

Financial Accounting
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Lecture – 42
3.7 Practice Problem II

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Prepare Raman's Account from following transactions

Prepare a ledger for a Raman for the months Sep and Oct 2015:

- Sep 1: Sold goods to Raman 5420
- Sep 4: Received from Raman cash 5150 and allowed discount to him 270
- Sep 15: Raman bought goods 6000
- Sep 28: Received cash from Raman 2000
- Oct 13: Sold goods to Raman 10000
- Oct 20: Received from Raman cash 3960 and allowed discount 40
- Oct 31: Received cash in full settlement of Raman's account 9800

Handwritten notes:

Raman A/c Dr
To Sales A/c

Disc. A/c Dr 270
- Cash A/c Dr 5150
- To Raman's A/c 5420


This is Practice Problem II. We are going to look at another account which needs to be prepared from the following transactions. We have to prepare Raman's account for the months of September and October. So, now, we have some dates which have been given to us and you have transactions being done with a customer named Raman, because we see that you are selling goods to Raman.

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Preparing Customer's Account

Raman's A/c

Date	Particulars	Amount	Date	Particular	Amount
2015 Sep 1	To Sales A/c	5420	2015 Sep 3	By Cash A/c	5150
Sep 15	To Sales A/c	6000	Sep 3	By Discount allowed A/c	270
			Sep 28	By Cash A/c	2000
			Sep 30	By balance c/d	4000
		<u>11420</u>			<u>11420</u>
Oct 1	To balance b/d	4000	Oct 20	By Cash A/c	3760
Oct 15	To Sales A/c	10,000	Oct 20	By Discount allowed A/c	40
			Oct 31	By Cash A/c	9800
			Oct 31	By Discount allowed A/c	200
		<u>14000</u>			<u>14000</u>



So, on the next page I have the format for preparing Raman's account and I have to prepare this for September and October 2015. So, I am going to write 2015 at the top to begin. Let me look at the first transaction which is on September 1st: sold goods to Raman. When you sell the goods to Raman the journal entry is Raman A/c (Dr.), To Sales A/c.

It does not say cash and as we have to prepare Raman's account it means credit transactions are going to be recorded. So, I am writing this as a credit transaction. So, Raman's account is being debited, I am going to go to the debit side of Raman's account and I will write To Sales A/c and the amount is 5,420. This is on September 1. So, the first transaction has been posted.

Let us go to the next transaction. On September 4, you receive cash from Raman 5,150 and you allow a discount to him for 270. When you do this the journal entry it would be Cash A/c debit from Raman. So, To Raman's A/c and the cash that has been received is 5,150: you have allowed a discount to him. So, the discount account is also going to be debited: Discount Allowed A/c (Dr.), this is 270 and when you sum this up it comes out to be 5,420. This means that it has been a full settlement transaction and you have allowed a discount to your customer. So, we go to the credit side of Raman's account and we write By Cash A/c and By Discount Allowed A/c. The amounts are 5,150 and 270. The transaction is being done on September 3rd, there you go.

So, we have entered this transaction into Raman's account. Next transaction is on September 15th, Raman again brought goods from you, same transactions. Now, I am not writing the

journal entry, but I am just writing a mental journal entry. So, the entry would be same: Raman A/c (Dr.), To Sales A/c, same transaction. The amount is going to be different. So, I will go to debit side of Raman's account and write To Sales 6,000. So, September, I will check what date that was, To Sales A/c 6,000 and the date was 15th, so I will write 15 here. This is done. Let us move on to the next transaction on September 28th: you received cash from Raman 2,000. Again, I am not writing the journal entry. When I receive the cash the journal entry is Cash A/c (Dr.), To Raman's A/c. So, similar to this one, except that there is no discount here. So, Cash A/c (Dr.), To Raman means I have to go to the credit side of Raman's account and write cash account there. So, it will be By Cash A/c 2,000 September 28th; on September 28th By Cash A/c, only 2,000 has been received.

The next transaction is in October and we have to prepare this ledger for both the months. So, I am going to show you something new here. We are going to close this account at the end of this month, so that at the end of this month if we want to figure out what is the total amount that has to be recovered from the customers then we can know that by closing the account. That is exactly what we are going to do. Now, this is Raman, Raman is a customer, customer is a debtor, debtor is an asset and all assets will always have a debit balance. You could do a visual inspection as well. I am going to total the debit side first and I have 11,420 this is the total of the debit side. Again, the conventional two lines below this total to indicate that we are closing this account at this point in time. Now, 11,420 on the other side and there is going to be a balance: By balance c/d and the balance is going to be 4,000. So, if you sum these up, you will see that there is a 4,000 rupees difference. You could also just visually check that this is equal to 5,420 and 5,420 is already here, out of 6,000, 2,000 has been received. So, remaining 4,000: it is a simple transaction. But if there were daily purchases some amount has been received, some is yet to be received; if there were some discounts then you would need to go step by step like this and prepare the ledger account. Now, this balance is as on 30th September. Now, this account tells us that at the end of the September September there is 4,000 rupees which is to be recovered from the customer whose name is Raman's account.

And, during this month we have sold him total goods worth 11,420 and 4,000 is to be recovered from this customer. Now, we go to the next month. When we go to the next month, we bring this balance forward: another convention, another way in which the account is used. So, on October 1st this balance is going to be brought here and we are going to write To balance brought down (b/d), from the previous month. That is it. As this is a debit balance, we will

bring this balance to the debit side at the beginning of the next month to show that this much amount of sale is to be recovered from this customer. I am repeating: the balance at the end of the period is brought forward to the balance of the next period. So, 1 period here refers to 1 month. When it starts next month, you are going to bring down the balance from the previous month. So, 4,000 rupees is shown here at the beginning because this is the debit balance, they are bringing it to the next year because this money has to be received from the customer. Now, let us look at transactions in the month of October. In October, you again sell goods to Raman 10,000. Whenever I sell goods to my customer, the entry happens on the debit side. So, I am going to write To Sales A/c 10,000, and now there is 14,000 to be recovered from Raman. This happened on October 13. October 20th you received from Raman cash 3,960 and you allow him a discount of 40. Now, this is slightly tricky, but luckily, we have already done a similar transaction. So, instead of these amounts here the amounts are going to be different. You are receiving 3,960, so I am going to write By Cash 3,960. Discount allowed is written here. So, By Discount Allowed A/c 40. So, it seems that the 4,000 rupees that were due, those have been received and we had to allow a discount. So, this 4,000 has been now written off: this has been cancelled. This has been set off this has been paid by the customer. Only 10,000 is due now. This transaction was on October 20th. Final transaction, you receive cash in full settlement of Raman's account 9,800. Now, whatever balance is left in Raman's account, whatever you had to receive you have settled it for 9,800. When you receive, you write By Cash 9,800 and 10,000 was due, so 200 is the discount. So, you are going to write By Discount Allowed A/c. There you go. This transaction is on October 31st. On October 31st you have settled the account of Raman. You have 14,000 on the debit side and you have 14,000 on the credit side. There is no balance left in the account meaning the customer has paid all dues or you have allowed him a discount. So, what we learnt in this practice problem is first, without writing the journal entry how do you carry the transaction to the ledger: by mental journal entries or you could write small notes if you have to. And, another new thing that we learned was carrying forward this balance to the next period.

You may be required to prepare ledger accounts at the end of every day. Typically when a small shopkeeper goes home at the end of the day he likes to do these calculations: how much did I make. At the end of every day, you may want to do it weekly, monthly, quarterly or annually. Whenever this happens you have to carry forward the balance to the next period and this is how it is done. This is all that I wanted to discuss in this practice problem. I will see you in the next practice problem.