Financial Statements Analysis and Reporting
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Lecture – 07
Journal Part-II – Continued

Welcome students. Continuing from our previous discussion, as I was talking to you that how to prepare journal, you were learning that how to prepare the journal the first or the original book of accounts. So, we were passing the journal entries in the first book of accounts; that is at the journal. And we are finished the first 1, 2, 3, 4, 5, 6, 7, 8, 9 transactions, and 3 more transactions are left.

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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

So, we will record these three transactions in the journal, and then we will move to the ledger; the next book of accounts in the accounting process, posting all the transactions recorded in the journal into the ledger. So, these are the three.

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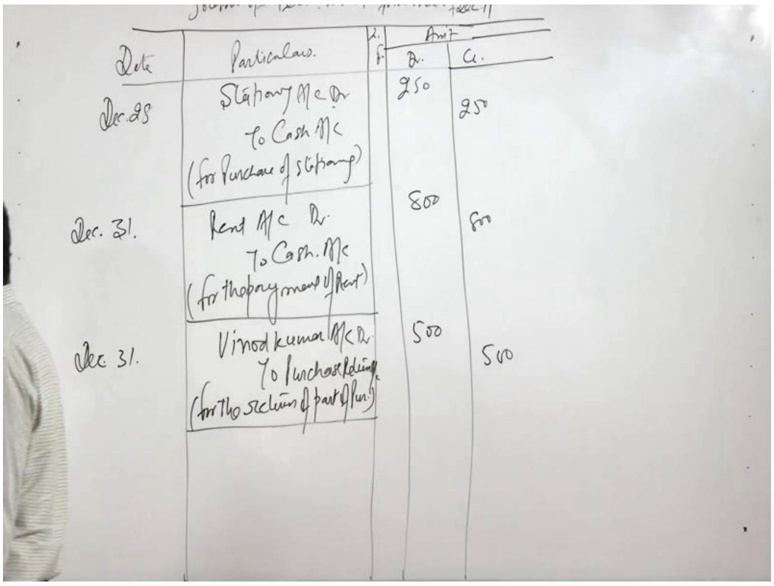

Again I will share with you to prepare the format of journal, and we are writing here, journalize the, or you can call it as say journal of Beta India Limited, journal of Beta India Limited for the month of, for the month of December 2011 for the month of December 2011. Again the same columns date, particulars, ledger folio, and this is the amount column this is amount, here we have the debit column here we have the credit column.

So, as we had this format in the past also, same format I am making it again, and now you will record the remaining three transactions here, and in this case, the three transactions are like, on December 28, the transaction was paid cash for purchase of stationery. Now again you see that two things, stationery and cash. So, stationery is coming in, being a nominal account, and the cash is going out, but because stationery is not a real account, because stationery we treated as a kind of expense, because it is a onetime expense, it is a small amount onetime expense. So, we will call it as a expense, and stationery you can call it as a nominal account. So, debit all expenses and losses, credit all incomes and gains is a rule of nominal account. So, stationery being expense we are debiting and it is coming into us also. So, if you treat it as a real account, even then the stationery is coming in and we are debiting the stationery account, and if it is a expense then again it has to be debited.

So, we are to do a stationery account debited to cash account, to cash account, and here for purchase of stationery, and you put the line here and the amount is 250, same amount debit and credit, then we have next transaction is on December 31st, paid office rent. Now the paid office rent, office rent is also again like stationery, it is a small expense not a big one, and it is a expense. So, it is a nominal account, debit all expenses and losses credit all incomes and gains. So, rent is an expense.

So, we are debiting the rent account, rent account debited to again cash is going out, to cash account, and here for the payment of, here the payment of rent in cash, here payment of rent and the amount is 800 rupees, same it is 800 debit and 800 is the credit, and the last transaction is again on December 31st; that is goods returned to Vinod Kumar. See here we had one transaction; that is goods purchased from Vinod Kumar and the amount was 5,000 rupees. We purchased the goods from Vinod Kumar for 5,000 rupees.

Now, we have to, we have not paid at the point of purchase. So, we have gotten the goods and we have become is debtors, we will pay in future. So, when you move forward, you see that for 2,000 rupees we have settled his claim, 19,00 rupees have been paid in cash, 100 rupees discount he has given to this firm Beta India Limited, and now only the claim of 3,000 rupees is left to be settled. Out of that 500 rupees goods being defective, being excessive or being more than the order, we are going to return it. So, P is now the balance to be paid to Vinod Kumar will be later on, will be 2500 rupees. So, 500 means 2,000 rupees we settled here, 500 rupees goods we are returning, and only 2,500 rupees balance will be there to be paid to Vinod Kumar at the some later date. So, it is goods returned to Vinod Kumar. Here, now we call it as Vinod Kumar is the receiver of goods. So, it means debit the receiver.

So, you will say Vinod Kumar account, to goods are going out, so it is purchased return account. We call when the goods are purchased we call them purchase account, and this is the purchase return account, purchase return account. So, here for the part of purchases for the return of part of purchases, and we are closing this. So, this amount is 5,00 rupees, we are showing here. So, it means total purchasing from Vinod Kumar for the 5,000 rupees, 2,000 rupees claim we have already settled, 3,000 rupees are yet to be paid by Beta India Limited to Vinod Kumar.

For that 5,00 rupees goods are returned to him, and now 2,500 rupees will be paid to him in future. So, this way we have learned how to record all the transactions, all the 12 transactions in the first book of accounts; that is called as the journal, or the original book of accounts. We have prepared one journal only, where we have recorded all the transactions, but actually I told you that journal has a 8 categories.

So, in practice when the transactions are very large, for example; now purchased return was only one transaction. So, we are putted here, but had it been more number of transactions, we would have recorded it in a different journal that is called as a purchase return journal. So, we had different kind of journal; that is the purchase journal, sale journal, purchase return, sale return, bill receivable, bill payable journal, similarly cash book and then the journal proper. What we have learnt to prepare the journal proper, and all the journals, means all the other seven kind of journals, all the other than cash book, they can be prepared in the same fashion, having the same format journal of Beta India Limited for the month of December 2011, date, particulars where we will record the journal entry, and then it is a ledger folio and this is the amount having two sides debit and credit, and then we are debiting with the same amount and the crediting with the same amount. So, it is the completion of the double entry accounting system.

Now, we will learn the next book of accounts that is the ledger, how to prepare ledger that we will learn now, that how to post this transaction to ledger. As I told you earlier the purpose of preparing the ledger is, classification of the similar type of transactions under one account. For example, we have cash here. So, all cash related transactions will be put together in one account, then we have a capital related transactions. We will put all those transactions into the one account.

Similarly we have the transactions relating to stationery, rent, and then say purchase, purchase return. So, for all these transactions we will prepare the independent different accounts and balance them, so that at any point of time we want to know what is the balance of cash. We need not to go to the journal and count each entry that when we received cash, when we paid cash, what is the balance of cash. No, we have already done that in the in the ledger, and ledger is having a total balance of the cash, and same amount of the cash may be there in the bank account also. So, balancing of the account is required. First is the classification of all these transactions into ledger, and then preparing the different type of accounts, independent accounts and then balancing those. So, we will do that in the ledger account.

So, now we are moving to preparation of the ledger, and in the ledger we have to prepare the different accounts, independent accounts, and the format of those accounts is different. So, this is not the format of the ledger is not the format of the, like the format of journal. It is a different format and we will have to prepare now the independent ledger accounts there.

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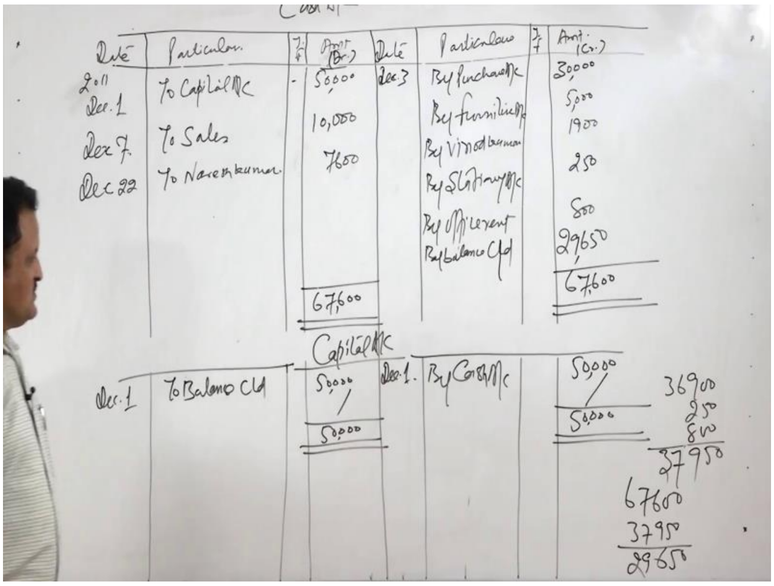

So, here in the ledger, the format of accounts is something like this. It is a long account, divided into a two equal halves, which is called as a T type of account, and you will have this kind of the space here. So, you will write here, say date, particulars, one column is called as J F journal folio and amount. Similarly we have a column for date, particulars, journal folio and amount. So, here it is the date, then we have particulars, and then it is journal folio it is called as J F, and it is amount and this is the debit side D R, this is called as debit side of the ledger account. Similarly we have a here, date, particulars, Journal folio and it is amount, and this is the credit side.

So, now in the ledger we are preparing the first account, and that account is, say for example, what was the first transaction here, started business with cash, what general entry we passed here, cash account debited to capital account. So, what was the first account in the first transaction cash account? Now I am preparing the cash account here.

This is the cash account. First account in the ledger is the cash account right. This is the first account in the ledger, which is called as the cash account. Now you see what is the transaction; date of the transaction here December. Now we will see later on, which side this entry will be passed.

So, here I would like to share with you, that what is the rule of putting the cash balances in the debit and credit side. Look then we recorded this transaction in the books of accounts in the journal, started business with cash, we record it in a way that the entry was cash account, I am writing it please it is not the part of the, I am repeating the entries not the part of the ledger; cash account debited to capital account, this was the entry what we passed in the journal first entry. Now we are preparing the cash account first account, cash account. So, make it a point that, the account which you are preparing there, its own name will never appears in either of the two sides debit or the credit. In the cash account cash or cash will not come here, it means.

Now, the second account that is the corresponding account will be coming here. Similarly, when you are preparing the capital account; in the capital account nowhere you will put the capital here, the corresponding effect will come here; one rule. Second rule is now if you are preparing the cash account, we will take into account the second effect; that is the, here it is the two capital account, and now whether the capital will be put in the debit side or in the credit side, the rule is if it is having a credit effect here then you will put it in the debit side, and if it is having a debit effect here you will put it in the credit side, reverse right. If it is a capital account is credited here you will put it in the debit side of the cash account, and if there is any other account if it is debited here, you put it in the credit side of cash account.

So, means number one, cash account you are preparing, cash own name will not come neither this side nor that side. Second account will come and second account will be put on the debit or the credit side, will depend upon, if it is having a credit effect here then you put it on the debit side, and if it is having a debit effect here then you put it on the credit side, it is the second rule. Third rule is, when you put these things in the debit or credit side, when you put it on the debit side, you will use the term to something, and there by something right. Now here it is to capital right. So, capital is crediting having a credit effect here, we will put in the debit side and the date is the December first 2011.

Say December it is 2011you can put here, and it is the December first, December 1, and here we have two capital accounts and the amount is 550000 rupees, journal folio we are to put the page on which this transaction is recorded in the journal; that is a journal page. As we put there as a ledger floe that was the ledger page, that where in which part of the page of the ledger this transaction, that transaction of the journal is transferred, and here we put the journal folio that on which page of the journal this transaction is recorded. So, here, and then we have the capital account, and capital is 50,000 rupees. So, we are writing here 50,000 rupees. See we have passed here, the journal entry was purchases account to cash account right.

So, cash is, and cash will be, those transactions will be here where, because of this transaction the cash account is affected. If the cash account is adjusting in that entry, then that will come here, if in some entry no cash is adjusting, then that will not come here right. So, in the second transaction also, cash is there; goods purchased for cash, it means the journal entry was purchases account debited to cash account. So, it means in the cash, cash may be, will not come, corresponding effect will come. So, it was purchase account was debited there, we will credit it here. So, you will write here that date is December 3, and here it is by purchase account, and the amount of the purchase is this 30,000 rupees right. Similarly we have now the next transaction you look at, furniture purchased for cash. Again we have cash here.

So, journal entry you look at; means previous lecture if you refer to, the journal entry we passed was, furniture account to cash account. So, furniture is debited and cash is credited. So, there the entry was furniture account to cash account, and here you will write by furniture account, no effect of no cash by furniture account, and the furniture is, the balance of the furniture account is 5,000 rupees. Then we have sold goods for cash, again we have a cash here, so the transaction is recorded is cash to sales. So, it is to sales, and the date is December 7. It is to sales and the sales amount is, sold goods for cash and the sales amount is 10,000 rupees right.

Then we have the next transaction sold goods to Naresh Kumar, means no cash is affected, goods are sold to Naresh Kumar on credit. So, we will not take that into, this transaction has nothing to do here, because there is no mention of the cash. So, cash is not getting effected, because of this transaction; goods purchased from Vinod Kumar.

Again we are purchasing goods from Vinod Kumar on credit. So, no cash is affected, because of that that will not be the part of this account.

Then it is goods sold to raja, and allowed him ten percent trade discount, it means we have sold goods to raja trade discount has no meaning. So, it means and again sold goods to raja means they are on credit, so no mention of the cash. Cash received from Naresh Kumar in full settlement of the account that is 7600 rupees. Now cash is here, we will take that transaction here. So the transaction we have passed here is cash received from Naresh Kumar. So, the journal entry must be cash account debited, discount account debited to Naresh Kumar account.

So, cash is there. So, it means here you write it as he December 22, December 22nd, and you will write here it as that is cash received from Naresh Kumar. So, you write here to Naresh Kumar to Naresh Kumar, and the amount we received from Naresh Kumar is 7600 rupees. we have not received 7600 rupees, cash is increased, cash of this firm is increased by 7600 rupees it means, again 8,000 rupees of the goods sold we have received 7600 rupees and 400 rupees given as a discount. So, discount will come in the discount account in the ledger, and cash which we have received, we have taken that here into account, cash paid to Vinod Kumar and he allowed a discount of hundred rupees. So, it means now journal entry was, Vinod Kumar account debited to cash to discount.

So, it means it is by Vinod Kumar, and the amount is 1900, and the amount is 1900. Similarly cash paid for purchase of stationery. So, we know it cash has gone out. So, cash paid for the purchase of stationery is, that is stationery to cash. So, it means by stationery account, and that amount is 250. Similarly paid office rent, by office rent, by office rent, and the amount is 800 rupees. Similarly goods returned to Vinod Kumar, no cash is affected here. So, this transaction will not be taken to the cash account.

So, means out of these twelve transactions, these transactions belong to the cash. We have put them in the cash account and we will have to now close the account here, that till the end of 31st December, the cash position we have to work out by totaling both the sides and balancing this account. So, what you have to do. You have to total these two sides in a different paper, and then see which side is bigger. If this side is bigger, then you have to make this side equal to this side. So, you have to put the balance here right, and if this side is bigger than this side, then you to total it up that there, and put the balance this side.

And if this side is bigger, and you are putting the balance here, this balance will be called as debit balance, because the debit side is bigger than the credit side. And if reverse happens then you will put this balance here and you will call it as the credit balance. So, now, we normally if you look at these transactions you can easily make out, because transactions are very limited in number, you can make out that this side seems to be bigger than that side, so let us total it up. So, you totally put a line here, and we will have to total it up, put a line here, so you have 50,000 10,000 60,000 67,600. So, we are, and you have to close the account by two lines. Put a line here, put the amount and close this account by two lines. Again you put, blind fully you put this amount, because this is going to be maximum amount. So, it is 67,600 close it by two lines.

Now, you write here by balance carried down C oblique D by balance carried down. So, you can make out that how much is the balance. You can know that how much is it, that 30,000, 35,000 36,900. So, it you can total it up here in the rough paper, 36900s plus 250, and then it is 800. So, total amount works out as this, this 37950, and this side is. So, it means 67,600 minus 37950 means, this is this, and this is 650, and then this is 9. So, it is 29650, the balance is 29650. You have to keep this balance in your mind, this balance is very important for us, because we have to prepare the trial balance, and we have to take this balance to the trial balance. So, this is the balance by balance C oblique D carried down, means we have put this balance, because this side was bigger than this side. So, it means we have put the balance here.

Now in other way around what does it mean, by balance carried out. Means this side indicates what, inflow of the cash, cash coming into the firm, we received 50,000 on account of capital from the owner, business received 10,000 rupees from the sales business received 7600 rupees from Naresh Kumar. So, total receipts of the business which are put on the debit side of cash account or you can call it as a cash book also; that is 67600 rupees. So, this is the received side, how much cash we received in December, and how much cash paid in December, this firm paid in December is recorded in this side.

So, it means this cash has gone out 30,000 on account of purchases, 5,000 on account of the furniture, Vinod Kumar is paid 1,900, stationery we purchase for 250, and office rent we purchase for 800, balance is now. So, it means, what does it indicate this much is the receipt, this much is the, up to this point is the payment, and now we have a this much balance of the cash at the end of December, 29650 we have a positive balance, and this much balance you can check in the bank account of the firm that minimum, this much balance should be there in the bank account of the firm that 29650.

So, this is the receipt side, this is the payment side. So, if the received side is bigger than the payment side, it means the balance is a positive balance, but if the reverse happens, the payment side is bigger than the received side; it means the balance is a negative balance. We have paid more, we have received less, and now we have the negative balance here in the month of December. another rule I would tell you for checking the accuracy of this side, that if any account you are preparing here; that is of normally assets, may be plant, building, machinery, furniture, cash, even including cash.

Normally they have the, means other than cash they have the always have a debit balance; this side will be bigger than this side. And if it is liabilities then this side will be bigger than, then they will have a credit balance, this side will be bigger than this side. Similarly all expenses and losses will have a debit balance always, and all credit and gains incomes and gains always will have a credit balance here. So, it is the cash account is a asset, cash is a asset to the firm, it can be in both ways; debit and credit balance, but normally we maintain a debit balance, we keep a positive. We receive, tend to receive more we pay less, and we normally keep a positive balance with the firm. So, that is why cash being a asset also always should have a debit balance.

So, we are putting it here. So, it means this is called as balancing of accounts. Now you look at that, you have the different kind of transactions affecting cash, somewhere we are receiving cash, somewhere we are paying cash. For example, like this account is not prepared; that means, you want to know the balance of cash at any point of time; you would have to count it, as I counted it, and then you have to calculate it. Sometime we can calculate our own balance also, but once you are prepared this account in ledger, means we have all classified accounts now.

First account is the cash account in the ledger we know, that how much cash we received in December, how much cash we paid in December, what is the balance of cash in December. So, easily it can be told to anybody at any point of time we want to know about it, it can be found out at any point of time. So, this is called as the classification of accounts which is facilitated by ledger.

Now, the second account we will be preparing is, all the accounts independently you have to prepare in the ledger now. Second account is the capital account. I am continuing it here, but you should prepare that independent format. Now we are preparing the second account; that is called as the capital account, and now the capital account is, what was the journal entry, cash account debited to capital account. Cash we have already taken care of here. Now we are taking care of the second account; that is called as the capital account. So, what was the journal entry, cash account to capital account? You are preparing now the capital account.

Now the in the capital account, capital name will not appear, it means we will have the corresponding effect, it will be now by cash account, by cash account. So, it means the amount is 50,000 rupees, and we will put here 50,000 rupees. So, this is this is the second account we are preparing 50,000 rupees, and now there is no other transaction relating to the capital, you look at here nowhere the capital is affected; so only one transaction 50,000 rupees. Now you put a diagonal line here just, and then you say balance this account; 50,000 rupees and close it by two accounts. This is having the credit side, this side we have nothing. So, you put here now like that two, that the date of the transaction is, that is December 1st, December 1.

And here we are balancing it on the same day December 1. So, it means to balance, as we put here C oblique D to balance carried down, now you will also put a to balance carried down C oblique D, and this is called as 50,000 rupees. So, now, this account has a credit balance 50,000 rupees, and no other transactions, so account is balanced and closed. So, this is a parallel balancing and closing of the account, this is called as the capital account, and it is balanced.

So, we have the account for cash, we have the account for capital, and remaining all the accounts which we have recorded in the journal, we will be posting them into the ledger.

That we will discuss in the next lecture. We will discuss it in the next lecture, and then we will continue with the other accounts also.

Thank you very much.