

Financial Accounting
Dr. Puran Singh
School of Humanities and Social Sciences
Indian Institute of Technology, Mandi

Lecture - 39
3.5 Tutorial – Identifying balances (Part 3)

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Will the following account have a debit or credit balance?

Name of Account	Type of Balance
Discount Received A/c - 'gain'	'Credit Balance'

Justification:

Creditors A/c Dr 100
 TO Cash A/c 90
 TO Discount Received A/c 10

Dr. Discount Received A/c

Date	Particulars	Amount	Date	Particular	Amount
				By Creditors	100

The next item is discount received account, discount received is gain and you realize this gain, when you pay to a vendor. You are paying for purchases, let us say, and all incomes and gains have credit balance again this was not discussed in the previous video, but we are going to

justify it here. So, what is the justification? You receive a discount when you pay the vendor. When you pay the vendor, what is the journal entry? So, you have your vendor's account or the vendor is called creditor. So, the creditor's account is debit, let us say you owe the creditor 100, and you are going to pay to the creditor in cash. Thus, the cash account is credit 90 and then, you are not going to pay the remaining 10; it is a mutual agreement, settlement, that he wants you to pay right away- if you pay right away then 10 percent discount. So, this is the discount received account, 10. When you prepare a discount received account, it is credited, you are going to go to the credit side and you will write By Creditor and the amount is going to be 10. Again, this is a new transaction for you, we have never done this before. So, this 10 goes to the credit side; the 100 does not go. The 100 is divided into two parts; 90 goes to cash account and 10 goes to the discount received account. So, the discount received is only 10, and you should only show 10 here. The confusion typically amongst the students is that they say you are writing creditor's here and creditor's amount is 100. But we are, what we are really writing here in English language, it would be we have received a discount from the creditors, how much discount? 10. So, think about it intuitively as well, so that will help clarify the confusion from time to time. Thus, you are always going to write on the credit side of this account, there is going to be no other transaction involving discount received, this is the only transaction. Therefore, always we will have a credit balance, all gains will have a credit balance.

Discount allowed is the exact opposite of the discount received account. Discount allowed is going to be when you allow your customer to pay you less.

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Will the following account have a debit or credit balance?

Name of Account	Type of Balance
Discount Allowed A/c	Debit Balance

Justification:

Cash A/c Dr 90
 Discount Allowed 10
 To Debtors A/c 100

Debtors A/c Dr 100
 To Sales A/c 100

Dr. Discount Allowed A/c Cr.

Date	Particulars	Amount	Date	Particular	Amount
	To Debtors	10		X	

So, we are going to receive some cash, cash account debit, let us say 90, and you are going to cancel off the customers; so, debtors account cancelled and you have discount which is being allowed, so discount allowed account debit, this is 10. Now, why do I say cancel? Because, when you sold to the customer, the journal entry was Debtors A/c (Dr.), To Sales A/c. So, you would have sold him goods worth 100 and you need to recover this 100. So, this 100 debit in the debtors account is your asset and now you have received the money, so you are doing an opposite entry; that is what I meant by cancelling it. But you are not receiving the full money, you are allowing 10 rupees discount. So, when you prepare a discount allowed account, you go to the debit side, because the discount allowed is being debited, and write the name of the other account which is being credited. So, you will write To Debtors A/c and the amount is only going to be equal to 10, because the discount allowed is going to be debited by 10. So, discount allowed account debited by 10, because debtors have been given a discount.

And, same as the previous entry, there is no other journal entry which will involve discount allowed. So, there will be nothing on the credit side in any case; so, you will always have a debit balance. Thus, I am going to write a debit balance. This is an expense in the sense that it helps you generate a revenue; you are promoting, recovering money from the customers, so kind of expense.

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Will the following account have a debit or credit balance?

Name of Account: Loss by Theft A/c (Cash, Goods) — loss — Debit Balance.

Justification: Loss by theft A/c Dr. 100
To Cash A/c 50
To Purchase A/c 50

Dr.			Cr.		
Date	Particulars	Amount	Date	Particular	Amount
	To Cash A/c	50			
	To Purchase A/c	50			

Loss by fire A/c



Next item is lost by theft, you are losing goods because of theft. When this happens the journal entry is Loss by theft or fire A/c Dr., To Cash or To Purchase because this loss could be of cash or could be of goods. If it is cash you can write cash, if it is goods you can write purchase account; purchase account or cash account whichever is the case, you are going to write the amount here. Let us say both. So, in the loss by fire account you go to the debit side, because this is being debited and you will write the names of the other accounts, so To cash account and To purchase account. And therefore, you see that all the journal entries where a loss is involved, you are writing on the debit side of this account. There is no transaction where you will credit loss by theft account, because you credit only incomes, you debit all the expenses and losses. So, this is the loss and, hence, this is going to have a debit balance.

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Will the following account have a debit or credit balance?

Name of Account	Type of Balance
Commission Income A/c —	<u>Credit Balance</u>

Justification: Cash A/c 50
Bank A/c 50
To Commission A/c 100

Dr. Commission Income A/c Cr.

Date	Particulars	Amount	Date	Particular	Amount
	X			By Cash A/c	50
				By Bank A/c	50



Let us do the next item, this is commission income. This is an income, all incomes have credit balances. Incomes and expenses are very straightforward cases. Whenever you have an income, you are receiving the income; so, either in cash or in bank let us say both. So, 50 being received in cash, 50 through bank and you credit the name of the income which is commission income; so, To Commission A/c, this is 100. Commission is being credited, you go to the credit side and you are going to write By Cash A/c or you are going to write By Bank A/c, 50 and 50. You will never have a posting on the debit side of an income account, this is a commission income account. Therefore, it is always going to have a credit balance, all incomes and gains have a credit balance.

Carriage on sales means this is transportation cost. When you are purchasing from a vendor, it is carriage on purchase, when you are delivering goods to customer and you have promised to take care of the transportation cost, then you call it carriage on sales, both are expenses. Again, Carriage A/c (Dr.), To Cash. You are never going to credit the carriage account, because this is not income; unless you are in the transportation business then it is your service income so that is totally different. Again, you will write To Cash on the debit side of the carriage account and you will never write anything on the credit side; always going to have a debit balance, this is an expense alright.

Let me stop here. There are more accounts that we will discuss in a continued video next up.