

CLASSES

BY

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DEBTORS

DEBTORS are the customers **TO WHOM** we sell goods on credit and the payment will be received from them later on.

So they are our **ASSETS** and their **Increase is to be Debited** and **Decrease is to be Credited**.

While selling goods to them- Our Debtors are increasing so they are to be **DEBITED**.

While receiving payment from them- they are decreasing so they are to be **CREDITED**.

For Ex:

Goods sold to ABC 10,000			Payment received from ABC		
ABC A/c Dr.	10,000		Cash A/c Dr.	10,000	
To Sales A/c		10,000	To ABC A/c		10,000

CREDITORS

CREDITORS are those **FROM WHOM** we purchase goods on credit.
The payment is to be made to them later on.

So they are our **LIABILITY**.

And so their **Increase is to be Credited** and **Decrease is to be Debited**.

While purchasing goods from them

– Our Creditor(Liability) is increasing so they are to be **CREDITED**.

While making payment to them

– they (Liability) are decreasing so they are to be **DEBITED**.

For Ex:

Goods Purchased from PQR			Payment made to PQR		
Purchases A/c Dr.	10,000		PQR A/c Dr.	10,000	
To PQR A/c		10,000	To Cash A/c		10,000

MIXED EXAMPLES

Goods sold to ABC on credit	ABC : Debtor - Asset ↑ (Dr.)		ABC A/c Dr.
	Sales : Income(Cr.)		To Sales A/c
Goods purchased from XYZ on credit	Purchases : Expense (Dr.)		Purchases A/c Dr.
	XYZ: Liability ↑ (Cr.)		To XYZ A/c
Received cash from ABC	Cash : Asset ↑ (Dr.)		Cash A/c Dr.
	ABC : Debtor -Asset ↓ (Cr.)		To ABC A/c
Payment made to XYZ	XYZ: Liability ↓ (Dr.)		XYZ A/c Dr.
	Cash : Asset ↓ (Cr.)		To Cash A/c

CAPITAL

Capital is the amount invested into the business. It's a liability for the business as this amount belongs to the person (proprietor) and doesn't belong to the business.

So Journal entry for Commenced/ Started Business with Cash is

Cash A/c Dr.	Cash : Asset (Increasing) ↑ (Dr.)
To Capital A/c	Capital : Liability (Increasing) ↑ (Cr.)

Accounting Terms

Capital		Amount invested into the business
		It's a liability for the business as the amount belongs to the owner and not to the business.
Drawings		Amount withdrawn from the business for personal use
		Drawings are always Debited
Debtors		To whom goods are Sold on credit
		Debtors are the Asset. So ↑ Dr. and ↓ Cr.
Creditors		From whom goods are Purchased on credit
		Creditors are the Liability. So ↑ Cr. and ↓ Dr.
Discount allowed		Expense, given on Sales
Discount Received		Income, Received on Purchases

JOURNAL ENTRY

Goods sold of 20,000 against cash allowing 2% discount		Cash : Asset ↑ (Dr.)		Cash A/c Dr. 19600
		Discount Allowed :Expense (Dr.)		Discount allowed A/c Dr. 400
		Sales : Income(Cr.)		To Sales A/c 20,000

Discount allowed is always an expense as we have given discount to the other person.

Goods purchased for 20,000 paying cash availing 2% cash discount		Purchases : Expense (Dr.)		Purchases A/c Dr. 20,000
		Discount Received : Income (Cr.)		To Discount received A/c 400
		Cash : Asset ↓ (Cr.)		To Cash A/c 19,600

Discount received is always an income as we have received it from the other person.

Drew for private use 1,000		Drawings (Always Dr.)		Drawings A/c Dr. 1,000
		Cash : Asset ↓ (Cr.)		To Cash A/c 1,0000

JOURNAL ENTRIES

1. Goods sold to XYZ for 68,000
Payment received 75% and allowed 5% cash discount
2. Goods sold to Garima for 80,000
Payment received 25% and allowed 5% cash discount
3. Goods purchased from PQR worth 54,000.
Payment made 60% and availed 5% discount

1	XYZ A/c Dr.	17,000	
	Discount allowed A/c Dr.	2,550	
	Bank A/c Dr.	48,450	
	To Sales A/c		68,000
2	Garima A/c Dr.	60,000	
	Discount allowed A/c Dr.	1,000	
	Bank A/c Dr.	19,000	
	To Sales A/c		80,000

Payment received:
 75% of 68,000 i.e. $\frac{3}{4}$ of 68,000
 = 51,000
 5% discount on it
 = $51,000 \times 5\% = 2,550$

Net amount received
 = $51,000 - 2,550 = 48,450$
Amount to be received
 = $68,000 \times \frac{1}{4} = 17,000$

Payment received:
 25% of 80,000 i.e. $\frac{1}{4}$ of 80,000
 = 20,000
 5% discount on it
 = $20,000 \times 5\% = 1,000$

Net amount received
 = $20,000 - 1,000 = 19,000$
Amount to be received
 = $80,000 \times \frac{3}{4} = 60,000$

3	Purchases A/c Dr.	54,000	
	To Bank A/c		30,780
	To Discount received A/c		1,620
	To PQR A/c		21,600

Payment made:

60% of 54,000
= 32,400

5% discount on it
= $32,400 \times 5\% = 1,620$

Net amount paid
= $32,400 - 1,620 = 30,780$

Amount to be paid
= $54,000 \times 40\% = 21,600$

JOURNAL ENTRIES

4. Goods sold to XYZ for 100,000
Payment received 25% through cash, 50% through cheque. Cash discount 5%
5. Goods sold to Garima for 80,000.
Payment received 15% through cash, 40% through cheque. Cash discount 10%
6. Goods purchased from PQR 54,000.
Payment received 20% through cash, 30% through cheque. Cash discount 2%

4	Cash A/c Dr.	23,750	
	Bank A/c Dr.	47,500	
	Discount allowed A/c Dr.	3,750	
	XYZ A/c Dr.	25,000	
	To Sales A/c		100,000
5	Cash A/c Dr.	10,800	
	Bank A/c Dr.	28,800	
	Discount allowed A/c Dr.	4,400	
	Garima A/c Dr.	36,000	
	To Sales A/c		80,000

Received through cash $100,000 \times 25\% = 25,000$
 5% discount on it = 1250
 Net amount received In cash
 $= 25,000 - 1,250 = 23,750$

Received through cheque = $100,000 \times 50\% = 50,000$
 5% discount on it = 2,500
 Net amount received through cheque
 $= 50,000 - 2,500 = 47,500$

Amount **to be** received later =
 $100,000 \times 25\% = 25,000$

Received through cash $80,000 \times 15\% = 12,000$, 10% discount on it = 1200
 Net amount received In cash = $12,000 - 1,200 = 10,800$

Received through cheque = $80,000 \times 40\% = 32,000$, 10% discount on it = 3,200
 Net amount received through cheque = $32,000 - 3,200 = 28,800$
 Amount **to be** received later = $80,000 \times 45\% = 36,000$

6	Purchases A/c Dr.	54,000	
	To Cash A/c		10,584
	To Bank A/c		15,876
	To Discount received A/c		540
	To PQR A/c		27,000

Paid through cash $54,000 \times 20\% = 10,800$,
 2% discount on it = 216
 Net amount paid In cash = $10,800 - 216 = 10,584$

Paid through cheque = $54,000 \times 30\% = 16,200$
 2% discount on it = 324
 Net amount paid through cheque = $16,200 - 324 = 15,876$

Amount **to be paid later** = $54,000 \times 50\% = 27,000$

HOME WORK Question: Pass the Journal Entry

1. Interest paid -1,000
2. Paid into Bank- 5,000
3. Purchased Computer through cheque -50,000
4. Purchased goods costing 1,00,000 against cheque and availed discount of 3%
5. Received from Bharat, cash 19,500, allowed him discount of 500
6. Cash withdrawn from bank 20,000, half for personal use.
7. Goods sold to ABC 50,000, half on cash.
8. Goods purchased from PQR half on cash.

ACCOUNTING TERMS

OUTSTANDING EXPENSE	Amount due BUT NOT PAID	LIABILITY
PREPAID EXPENSE	Amount PAID IN ADVANCE	ASSET
ACCRUED INCOME	Amount due BUT NOT RECEIVED	ASSET
INCOME RECEIVED IN ADVANCE	Amount received IN ADVANCE	LIABILITY

JOURNAL ENTRY

Salary due but not paid	Salary : Expense (Dr.)	Salary A/c Dr.
	Outstanding Salary : Liability (Cr.)	To O/s Salary A/c
Rent paid in advance	Prepaid Salary : Asset (Dr.)	Prepaid Salary A/c Dr.
	Cash : Asset ↓ (Cr.)	To Cash A/c
Commission received in advance	Cash: Asset ↑ (Dr.)	Cash A/c Dr.
	Advance Commission : Liability (Cr.)	To Commission received in advance A/c
Interest due but not received	Accrued Interest : Asset (Dr.)	Accrued Interest A/c Dr.
	Interest : Income (Cr.)	To Interest A/c

JOURNAL ENTRY

1. Goods amounted to Rs. 100,000 were sold to ABC.
Payment received 25% in cash, 30% through cheque.
2. Goods amounted to Rs. 100,000 were purchased from PQR.
Payment made 15% in cash, 20% through cheque.
3. ABC paid 42,500 in full settlement
4. Payment made to PQR 60,000 in Full settlement.

JOURNAL ENTRY

**Goods amounted to Rs. 100,000 were sold to ABC.
Payment received 25% in cash, 30% through cheque**

Cash A/c Dr.	25,000	
Bank A/c Dr.	30,000	
ABC A/c Dr.	45,000	
To Sales A/c		100,000

**Goods amounted to Rs. 100,000 were purchased from PQR.
Payment made 15% in cash, 20% through cheque**

Purchases A/c Dr.	100,000	
To Cash A/c		15,000
To Bank A/c		20,000
To PQR A/c		65,000

JOURNAL ENTRY

ABC paid 42,500 in full settlement

Cash A/c Dr.	42,500	
Discount allowed A/c Dr.	2,500	
To ABC A/c		45,000

Payment made to PQR 60,000 in Full settlement

PQR A/c Dr.	65,0000	
To Discount Received A/c		5,000
To Cash A/c		60,000

ACCOUNTING TERMS

Bad debts	Amount due from debtor could not recovered	LOSS (Dr.)
Bad debts recovered	Amount earlier written off as bad debts recovered now	GAIN (Cr.)
Depreciation	Fall in the value of fixed asset due to its usage	EXPENSE
Interest on Capital	Interest given by the business to the capital provided the owner	EXPENSE
Interest on Drawings	Interest charged by the business on the amount withdrawn from the business for personal use.	INCOME

JOURNAL ENTRY

Goods returned by ABC		Sales return : Always (Dr.)		Sales return A/c Dr.
				To ABC A/c
Goods returned to PQR		Purchase return : Always (Cr.)		PQR A/c Dr.
				To Purchase return A/c
ABC become INSOLVENT & paid only 60% of the amount due 10,000 in full and final settlement		Cash: Asset ↑ (Dr.)		Cash A/c Dr. 6,000
		Bad debts Loss (Dr.)		Bad debts A/c Dr. 4,000
		ABC : Asset (Cr.)		To ABC A/c 10,000
Later on ABC paid 2,000		Bad debts recovered		Cash A/c Dr.
		: Gain(Cr.)		To Bad debts recovered A/c

JOURNAL ENTRY

Goods were given as charity- 5,000(Selling price-6,000)		Charity :Expense		Charity A/c Dr. 5,000
				To Purchases A/c 5,000
Received Commission-1500, 2/3 is in respect of next year		1/3: Income		Cash A/c Dr. 1,500
		2/3: Liability		To Commission A/c 500
				To Commission received in advance 1,000
Paid 7, 500 as rent of the premises, 1/3 of the premises is occupied by the owner		2/3 Expense		Rent A/c Dr. 5,000
		1/3 Drawings		Drawings A/c Dr. 2,500
				To Cash A/c 7,500
Received an order of 50,000 from a customer and received an advance 5,000		Advance received: Liability		Cash A/c Dr. 5,000
				To Advance from customer 5,000

The **MAIN DIFFERENCE** between trade discount and cash discount is that ledger account is opened for a cash discount, but not for a trade discount i.e. you will not show trade discount in the journal entry and so no ledger will be opened for trade discount.

TRADE DISCOUNT	Discount given on bulk purchases	Never shown in the Journal entry
CASH DISCOUNT	Discount given on prompt payment	Always shown in the Journal entry

BASIS FOR COMPARISON	TRADE DISCOUNT	CASH DISCOUNT
Meaning	A discount given by the seller to the buyer as a deduction in the list price of the commodity is trade discount.	A deduction in the amount of invoice allowed by the seller to the buyer in return for immediate payment is cash discount.
Purpose	To facilitate a bulk sales.	To facilitate a prompt payment.
Invoice	It is shown in invoice as a deduction itself.	It is not shown in invoice.
When allowed?	At the time of purchase.	At the time of payment.
Allowed to all customers	Yes	No
Entry in books	No	Yes

EXAMPLE -1

Goods costing Rs. 100,000 were sold to ABC at 20% profit on cost. Trade discount is 10%. ABC paid 25% in cash and availed cash discount of 5%

Cost	100,000
Add: Profit (20% of 100,000)	20,000
Sales price (Cost + Profit)	120,000
Less: Trade discount (120,000 * 10%)	12,000
Net Amount (i.e. Sales amount)	108,000
Amount paid in cash (108,000 * 25%)	27,000
Cash discount on Amount paid = 27,000 * 5%	1,350

Note: Trade discount is always deducted from the Sales price.

Note: Cash discount is calculated on the amount paid in cash/cheque.

Amount not received (108,000 * 75%) will be shown as Debtor.

Cash A/c Dr.	25,650	
Discount allowed Dr.	1,350	
ABC A/c Dr.	81,000	
To Sales A/c		108,000

EXAMPLE -2

Goods costing Rs. 100,000 were purchased from PQR. Trade discount is 10%. Payment made 20% in cash, 30% through cheque and availed cash discount of 5%

Cost	100,000
Less: Trade discount (100,000 * 10%)	10,000
Purchase cost	90,000

Note: Trade discount is always deducted from the Sales price.

Paid through Cash: $90,000 * 20\% = 18,000$,
Cash Discount $18,000 * 5\% = 900$

Paid through Cheque: $90,000 * 30\% = 27,000$,
Cash Discount $27,000 * 5\% = 1350$

Credit purchases: $90,000 * 50\% = 45,000$

Purchases A/c Dr.	90,000	
To Cash A/c		17,100
To Bank A/c		25,650
To Discount received A/c		2,250
To PQR A/c		45,000