Financial Statements Analysis and Reporting
Dr. Anil Kumar Sharma
Department of Management Studies
Indian Institute of Technology, Roorkee

Lecture – 06
Journal-The first & original book of accounting Part-I

Welcome all. Dear students, in my previous lecture I was talking to you about the accounting process. There, I shared with you that in the accounting process we have different steps. The first step is the transaction, then second is the journal, then the transactions go from journal to the ledger, ledger to trial balance, trial balance to profit and loss account, and last thing is the balance sheet.

Now, we will learn how to prepare the balance sheet; the financial statements. And, the first step is we need some transactions. And, those transactions are to be recorded in the first of the original book of accounts. That is called as journal. So, we are learning how to prepare the journal. We are preparing a journal proper; means, a common journal, not different type of the journals, specific journals. If it is a specific journal also, process will remain the same. Process will not change, only that name of the journal will change. So, we will learn how to record the transactions first in the journals. Next step will be that we will take these transactions to the ledger, and from the ledger we will take these transactions to the trial balance. And, from trial balance we can learn how to prepare the profit and loss account and balance sheet. These are the basic financial statements.

Now, I will show you that how to prepare the first or the original book of accounts that is called as journal. Journal has a pro forma like this. It is like this. It is like this. It is a statement. You will write here Journal of.

Journalize the following transactions in the books of Beta India Ltd. post them to ledger & prepare the trial balance.

Date	Particulars	Amount (Rs.)
2011, December 1	Started business with cash	50,000
December 3	Goods purchased for cash	30,000
December 3	Furniture purchased for cash	5,000
December 7	Sold goods for cash	10,000
December 9	Sold goods to Naresh Kumar	8,000
December 12	Goods purchased from Vinod Kumar	5,000
December 16	Goods sold to Raja and allowed him 10% trade discount	6,000
December 22	Cash received from Naresh Kumar in full settlement of his account	7,600
December 25	Cash paid to Vinod Kumar and he allowed discount of Rs. 100	1,900
December 28	Cash paid for purchase of Stationery	250
December 31	Paid office rent	800
December 31	Goods returned to Vinod Kumar	500

Now, these companies journalize the following transactions in the books of Beta India limited. Post them into ledger and prepare the trial balance. So, it is a journal of Beta India Limited. This is the journal of Beta India Limited. And, all these transactions are pertaining to December. So, there is no need to write the date or month; means here on

the top. Simply, we can have a title here; journal of Beta India Limited. Now, these columns are; first column is date, and then is the particulars. This column is basically called as LF; ledger folio. And, this column is for the amount. It is a common column amount; one, this is for the debit side and this is for the credit side. So, this is the pro forma of the journal. This is the first original book of account, which is called as journal.

And, now our job is for preparing the financial statements, we will have to record all these transactions. Now, say look at these transactions, these transactions are like first transaction is on December 1 st, 2011 started business with cash. Then, second transaction is goods purchased for cash, furniture purchased for cash, sold goods for cash, sold goods to Naresh Kumar, purchased goods from Vinod Kumar, sold goods to Raja and allowed him 10 percent trade discount.

Similarly, cash received from Naresh Kumar in full settlement of his account. Cash paid to Vinod Kumar. And, he allowed discount of 100 rupees, cash paid for purchase of stationery, paid office rent, goods returned to Vinod Kumar. Now, these are the transactions to be recorded in the journal. Now, we will start with the first transaction; started business with cash. Now, in this case you put here a date. You will put a say month, only months; December. And, the first transaction date is December 1. So, you put the date here, 1.

And, now we will have to record these transactions under the particulars column. As I told you every transaction has two-fold effect because a double entry accounting system. So, in one transaction there can be many accounts. For a maximum, there can be four accounts. But, we have to identify the two best accounts. In this transaction, there are only two accounts. Now, you have to identify the two accounts, Started business with cash. As I told you that when cash is given by the owner to the firm, it means owner is different; business entity concept. You refer back to the concepts of accounting; business entity concept.

Business is different; owner is different whatever the investment the owner is making in the business that he is making in the business. And, business is in way borrowing money from the owner. Owner is different; business is different. Business is not known by owner; owner is not known by the business. They are the two different things. Owners may change, but the business will continue. So, started business with cash; it means the

firm business borrowed cash from the owner and the amount is 50,000 rupees. So, what will happen? There are two accounts. One is cash account. To this firm Beta India Limited, cash is coming in from the owner, from the promoters, from the shareholders. And, second effect will be why this cash is borrowed by this firm because they want to invest in the business. So, any cash which is invested in the business for doing the business, it is called as capital. So, they will receive cash and they will put it in the capital account.

So, the two accounts are: one is the one account is cash account; second account is the capital account. So, two accounts are there. So, it means as I told you now you have to; second thing what you have to do is cash at; they are the two accounts: cash account and capital account. We identified these two accounts. Now, the next thing is to find out which account will be debited, which account will be credited.

Now, you refer back to the different types of accounts. I told you there are three types of accounts. One is the personal account, second is the real account and third one is the nominal account. Real account includes what, all kind of the assets, all kind of the properties, including cash. Cash is also an asset. So, it means we have identified that cash is the real account. Cash is the real account. So, it means cash is, to this firm cash is coming in.

So, what is the rule of passing journal entries in the real account? Debit what comes in; credit what goes out. Debit what comes in and credit what goes out. So, cash is a real account and accordingly the capital also. So number one, cash is coming in. So, you have to debit the cash account. Cash account, we write like this. And, we write here debited Dr, little gap, to capital account. This is.

And, here you have to put the detail of this entry, which is called as narration. So, you will write here started business; started business with cash. And, close this. And, you put a line here. And, your one transaction is recorded. Two accounts; cash account, capital account. Cash coming in; it is going out as a capital. It is invested as a capital in the business. It should be used for the buying of some assets and then some other kind of things. So, cash purchase for the capital purpose. So, it came as cash, it is now put as a capital. So, two accounts; both are real accounts. So, it means cash is coming in; it is

going out as a capital. If not going out we will go out tomorrow, because when you will buy asset, plant, building, machinery, it will go out.

So, cash account to capital account. Cash account debited; cash account A oblique C. And, debited means Dr, you give little gap here. Then, you put here: to capital account again C. And then, you write a little narration small something. Something you have to write. (Refer Time: 09:30) for your pass, this entry. Started business with cash and amount here is 50,000 rupees. So, it means it is 50,000 rupees debit and 50,000 rupees is the credit. So, it means you have completed the double entry system by giving the equal amount of the debit and the equal amount of the credit to this transaction. And, this transaction is recorded in the first original book of accounts. That is, the journal proper.

Second transaction is now December 3; in December 3, purchased for cash. Now, I told you purchases; goods purchased for cash means when you are writing, we are writing like this. It means these goods are of the merchandising nature because it is written as a goods purchased. They are of the merchandising nature. They are for reselling in the market. After adding the value, after possessing it, they will be resold in the market. So, it means these are the goods purchased for that purpose, but they are purchased for cash.

So, again you can identify the two accounts here. One is the goods and second is the cash. Goods are also asset and cash is also asset. So, both are real account. So, it means simple rule of passing journal entry; debit what comes in, credit what goes out. So, it means goods will come in, so you will debit the goods account. And cash is going out, so you will credit the cash account. But, we do not write in the accounting language goods as goods. We write; for goods, we use the term 'purchases'.

So, you will do here purchase account or purchases account. Purchases account, again debited to cash account. Purchases are coming in and cash is going out. So, here for purchases on cash you put this. Close the bracket put a line here. You have to be very very careful about this format. Your figures may be wrong. That is acceptable. But, if the format title is wrong or these columns are wrong or this, you have put this one account here, not given a gap here, not put the 'to' here. 'To' is very very important: capital T. So, this format is very very important if the format is wrong and your values are right, sometimes you can get the zero marks. But, if your format is correct, values are wrong, then we can be considerate and we can give you some credit. So, otherwise both the

things should be correct. But, even the format is more important, and then comes the values. So, it means purchases account debited to cash account and the amount is how much? That is 30,000 rupees.

Similarly, now we have the third transaction. And, third transaction is also on December 3. Purchase of furniture; furniture purchased for cash for 5000 rupees. Now, again you see, identify two best accounts. One is furniture; another is cash. Furniture is coming in; cash is going out. And, both the accounts are real accounts. Both are assets. Furniture is also asset; cash is also asset. Both are assets, both are real accounts. So, in that case you have to not to think much about; both are the real accounts. And, if they are the real accounts, in that case one account is to be debited and another is to be credited with the equal amount. So, what is coming in now? Furniture: so you write here, 'furniture account debited to cash account' because it is purchased for cash. And, you write here narration; 'for purchase of furniture'. Something should be written as a narration clarifying what for this entry has been passed. Amount is 5000 rupees.

Similarly, now you have the, on 7th of December sold goods for cash; sold goods for cash, December 7. So, now you have again two accounts. Goods account and cash account. Then, we have that second transaction, there goods were purchased. Now, the goods are sold; sold goods for cash. Now, when the goods are sold for cash, as I told you that for goods being purchased, we use the term 'purchases'. Similarly, for the goods being sold we use the term, not goods, but 'sales'. So, here what is happening? Goods are coming in or going out goods are going out because they are being sold. So, they are sales.

And, what is coming in that is the cash 10,000 rupees. So, both are real accounts. Goods are going out; cash is coming in. So, it means what is the rule? Debit what comes in; credit what goes out. Comes in is cash; goes out is sales. So, you have to pass a entry here; cash account debited to sales account. For purchases, we will use the term 'purchases' and for sale, we will use the term 'sales'; and, you again a narration; for sale of goods on cash. And, the amount is sold goods for cash. Sale of goods on cash is 10,000 rupees. It is 10,000 rupees.

Similarly, you have the next transaction now; sold goods to Naresh Kumar. Now, you see that again they are the sales. What here is a name of the person, and that person is

Naresh Kumar. Now, if had it been on cash, sale is been on cash, then there was no need of putting this person's name here in this transaction. Where the name of the person is there, it indicates that sales have been made on credit. That is why the person's name is important. He has purchased the goods from this firm; this Beta India Limited. But, he has not paid the cash at the point of sale. He will pay it at the later date. So, that is why his name is here. It means this transaction is on credit.

It means, now you have to find out the two best accounts here. One account is sales account, second account is if it is on cash then cash account, but it is not on cash it means it is on credit. So, it means it is the Naresh Kumar's account. So, one account is real account; goods account, sales account. And, the second account is the Naresh Kumar account. And that is the personal account.

Two rules will apply here. First rule Naresh Kumar being a person, he belong to the personal account. Now, he is receiving the goods or selling the goods. He is receiving the goods because he is being sold by the Beta India Limited. So, it means he is the receiver of the goods. And, the rule, personal accounts rule says debit the receiver, credit the giver. So, he has received the goods sold by Beta India Limited. So, his account will be debited. So, what you will write here? Date here is 9th December. And, on 9th December, Naresh Kumar being a personal account, he is a receiver. So, you will write passed journal entry; Naresh Kumar account debited to sales account, to sales account.

So, for example, when we sold on cash, we are not bothered about to whom we have sold. We have given the goods and we have received the cash. So, we debited the cash account and we credited the sales account. But, in this Naresh Kumar has not yet paid to the firm. So, Naresh Kumar's account is debited. He has become the debtor to the firm and the sales account is credited. Now, you write a narration here, 'for sale, for sales to Naresh Kumar'; for sales to Naresh Kumar. So, here you will be passing this entry and putting the amount say sold goods to Naresh Kumar worth rupees 8000.
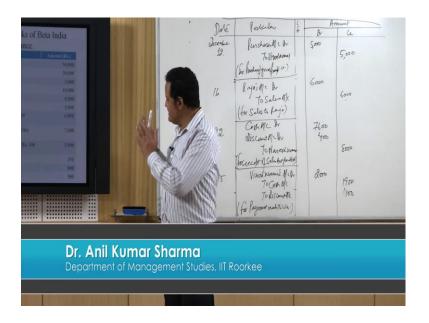
You must be wondering about that why this column is here. Left column is called as the LF, ledger folio. This column, LF means ledger folio. Ledger folio means that here we will put later on the page of the ledger on which these different transactions are posted. So that, when we want to know about, this transaction has been posted on which page of

the ledger. So, you can know it about that on this page of the ledger, this transaction is there.

So that, if any problem is there we can straightaway go to that page of the ledger. We can find out that how much amount was there. It may be possible that the cash is debited with 50,000. And, this is get credited with the 5000. So, if that difference occurs of the 45,000 rupees, we will straightaway go to that page of the ledger and try to find out how much amount is given the debit effect, how much in the credit effect in the ledger. And, if there is any mistake that can be rectified. So, this column is for the identifying or putting the page of the ledger on which these transactions have been posted.

We will continue with the other transactions also. You can think about. And, you can miss pass these double entries yourself also. Before I start miscontinue with the other transactions, you can think of yourself and you can learn how to record these transactions in the books of accounts. So, you can think about that. You start doing it yourself. And, we will continue. So, we were here, on this transaction of Naresh Kumar; sold goods to Naresh Kumar.

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Dr. Anil Kumar Sharma
Department of Management Studies, IIT Roorkee

Then, on December 12th. We have the next transaction taken place. That is on December 12th. And, it is goods purchased from Vinod Kumar. Now, you see again the name of the Vinod Kumar is occurring. Had these purchases been on cash, there was no need to put the name of the Vinod Kumar. If the name of the Vinod Kumar is here, it means it is a

indication that these purchases are on credit. So, it means two accounts. One is the purchases accounts and second is the Vinod Kumar's account. Purchase account is a real account and Vinod Kumar's account is personal account. So, two rules will apply here. So, we are purchasing goods; it means goods are coming into us. So, debit what comes in; that is the rule of the real account.

So, it is a purchases account. Purchases account debited to, who is the other one? Vinod Kumar. He is the receiver of the goods or giver? He is the giver of the goods, seller of the goods. So, rule of the personal account says debit the receiver, credit the giver. And, he is the giver. So, here you will write 'To Vinod Kumar'; purchase account debited to Vinod Kumar. Do not write credit here. Automatically it means, when you are writing to Vinod Kumar, it means it is given the credit effect. Write a narration here, 'for purchase of goods from Vinod Kumar'. So, purchase of goods from Vinod Kumar for amount is 5000 rupees. Amount is 5,000 rupees.

Similarly, we have the next transaction; December 16. So, date is December 16. Goods sold to Raja and allowed him 10 percent trade discount. Goods sold to Raja and allowed him 10 percent trade discount. It means, we know it that Raja's name is there. It means goods are sold on credit. So, two accounts; one is the sale account and another is the Raja's account. Raja's account is personal account; sale account is real account. So, Raja is a receiver and goods account is being sold. Goods are going out. So, that has to be credited.

Now, here third term is also there. That is the 10 percent trade discount. Discounts are of two types. One discount is cash discount; other discount is the trade discount. If it is a trade discount, it means this line has no meaning for us. It means this figure of 6000 rupees has been given here, after adjusting the trade discount. But, had it been only written as discount; it means that is not a trade discount, it is a cash discount. So, what will you do? You will put that figure as a 5,400. So, how to put that? I will discuss with you when that situation arises.

But at the moment, if it is written like this that sold goods to Raja and allowed him 10 percent discount; it means this line has no meaning for us. It is a, the transaction as good as sold goods to Raja for 6,000 rupees. And, you have to record it like that. So, Raja is a receiver here. So, you debit the Raja account. Raja's account debited to sales account and

for sale, sales to Raja. For sales to Raja, so the amount is 6000 rupees. And, the transaction is recorded. It is complete.

Then, we have December 22. Transaction is December 22. And, transaction is cash received from Naresh Kumar in full settlement of his account. Now, you go back. This transaction belongs to the some previous transaction. And, this transaction is here. We purchase; sold goods to Naresh Kumar for 8000 rupees. We had sold goods to Naresh Kumar on 9 th December for 8,000 rupees. And, on 22 nd December he is making the payment to the firm and he is allowed; means, he is making the payment of 7,600.

Again the total amount due is that is 8,000. It means 400 rupees is given to him as a discount. It means there are the other three accounts. Now, one account is cash that is being received from Naresh Kumar. Second account is the Naresh Kumar's account itself. Third account is the discount account; three accounts. Now, you have to now give the debit or credit effect to the three accounts. So, cash account is the real account, it means. And, it is coming in, so you have to debit it.

Discount is basically a kind of a loss. And if it is a loss, then it is what kind of account? Nominal account: because nominal account rule is debit all expenses and losses, credit all incomes and gains. So, that is a nominal account. Discount is a nominal account. And, discount is being given. So, it is a kind of loss to the firm. So, it will be debited. And, the entire amounts, credit will be given to Naresh Kumar.

So, you will pass an entry here. Cash account debited. Cash account debited, discount account debited now. Discount account debited to Naresh Kumar account means total amount is to Naresh Kumar for receipt of sales amount from Naresh Kumar, from Naresh Kumar. You put this in the bracket and close the bracket. And, the amount is cash. How much cash is received? 7,600. How much discount is given? 400. How much credit is given to Naresh Kumar is 8000 rupees. It means after receiving 7,600 rupees, Naresh Kumar is freed for that his obligation of 8,000 rupees.

Similarly, you have the transaction on December 25. And that transaction is paid. Cash paid to Vinod Kumar. And, he allowed discount of 100 rupees. Now, it is the receipt of the discount. Reverse. Earlier, this firm gave discount to Naresh Kumar. And, now Vinod Kumar, who has to receive this cash from this firm, he is giving discount to this. So, it means what is happening now? Who is the receiver? Vinod Kumar is the receiver

of the cash and he is a personal account. So, it means on December 25. We are making the payment to him. So, Naresh Kumar's account is sorry, Vinod Kumar. Vinod Kumar's account is to be debited because he is the receiver of the cash. So, Vinod Kumar's account debited to cash account because cash is going out and discount is being received. So, it is a gain to discount account, to discount account.

And, you write a narration here for payment of, for payment made to Vinod Kumar, for payment made to Vinod Kumar. And that payment is how much we had to pay him. We had purchase from Vinod Kumar is for 5000 rupees. And, we are paying him 1,900 rupees. 100 rupees discount, he has given. And part of the things, we will see that to how to adjust the remaining balance of the 3000 rupees. So, it means here you look at we will put this transaction here Vinod Kumar will be filling this form for 2000 rupees. And, we are paying him cash of 1900 rupees. And, he has given the discount to the firm of 100 rupees. So, it means out of 5000 rupees total due, we have settled this transaction up to 2000 rupees. And then, the remaining amount of the 3000 rupees. We will think about when it will become due. So, we will pass that entry for that also.

So, I will stop here. And, remaining entries, it is a kind of homework to you. You can; remaining three entries on 20 December, 28 December, 31 and again December 31. You try to pass these journal entries. And then, I will, in my next lecture I will start from here and I will pass these three entries. And from there onwards, we will move to the next step. That is learning how to post these transactions recorded in the journal, in the ledger; and how to classify these transactions by posting them into the ledger, and how to prepare the ledger.

Thank you very much.