what is happening? Sales has happened, in this case

goods are coming back, when it is coming back sales returns. That is goods are coming into my factory again. It could be done, you might say, oh it is damaged goods. What is the value? As of now it is damaged not damaged, etcetera, I will assess it later. As of today, it has come into my factory. What is the value of the good that has come in? The value of the good that has come in is 20 dollars out there; debit what comes in and then it has come in and then I have recorded it has 20 dollars out there.

Now, are you giving cash for this? No, because Jayashima himself has bought and he still owes money. No, debit the receiver, credit the giver. Who is giving this goods to you? These goods are being given by what is called as Jayashima or in short what do you call it as debtors out there to the extent. What is the extent? To the extent of about 20 dollars out there. Jayashima is getting this goods back to me. He has given the goods back to me, so I have basically done what you call it as Jayashimha's goods, Jaya sales returns that is goods are coming from Jayashima 20 dollars is what I have basically recorded in the process out there. Now, I.

Student: Will there be another journal entry after the first sales returns?

Sales returns I have taken know, straight away.

Student: Sir, like where that account will close? That will close at sale.

Sales, sales account is separate, sales returns account will separate. We will prevent, we prepared the ledger account you will know that sales account will be different, sales returns account will be different, but when we write in the P and L statement or the balance sheet P and L statement we will say net sales that is sales minus sales returns. We will write net sales. But as of ledger account we will keep the account separately, do not worry about it when we do the ledger account we will see this.

Next, returned because today as far as today is concerned this particular goods say we will journalize these 20 transactions out there, then again we will come back and do the ledgering and then the so on and so forth out there. Returned goods to E engineer rupees 100. Now, how much you owed E engineer? But, if you look at you out here and one of the earlier transactions out here, I think somewhere you bought from the E engineer, you have made purchase of 2,000 rupees dollar rupees worth from E engineer, then out of the

2,000 rupees you have cleared off dues to the extent of 1,030 that is only 970 is left. And then now, you will actually see that another 100 rupees worth of goods you are returning.

When you are returning goods what is happening? Goods are going out of your factory. When goods are going out of your factory, what is the end what happens? Debit what comes in, credit what goes out. So, what is going out? Goods are going out of the factory. But, is it a sale? It is not a sale, because we cannot write it as sale out there. So, what is happening?

Whatever you have purchase is getting out of the factory. So, I will write it as purchase returns, creditor, because there is goods that is going out of the factory and that is nothing but purchase returns. Purchase returns, returns, r e t u r n s returns out there. I have the excel sheet which I will show you which rate it is much more legibly return both of these things. Purchase returns, 100 dollars are there.

Now, what is on the, what is that, what is it to be debited? You had that is debit the receiver. Who is receiving these goods? E engineer is receiving this goods, that is my creditors are what we call it is E engineer is receiving these goods. And how much is he receiving? He is receiving to the extent of about 100 dollars out there. That is what you call it as my creditor, earlier I owed him 970.

Now, how much do I owe him? Because I have, I have paid out 200 dollars worth of the goods, I have to, I need to pay him only about 870 dollars out there. Now, that is what it is reducing. That is who debit the receiver, credit the giver, who is giving? Debit the receiver, credit the giver in this particular case. That is in this particular, who is receiving? Debit the receiver. Who is receiving? E engineer is receiving, debited. Goods are going out, purchase returns, that is 100 dollars out there, ok.