Decision making using financial accounting
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Lecture - 16
Journal - 3

Now, if we have to move ahead in this particular cash effect and then we let us see what we saw was basically we said that returned goods so engineer that is we looked at the 16th the transaction was out there, then the 17th and 18th transaction, if you look at it is relatively easier simple. If you look at the 17th transaction, it just says cash purchases to the extent of rupees 200 each, it does not even tell you from whom you have bought in the process; it does not even tell you from whom you, because no one there is a cash purchase that is what is happening, one asset coming in, another asset going out. What is the asset that is coming in goods is coming in?

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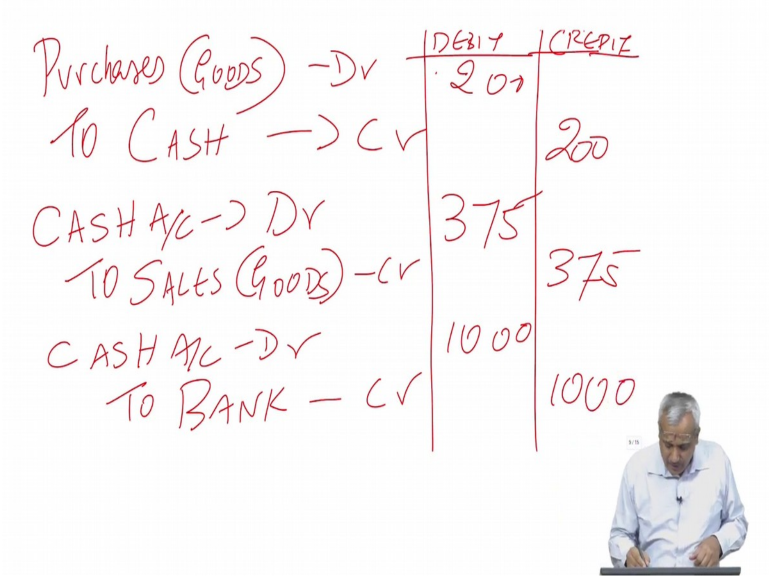

Goods is basically coming in that is basically debtor, debtors out there that will be debited sorry that will be debited to the extent of 200 dollars. And debit what comes in credit, what goes out. What is going out? Basically cash is going out in the process. So, cash I credit to the extent of 200. Then normally in accounting what we says we will say typically in accounting book will look like this, there will be multiple columns. On top of this column, they will write debit they will on top of this column, they will normally write what is called as credit out here.

They will basically if I have to typically say that how accounting as statements have record, they will say this is credit side of the whole thing, this is debit of the whole thing, and that is how basically, it will be recorded out there. I am not being a very typical accountant in that sense. So, I am just broadly letting telling you or helping you understand the basic philosophy behind this entire thing.

Next it says that cash sales to the extent of 375, moment it says cash sales please note there is something happening. What is happening there is cash that is basically coming into the business out there cash account debited, what is the amount 375 dollars is the amount out there that is basically coming into your business. Now, what is happening? The other asset that is also getting affected is basically what is called as your goods are going out and that is also you can that is debit what comes in, credit what goes out. That is what is come in cash has come in you have debited, what is going out that is sales is going out that is goods are going out you have basically credited that part of it. So, that is what basically we have done in this particular case.

Moving further, it says that if I look at the 19th transaction, it says that withdrew from bank for office use rupees 1000; withdrew from bank for office use rupees 1000. Now, what is happening, there are there is an asset, one asset is reducing, another asset is increasing. What is the asset that is increasing? Cash it is an asset that is increasing that is what does it say? Debit what comes in. What is coming in? Cash is coming in, cash account is debited how much to the extent of 1000.

Now, what do we say, credit what goes out, credit debit what comes in, credit what goes out, basically what is going out in the process bank account is what is called as in the debit what comes in credit what goes out here. What is going out, money is going out of the bank in the process and then what is the extent to which it is 1000 (Refer Time: 03:38) or what is called as assets out there. So, the both come under the what is called as the real account principle. And in real account principle, debit what comes in, credit what goes out, that is what is coming in, cash is coming in, bank account is basically going out, and since money is reducing to that extent in the process out there.

Next, I read the next transaction. It says provided loan to Amarnath rupees 200. Provided loan that is you have given a loan to Amarnath. Now, what is happening when you give a loan, there is something what happens there is cash going out, there is an asset that is going out. What is the asset, that is going out cash is going out.

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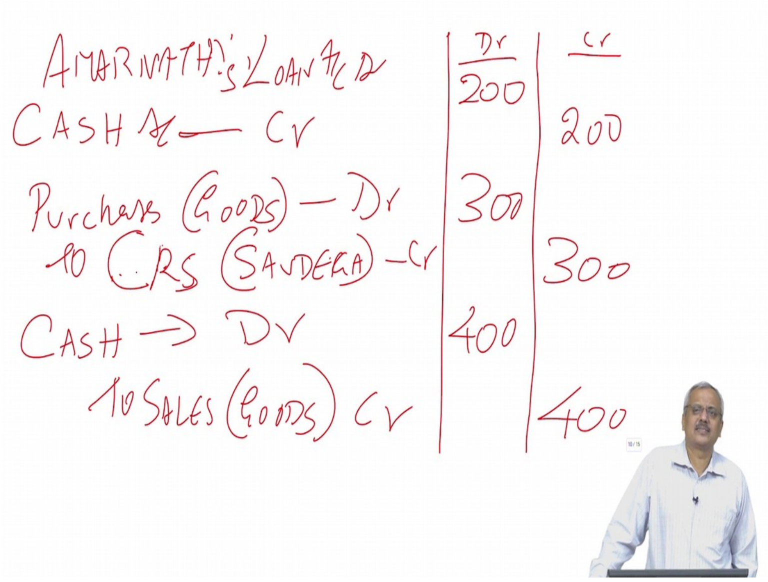

So, what happens cash account is debited, sorry cash account is credited to the extent of about 200. Please follow the columns to debit column, what you call it as you can say there are two columns out there debit and there is another column out there credit out there. We say Cr and then we say Dr in the process. Now, you are given that is there is cash that is gone out. So, you have credited cash perfectly all right. Now, what happens Amarnath loan account, what is loan? When you have given a loan? Even you are given a loan it is an asset term somebody can say because it will appear as a loan given in the asset side of the balance sheet perfectly all right, but who is receiving that?

Debit the receiver credit the giver out there, who is receiving that loan? Amarnath is receiving the loan. It says Amarnath's loan account debited rupees 200 in the process. So, what is happening there is a loan that is given to Amarnath in the process. Amarnath loan account loan that is given to Amarnath in the process, so that is what basically you will actually see this.

We have another 8 more, 7 more transactions or 8 more transactions that is goes through this transactions and then let us after that we will take a break out there. Then it says that bought goods from Savdega, bought goods from Savdega rupees 300. Again in this particular case there is nothing, there is no what do you call it as a cash involved it because it says bought goods from a person that is unless until as I said earlier unless until otherwise specified; unless until otherwise is specified as cash, all transactions are taken as credit out there.

In this particular case, it says that bought goods from Savdega, so they got out there, it is rupees 300. So, when you buy goods what is happening purchases, why purchases? Because goods are coming in, debit what comes in how much? 300. Credit what goes out, what is going out there, is there is nothing going out that is bought, but only thing is who is giving you this credit purchase, who is giving you this credit on the purchase debit what comes that is debit the receiver, credit the giver.

Who is giving you this credit that is basically your creditor out there sorry I am sorry your you got to pay sorry your creditor out there and that person who is giving you that credit is Savdega. Savdega is giving that credit to you. Debit the receiver, credit the giver. In this particular case, who is a giver Savdega is the giver and I am credited his account to the extent of about 300 dollars out there.

With you on this? If I move ahead further sold goods to Tankad for cash rupees 400. I have taken only purchase and sales, because you need to know the effect of what happens when an asset goes out, when an asset comes in. Please keep visualizing how an as what happens in your balance sheet when the asset goes out and asset comes in, in this transaction. If I look at the previous transaction what is said purchases of goods and credit to Savdega.

What happens on the purchase of good happen, the asset increases, that is on the asset side there is a purchase that has happened and the asset increases. What happens on the liability side? On the liability side these creditors goes and sit there to the extent of same 300 and your liabilities also increases. So, what happens in your balance sheet? Your balance sheet basically balances in the particular case.

Now, are you able to visualize this whole thing? So, if you are able to visualize, go back to your first class and then see what we did and then first to first or second first week classes are there and see what we did and then basically you will be able to visualize this process over there. That is your asset increases, your liability also increases, your balance sheet basically balances in this particular case out there as we go along.

If I move then over to the next one, sold goods to Tankud for cash. When I say sold goods for Thankad for cash, then what happens? Thankad at the time for me for as far as an accountant is concerned, Thankad is immaterial for me. Why Thankad is immaterial for me? Because goods are sold for cash. Once the goods are sold for cash out there then the money has come in and then that is sufficient for me. So, what happens, there is what is happening in this particular transaction, when I sold goods for cash, cash is basically coming into my business, debit what comes in and then how much of cash is coming in cash is coming in to the extent of about 400 dollars.

Now, it is coming in and because of what is somebody giving, yes, somebody is giving, but basically what is happening debit what comes in, credit what goes out. What is going out there is goods which is going out that is basically we call it as sales or what we call it as goods, which is basically going out there to the extent of another 400 dollars out there. Goods which is going out like, because I am not bothered who has given this basics say, basic what he call it as good this particular aspect to me. So, that is what basically happened in this particular case.

Move on next, in this particular case, if I have to move on paid for office rent rupees 150. Imagine you have paid that you are given it in the form of a cheque, you are not even given in the form of a cash out there, you are given in the form of a cheque out there. Imagine you are given in the form of a cheque out there; you are not even given in the form of a cash. When you are paid office rent, what is office rent? Office rent is basically an expenditure, expenses. When you have pay, when it is an expenses, what is it debit all expenses and losses, credit all incomes and gains that is what we basically say. Credit debit all expenses and losses credit all incomes and gains is what we normally say.

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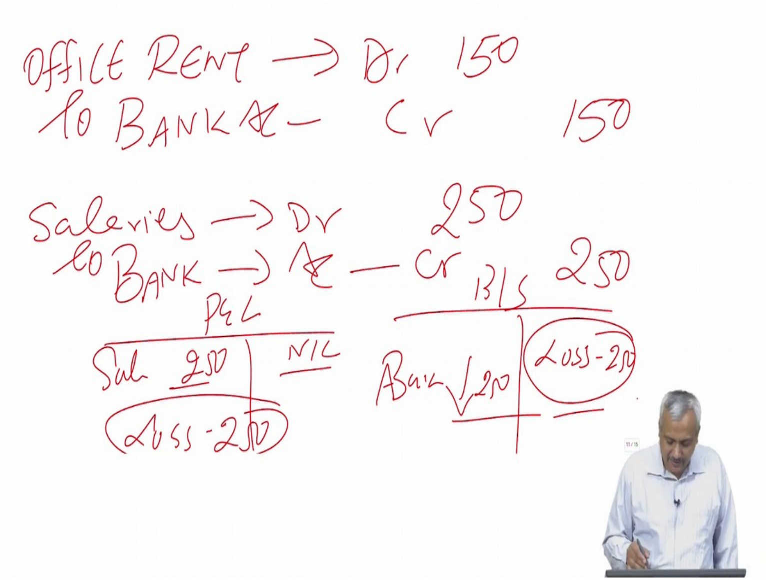

So, when we debit all incomes and expenditure, debit all expenses and losses, what happens this office rent is what is it is an expenditure though I debit this expenditure to the extent of 150. What is the other side of the transaction? The other side of the transaction is basically there is something that is going out what is going out is basically bank account is going or debit what comes in credit what goes out.

What is going out bank account is going out to the extent of about 150 in the process out there. So, again I repeat in this transaction if I relook this transaction relook at this transaction, what happens office rent as such is an expenditure, it comes under the principle of nominal account, go back and check, it comes under the principle of nominal account out here.

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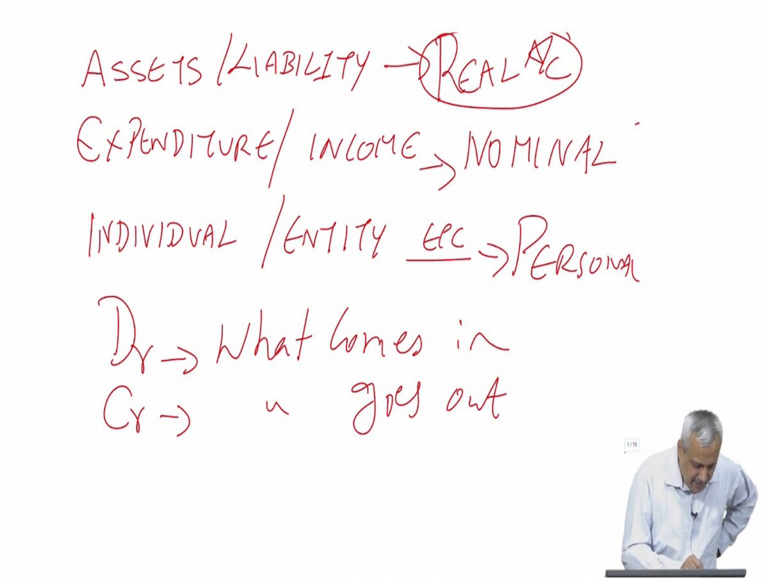

Nominal account what do we say, we say that what do you call it as in the nominal account principle.

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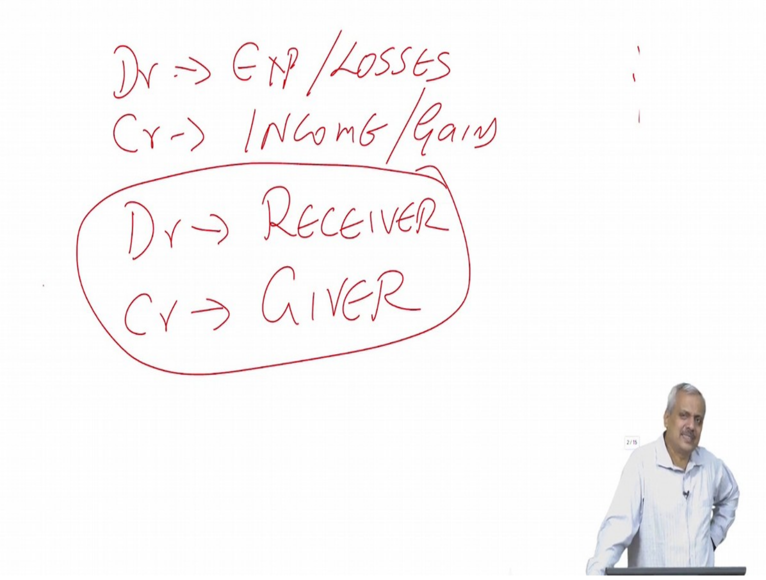

We say we basically say that debit all expenditure and losses credit all incomes and gains. So, what have we done this is an expenditure office rent is an expenditure which I basically debited out there that is what I have basically done. Office rent is basically expenditure which I have debited to the extent of 150 that is what you see.

Now, what is happening to the other side of the transaction that is there is a cash that is going out. What is cash? Cash is nothing but an asset for me and asset these basically going out of my business out there. So, I have credited asset out there to the extent of 150 dollars out there that is what basically it is.

Now, next transaction if I have to look at, it says paid office salaries rupees 250, similar to this; similar to this. What is similar, office salary, salary is what, is it in expenditure, income, loss, gain, asset, liability, individual entity, etcetera? It is basically what is it, it is nothing but an expenditure. Moment you have an expenditure, what happens, debit all expenses and losses, credit all incomes and gains. When I say debit all income expenditure and losses, I will debit this expenditure and I will basically say salaries debited to the extent of how much? If I have to debit I debit about 250.

What is happening there could be cash that is going out on the bank account that is going on in the process. Now, I will say to bank account that is basically that is basically why because money is going out of the bank out there that is 250 dollars in the process that is what I basically recorded out here. That is bank money cash that is going on is an asset, debit what comes into it what goes out what is going out I have recorded. Salary is an expenditure debit all expenses and losses credit all credit all income and gain. Whatever it return, salaries is an expenditure that I have debited 250 dollars out there that is all.

Visualize this how this will affect the transaction may in the balance sheet, bank account it has gone down. So, what happens, your asset balance whatever it is comes down by 250 dollars, accepted, accepted. Salary is an expenditure, it will not appear in the balance sheet, where will appear it will appear in the P and L account. Yes, moment it will appear in the P and L account as an expenditure, what happens your profit comes down to the extent of 250 rupees.

So, what happens that profit is getting added to your capital on their liabilities let capital side of your balance sheet. When it is getting added to the liabilities for capital on it on the liability side of the liabilities plus capital out there, what is that happening because you are writing this as an expenditure, the profit is getting added by about rupees 250 less out there, then what happens to your balance sheet? Your balance sheet is automatically balancing. Imagine there is no other transaction this is the only transaction that has happened in the company for a time being, for a hypothetically imagine, then what happens my P and L account will look like this. Salaries 250, so no income is nil. So, finally, you will say record loss of 250 dollars negative.

Now, what happens in the balance sheet, whatever is my asset out there that is my bank account, my bank account has gone down by 250 dollars. Now, what is happening this loss is also getting coming in here as 250 dollars out there then what happens you would basically balance sheet will get taken care of and get balanced in the process out there.

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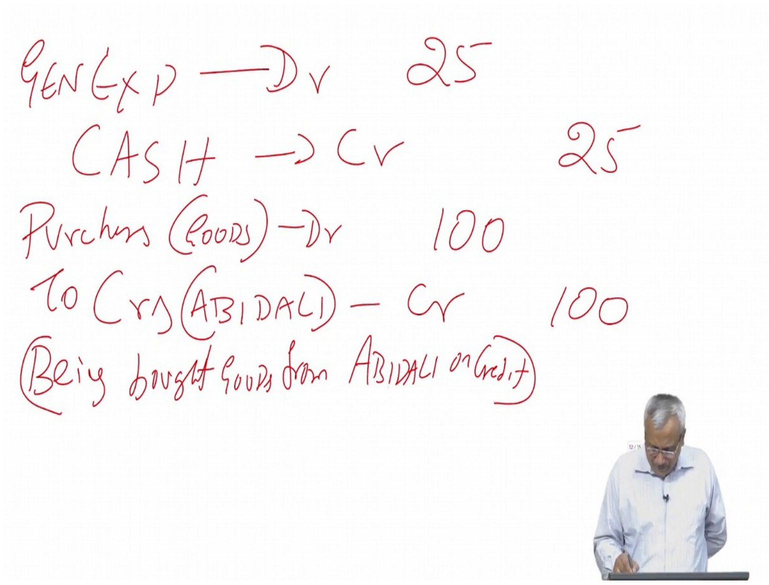

Move on to the next transaction out here, paid for general expenditure rupees 25. Moment it says expenditure debit all expenses and losses it says, moment it says expenditure itself I will basically debit; debit all expenditure and losses 25. And then what is happening since it is a small amount I will write as cash; cash account 25 out there. What is happening when you pay for general expenditure, there is something happening that is cash is getting out of your company. When cash is getting out of your company, then debit all debit what comes in credit what goes out, what is going out cash is going out I predicted cash in the process.

Move on further, any questions at this stage Prateek, nothing? Let us go on. It says that last three transaction I have purchased goods from Abidali, I am sorry I need to wear my specks out there, purchase goods from Abidali rupees 100. Again it says name of an individual it does not say cash. When you say purchases, what is happening? Goods coming in, goods coming in, debit what comes in, purchases that is basically goods are coming in, and then debit what comes in.

What is coming into the extent, to the extent of about 100 dollars. Is any other asset going out, that is, is there a cash that is going out? No, there is no cash that is going on, what is happening, debit the receiver, credit the giver. Who is giving you this credit? Abidali is giving you this credit that is basically there is a creditor and then the name is Abidali was giving you this credit to the extent of how much, to the extent of about 100 dollars, debit the receiver credit the giver.

Normally, if you look at typical accountants after early journal entry they will write something called as a narration, why is this journal entry? They will say you will write being bought goods from Abidali on credit. After every transaction they will write what is called as this narration that is normally the practice out there. The narration is a practice which they will write every transaction in because just by looking at what account is debited and what account is credited, I will have no idea about what is this particular transaction. There is no way that I will be able to make out from what is debited and what is credited as what is this transaction. Say every transaction will normally carry what is called as a narration out there.

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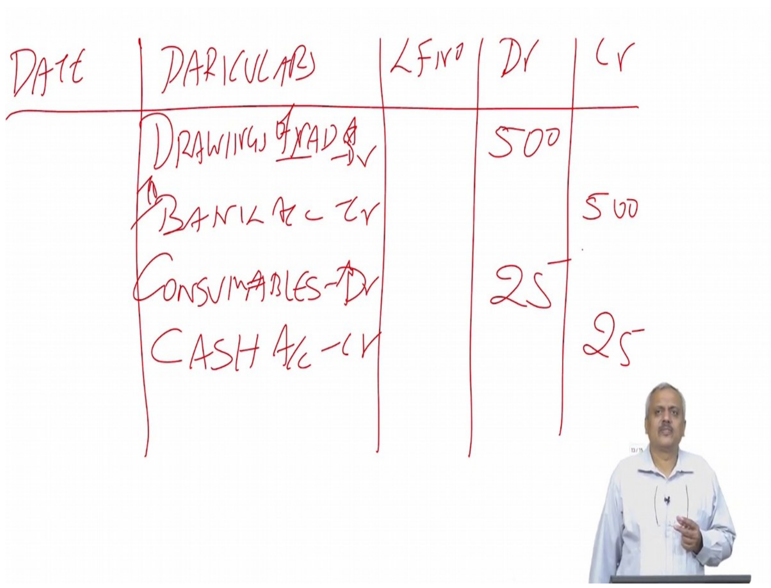

Typically, if I have to look at, there will in a journal will always have what is called as a date column, then it has what is called as a particulars, then it will have what is called as a ledger folio number that is to which ledger it is being posted what is the number. Then it will have what is called as a debit column, then it will have what is called as a credit column, that is how basically it will operate out here. These are typically journals will basically look at.

We are not going being typical accountants. The idea of this entire class is basically for you to help you understand the understand basically understand for you to basically help you understand what is going on behind what is called as a P and L and a balance sheet. You see a P and L and a balance sheet out there how does it get prepared what goes on that is the purpose. So, that is where I have not gone in very specifically very detailed in that sense, but I have just what do you call it as kept it, but this is the normal structure of a ledger account out there.

Now, it says withdrew from bank for personal use rupees 500. When it says withdrew from bank for personal use rupees 500, please understand when you withdraw money is he withdrawing money is it is their money getting out of the bank, it is a money getting out there of the bank, yes, money is getting out of the bank. When money is getting out of the bank what happens basically bank account is credited to the extent of how much? To the extent of about 500, normally you will say to bank why is it being credited? Because withdrawing money. Who is withdrawing, are you withdrawing for office? If you are withdrawing for office, then it will be cash office that is the office is getting the cash that is money coming into the office cash.

Now, what is happening here the partner is taking the money and getting out of the business, the partner is taking money and getting out of the business that is what is he doing, he is basically drawing money drawings of what is called as the Nadkarni in this particular case. In this case Nadkarni's account debited rupees 500 in this particular case out there. There is what is called as drawings. Please understand what we have done, we have looked at the balance go back to the balance sheet what we did.

We say when the partner withdrawals capital, withdrawals money from the business, what happens is capital reduces out there. In this particular case, you see this. Your bank balance comes down by 500. Partner's capital on the other side also comes down by 500, your balance sheet will basically balance over there take care of it in the process that is what basically happens in this particular transaction.

So, I look at the last one transaction out there bought stationary for cash stationary for cash rupees 500 out there what is happening cash is basically going out of the business out there. So, debit what comes in credit what goes out, what is going out? Cash is going out, I have credited cash; what is coming in? Basically it is consumables are stationary which you own that is stationary I have consumables is coming in, I will write consumables debited because you own the consumables and that is what we did. In the sense consumables debited 25 dollars and then there is a cash that is going out that is what did we call it as typically 25 dollars out there that is what we did.

Now, we will take all this I will have what do you call it as excel in an excel, I have sort of written all these transactions, because this is as we teach we write out here. We also will give it a share an excel file which will also be there. You look at the excel file most of these transactions are better written in the sense more legibly written out there. You lose this as you are ready (Refer Time: 21:50) out there and then try and see that. And further as we go along we will go to the next stage that is basically what we call it as a ledger account and then further after the ledger account, we will go into the preparing the balance sheet, and the P and L account.

Thank you.