

# Accountancy

## ❖ Types of Accounts

### 1. Personal Account:

This account is concerned with

a.) Real person account like Ram's a/c, Ravi's a/c, Kavita's a/c etc.

b.) Artificial person account like club's a/c, corporation's a/c, institution's a/c etc.

c.) Representative personal account like prepaid wages, outstanding expenses, approved income.

Beside these, the capital account and drawings accounts are also personal account.

Rules of debit & credit:

Debit the receiver

Credit the giver

### 2. Real a/c:

Real a/c is of 2 types:

#### a.) Tangible real a/c

These have a physical shape, thus can be touched like building, machinery, cash, etc.

## b.) Intangible real a/c

This doesn't have any physical existence like goodwill, patents, trademarks, etc.

Debit what comes in

Credit what goes out

## 3. Nominal a/c:

These a/c are fictitious.

They only represent the nature of a/c like wages, salaries, interest, insurance premium etc.

It can be said that these a/c deals with the expenses or losses and incomes or gains of the business.

Debit all expenses and losses

Credit all incomes and gains.

Some of the nominal a/c becomes personal a/c which gets clarified from the following table-

NOMINAL A/c	PERSONAL A/c
1. Salary a/c	Prepaid salary a/c Outstanding salary a/c
2. Commission a/c	Prepaid commission a/c Outstanding commission a/c
3. Interest a/c	Prepaid interest a/c Approved interest a/c or outstanding interest a/c
4. Rent a/c	Prepaid rent a/c Outstanding rent a/c
5. Discount a/c	Prepaid discount a/c Unexpired discount a/c
6. Premium a/c	Outstanding premium a/c Premium received in advance a/c

#### ❖ Opening Entry

All the previous examples assume the starting point of a new business. In the case of old established business entity, the accounting process starts with the new books in the beginning of the next accounting year. The entry to start the new books is known as opening entry.

This opening entry requires to debit all the assets with opening balances and to credit all the liabilities as well as optical with the respective opening balance. If the opening balance of the capital a/c is not given, then it could be found out with the help of the following equation:

Capital= Asset – liabilities

### Journal Format

Dates	Particulars	L.F.	Debit Asset	Credit Asset

**Q1.** Sunil started business on 1<sup>st</sup> July, 2006 with Rs. 50000 as capital. The following transactions took place during the month of July, 2006. You are requested to record these transactions in journal.

S. No.	Date	Details
2.	2006 July 2	Opened a bank a/c and deposited Rs. 40000.
3.	July 7	Goods purchased from Heeralal for Rs. 20000
4.	July 12	Machinery purchases from ABC company for Rs. 10000 and paid by cheque
5.	July 22	Paid for cartage Rs. 500
6.	July 28	Goods sold for Rs. 30000 to XYZ company

## Journal

S. No.	Date	Particulars	L.F.	Debit Amount	Credit Amount
1.	2006 July	Cash a/c                      Dr. To capital a/c (being commencement of business)		50000	50000
2.	July 2	Bank a/c                      Dr. To cash a/c (being cash deposited in bank)		40000	40000
3.	July 7	Purchases a/c              Dr. To Heeralal a/c (being good purchased from Heeralal)		20000	20000
4.	July 12	Machinery a/c              Dr. To Bank a/c (being machinery purchased & paid by cheque)		10000	10000
5.	July 22	Cartage a/c                      Dr. To cash a/c (being cartage paid)		500	500

6.	July 28	XYZ co. a/c	Dr.	30000	
		To sales a/c			30000
		(Being goods sold to XYZ co.)			

### ❖ Discounts

It is of 2 types-

1. Trade discount
2. Cash discount

#### 1.) Trade Discount

This discount is allowed by the whole seller or manufacturer to the retailer at a fixed percentage on the printed price list. This discount is allowed when goods are purchased in bulk. It is allowed both on credit as well as cash transactions since it is related to the purchases and not to the payment. No separate entry is passed for trade discount, as it is deducted from the cash memo or invoice of the goods. For e.g., if a trader sells goods of the list price of Rs. 1 Lakh at 20% trade discount for cash, the entry will be

Cash a/c	Dr.		80000	
To sales a/c				80000

## 2.) Cash Discount

This discount is allowed to the customers for making prompt or early payment. In other words, cash discount is allowed only if the customer makes the payment within a fixed period. As the discount is allowed at a time of making payment, so the entry for cash discount is recovered along with entry for payment.

### ❖ Compound Entries

When more than one a/c is debited or credited in one entry, it is called as compound journal entry. These economize both time and space. These entries are made under the following situation-

1. When one a/c is debited and many others are credited.
2. When one a/c is credited and many others are debited.
3. When many a/c are debited and many a/c are credited.

At the time of recording, compound entries it should be kept in mind that all the entries of this nature should be of same day and from the two aspects of all transactions at least one aspect should be of similar nature in all of them.

The following a/c are usually debited or credited.

Accounts	Debited/ Credited
Purchases a/c	Debited
Sales a/c	Credited
Purchase return	Credited
Sales return	Debited
Capital	Credited
Cartage	Debited
Depreciation	Debited
Postage	Debited
Salary	Debited
Drawings	Debited

Q. Record the following transactions in the journal of Naresh

Date	Particular	Amount
<b>2005</b>		
<b>June 1</b>	Paid cash to Mahesh and Discount received from him.	Rs. 9600 Rs. 400
<b>June 4</b>	Received cash from Arun and Discount allowed to him	Rs. 4900 Rs. 100
<b>June 10</b>	Good sold to Harish	Rs. 30000
<b>June 12</b>	Harish returned goods	Rs. 2000
<b>June 14</b>	Received cash from Harish in full settlement.	Rs. 27500
<b>June 20</b>	Sold goods to Gopal of the list price of Rs. 60000 at 10% discount	Rs. 54000
<b>June 23</b>	Purchased goods from Ravi at the list price of Rs. 20000 at 15% rate discount	

## Journal of Naresh

Date	Particulars	L.F.	Debit Amt.	Credit Amt.
<b>2005</b>				
<b>June 1</b>	Mahesh a/c	Dr.	10000	
	To cash a/c			9600
	To discount received			400
	(being cash paid and discount received)			
<b>June 4</b>	Cash a/c	Dr.	4900	
	Discount allowed	Dr.	100	
	To Arun a/c			5000
	(being cash received from Arun discount allowed to him)			
<b>June 10</b>	Harish a/c	Dr.	30000	
	To sales a/c			30000
	(being goods sold to Harish)			
<b>Jan 12</b>	Sales returned a/c	Dr.	2000	
	To Harish a/c			2000
	(being goods returned from Harish)			
<b>Jan 14</b>	Cash a/c	Dr.	27500	
	Discount allowed a/c	Dr.	500	
	To Harish a/c			28000
	(being cash received from			

Harish in full settlement  
of his a/c)

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<b>Jan 20</b>	Gopal a/c	Dr.	54000	
	To sales a/c			54000
	(being goods sold to Gopal)			

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<b>Jan 23</b>	Purchases a/c	Dr.	17000	
	To Ravi's a/c			17000
	(being goods purchased from Ravi)			

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HAM Notes