CHAPTER 2

ACCOUNTING PROCESS

UNIT -1 BASIC ACCOUNTING PROCEDURES – JOURNAL ENTRIES

LEARNING OUTCOMES

After studying this unit, you will be able to:

- Understand meaning and significance of Double Entry System.
- Familiarize with the term 'account' and understand the classification of accounts into personal, real and nominal.
- Note the utility of such classification and sub-classifications.
- Understand how debits and credits are determined from transactions and events.
- Observe the points to be taken care of while recording a transaction in the journal.

UNIT OVERVIEW

Source Documents	• All documents in records which contain financial records and act as evidence of transactions.
Books of original entry and Ledger Accounts	• Purchase day book, Cash book, Sales day book and Purchases return book • Accounts where information relating to a particular asset/liability, capital, income and expenses are recorded.
Trial Balance	• It contains the totals from various ledger accounts and act as preliminary check on accounts before producing financial statements.

- Accounts
  - Personal Accounts
    - Natural
    - Artificial (Legal)
    - Representative
  - Impersonal Accounts
    - Real Accounts
    - Nominal Accounts

1.1 DOUBLE ENTRY SYSTEM

Double entry system of accounting is more than 500 years old. "Luca Pacioli" an Italian friar & mathematician published Summa de Arithmetica, Geometria, Proportioni, et Proportionalita ("Everything about Arithemetic Geometry and proportions"). The first book that described a double entry accounting system. Double entry system of book-keeping has emerged in the process of evolution of various accounting techniques. It is the only scientific system of accounting. According to it, every transaction has two-fold aspects–debit and credit and both the aspects are to be recorded in the books of accounts. Therefore, in every transaction at least two accounts are effected.

For example, on purchase of furniture either the cash balance will be reduced or a liability to the supplier will arise and new asset furniture is acquired. This has been made clear already, the Double Entry System records both the aspects. It may be defined as the system which recognises and records both the aspects of transactions. This system has proved to be systematic and has been found of great use for recording the financial transactions for all kind of entities requiring use of money.

1.2 ADVANTAGES OF DOUBLE ENTRY SYSTEM

This system affords the under mentioned advantages:

(i) By the use of this system the accuracy of the accounting work can be established, through the device of the trial balance.

(ii) The profit earned or loss incurred during a period can be ascertained together with details.

(iii) The financial position of the entity or the institution concerned can be ascertained at the end of each period, through preparation of the financial statements.

(iv) The system permits accounts to be kept in as much details as necessary and, therefore provides significant information for the purpose of control and reporting.

(v) Result of one year may be compared with those of previous years and reasons for the change may be ascertained.

In view of the above, the advantages of double entry system has been used extensively in all countries.

1.3 ACCOUNT

We have seen how the accounting equation becomes true in all cases. A person starts his business with say, ₹ 10,00,000 as capital with corresponding balance of cash ₹ 10,00,000. For example, transactions entered into by the entity will alter the cash balance in two ways, one will increase the cash balance and other will reduce it. Payment for goods purchased, salaries paid and rent expense paid, etc., will reduce the cash balance whereas sales of goods for cash and collection from customers will increase it.

We can change the cash balance with every transaction but this will be cumbersome. Instead it would be better if all the transactions that lead to an increase are recorded in one column and those that reduce the cash balance in another column; then the net result can be ascertained. If we add all increases to the opening balance of cash and then deduct the total of all decreases, we shall know the closing balance. In this manner, significant information will be available relating to cash.

The two columns which we referred above are put usually in the form of an account, called the 'T' form. This is illustrated below by taking imaginary figures:

CASH

Particular		Increase (Receipt) ₹	Particular		Decrease (Payment) ₹
Opening Balance	(1)	10,00,000		(7)	1,00,000
	(2)	2,50,000		(8)	3,00,000
	(3)	2,00,000		(9)	2,00,000
	(4)	5,00,000		(10)	5,00,000
	(5)	1,35,000			
	(6)	4,00,000		(11)	12,00,000
			New or Closing Balance		1,85,000
		24,85,000			24,85,000

Since, each T-account shows only amounts and not transaction descriptions, we record each transaction in some way, such as by numbering used in this illustration. However, one can use date also for this purpose.

What we have done is to record the increase of cash on the left hand side and the decrease on the right hand side; the closing balance has been ascertained by deducting the total of payments, ₹ 23,00,000 from the total of the left - hand side. Such a treatment of receipts and payments of cash is very convenient.

Here we talked about only one account namely cash, now let us see how to make T-accounts when assets as well as liabilities are effected from a particular transaction.

Now, let us take some more examples:-

Transaction 1:

Initial investment by owners ₹ 25,00,000 in cash.

This will effect two accounts namely cash and capital. The asset cash increases and the stock holders' equity paid up capital also increases.

CASH

	Increase		Decrease
(1)	25,00,000		

CAPITAL

	Decrease		Increase
		(1)	25,00,000

Transaction 2:

Paid cash to the creditors ₹ 14,00,000

This will effect cash account which will decrease and creditors account which is a liability will also decrease.

CASH

	Increase		Decrease
		(2)	14,00,000

CREDITORS

	Decrease		Increase
(2)	14,00,000		

The proper form of an account is as follows:

Account

Date	Particulars	Amount	Date	Particulars	Amount
		₹			

The columns are self-explanatory.

1.4 DEBIT AND CREDIT

We have seen that in T-accounts increase and decrease entries are made on the left and right side of the accounts for assets respectively and vice-versa for liabilities. But, formally accountants use the term Debit (Dr.) to denote an entry on the left side of any account and Credit (Cr.) to denote an entry on the right side of any account.

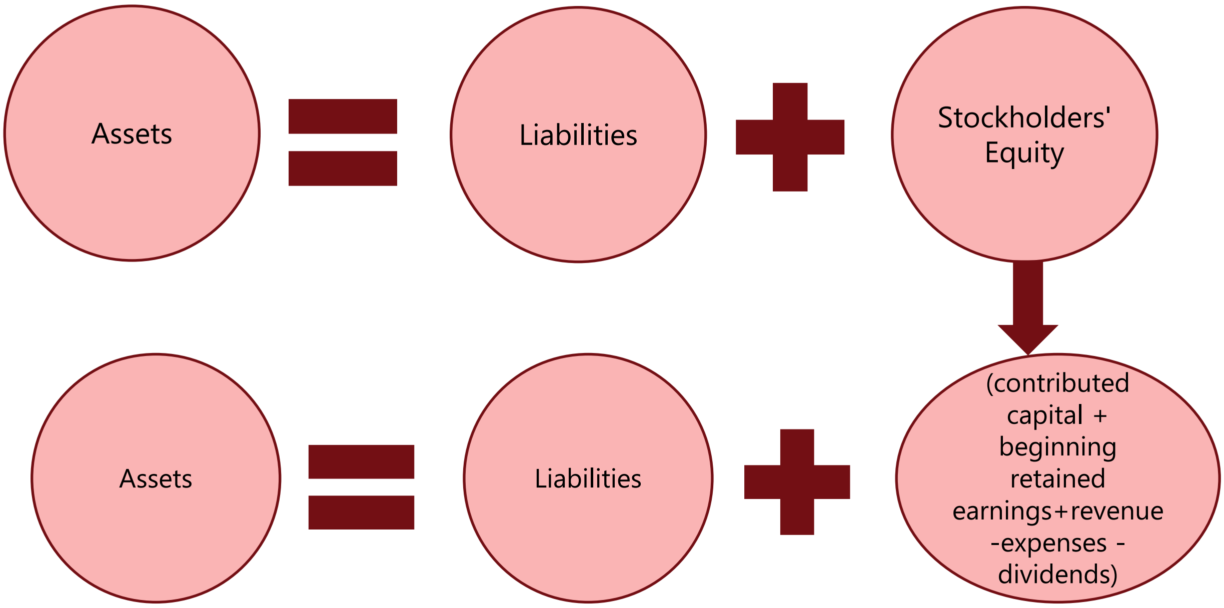
We know that by deducting the total of liabilities from the total of assets the amount of capital is ascertained, as is indicated by the accounting equation.

Assets = Liabilities + Capital

or

Assets − Liabilities = Capital

To understand the equation better, let us expand it:-



Here,

Contributed capital = the original capital introduced by the owner.

Beginning retained earnings = previous earnings not distributed to the shareholders.

Revenue = generated from the ongoing activities of the business

Expenses = cost incurred for the operations of the company.

Dividends = earnings distributed to the shareholders of the company

We have also seen that if there is any change on one side of the equation, it is bound to be similar change on the other side of the equation or amongst items covered by it or an opposite change on the same side of the equation. This is illustrated below:

Transactions	**Total Assets ₹**	**= Liabilities ₹**	**+ Owner's Capital ₹**
(1) Started business with cash ₹ 10,00,000	10,00,000		10,00,000
(2) Borrowed ₹ 5,00,000	+ 5,00,000	+ 5,00,000	
(3) Withdrew cash from business ₹ 2,00,000	- 2,00,000		- 2,00,000
(4) Loan repaid to the extent of ₹ 1,00,000	- 1,00,000	- 1,00,000	
(5) Bought furniture worth ₹ 3,00,000 with	+3,00,000		
Cash	- 3,00,000		
Balance	**12,00,000**	**= 4,00,000**	**+ 8,00,000**

As has been seen previously, what has been given above is suitable only if the number of transactions is small. But if the number is large, a different procedure of putting increases and decreases in different columns will be useful and this will also yield significant information. The transactions given above are being shown below according to this method.

Total Assets		= Liabilities		+ Owner's Capital	
Increase ₹	**Decrease** ₹	**Decrease** ₹	**Increase** ₹	**Decrease** ₹	**Increase** ₹
(1) 10,00,000					10,00,000
(2) 5,00,000			5,00,000		
(3)	2,00,000			2,00,000	
(4)	1,00,000	1,00,000			
Total 15,00,000	**3,00,000**	**1,00,000**	**5,00,000**	**2,00,000**	**10,00,000**
Balance 12,00,000			**4,00,000**		**+ 8,00,000**

It is a tradition that:

(i) increases in assets are recorded on the left-hand side and decreases in them on the right-hand side; and

(ii) in the case of liabilities and capital, increases are recorded on the right-hand side and decreases on the left-hand side.

When two sides are put together in T form, the left-hand side is called the 'debit side' and the right hand side is 'credit side'. When in an account a record is made on the debit or left-hand side, one says that one has debited that account; similarly to record an amount on the credit or right-hand side, it is said the account has been credited.

From the above, the following rules can be obtained:

(i) When there is an increase in the amount of an asset, its account is debited; the account will be credited if there is a reduction in the amount of the asset concerned: Suppose a firm purchases furniture for ₹ 8,00,000, the furniture account will be debited by ₹ 8,00,000 since the asset has increased by this amount. Suppose later the firm sells furniture to the extent of ₹ 3,00,000 the reduction will be recorded by crediting the furniture account by ₹ 3,00,000.

FURNITURE

	Increase		Decrease
(1) To Cash	8,00,000	(2) By Cash	3,00,000
		Balance	5,00,000

(ii) If the amount of a liability increases, the increase will be entered on the credit side of the liability account, i.e. the account will be credited: similarly, a liability account will be debited if there is a reduction in the amount of the liability. Suppose a firm borrows ₹ 5,00,000 from Mohan; Mohan's account will be credited since ₹ 5,00,000 is now owing to him. If, later, the loan is repaid, Mohan's account will be debited since the liability no longer exists.

MOHAN

	Decrease		Increase
(2) To Cash	5,00,000	(1) By Cash	5,00,000

(iii) An increase in the owner's capital is recorded by crediting the capital account: Suppose the proprietor introduces additional capital, the capital account will be credited. If the owner withdraws some money, i.e., makes a drawing, the capital account will be debited.

(iv) Profit leads to an increase in the capital and a loss to reduction: According to the rule mentioned in (iii) above, profit & incomes may be directly credited to the capital account and losses & expenses may be similarly debited.

However, it is more useful to record all incomes, gains, expenses and losses separately. By doing so, very useful information will be available regarding the factors which have contributed to the year's profits and losses. Later the net result of all these is ascertained and adjusted in the capital account.

(v) Expenses are debited and Incomes are credited: Since incomes and gains increase capital, the rule is to credit all gains and incomes in the accounts concerned and since expenses and losses decrease capital, the rule is to debit all expenses and losses. Of course, if there is a reduction in any income or gain, the account concerned will be debited; similarly, for any reduction in an expenses or loss the concerned account will be credited.

The rules given above are summarised below:

- Increases in assets are debits; decreases are credits;
- Increases in liabilities are credits; decreases are debits;
- Increases in owner's capital are credits; decreases are debits;
- Increases in expenses are debits; decreases are credits; and
- Increases in revenue or incomes are credits; decreases are debits.

The terms debit and credit should not be taken to mean, respectively, favourable and unfavourable things. They merely describe the two sides of accounts.

Whether an entry is to the debit or credit side of an asset depends on the type of account and the transactions

Debit	**Credit**
Increase in Purchases	Increase in Sales
Increase in Expenses	Increase in revenue and Incomes
Increase in Assets	Increase in Liabilities and Owners' Capital

In the same way, decrease in purchases, expenses and assets are credits and decrease in sales, income, liabilities and owners' capital are debit.

ILLUSTRATION 1

Following are the transactions entered into by R after he started his business. Show how various accounts will be affected by these transactions:

2022 April		***(₹ in 000)***
1.	*R started business with*	*5,000*
2.	*He purchased furniture for*	*1,200*
3.	*Paid salary to his clerk*	*1,100*
4.	*Paid rent*	*1,150*
5.	*Received interest*	*2,000*

SOLUTION

2022 April	Explanation	Accounts Involved	Nature of Accounts	How affected	Debit (₹ in 000)	Credit (₹ in 000)
1.	₹ 5,000 cash invested in business	Bank and R's Capital	Asset Capital	Increased Increased	5,000	 5,000
2.	Purchased furniture for ₹ 1,200	Furniture and Bank	Asset Asset	Increased Decreased	1,200	 1,200
3.	Paid ₹ 1,100 to employee for salary	Salary & Bank	Expense Asset	Increased Decreased	1,100	 1,100
4.	Paid Rent ₹ 1,150	Rent & Bank	Expense Asset	Increased Decreased	1,150	 1,150
5.	Received interest ₹ 2,000	Cash & Interest	Asset Income	Increased Increased	2,000	 2,000

1.5 TRANSACTIONS

In the system of book-keeping, students can notice that transactions are recorded in the books of accounts. A transaction is a type of event, which is generally external in nature and can be determined in terms of money. In an accounting period, every business has huge number of transactions which are analysed in financial terms and then recorded individually, followed by classification and summarisation process, to know their impact on the financial statements. A transaction is a two-way process in which value is transferred from one party to another. In it either a party receives a value in terms of goods etc. and passes the value in terms of money or vice versa. Therefore, one can easily make out that in a transaction, a party receives as well as passes the value to other party. For recording transaction, it is very important that they are supported by a substantial document like purchase invoices, bills, pay-slips, cash-memos, passbook etc.

Transactions analysed in terms of money and supported by proper documents are recorded in the books of accounts under double entry system. To analyse the dual aspect of each transaction, two approaches can be followed:

(1) Accounting Equation Approach.

(2) Traditional Approach.

1.6 ACCOUNTING EQUATION APPROACH

The relationship of assets with that of liabilities and owners' equity in the equation form is known as 'Accounting Equation'. Basic accounting equation comes into picture when sum total of capital and liabilities equalises assets, where assets are what the business owns and capital and liabilities are what the business owes. Under double entry system, every business transaction has two-fold effect on the business enterprise where each transaction affects changes in assets, liabilities or capital in such a way that an accounting equation is completed and equated. This accounting equation holds good at all points of time and for any number of transactions and events except when there are errors in accounting process.

Let us suppose that an individual started business by contributing ₹ 50,00,000 and taking loan of ₹10,00,000 from a bank to be repayable, after 5 years. He purchased furniture costing ₹ 10,00,000, and merchandise worth ₹ 50,00,000. For purchasing the merchandise he paid ₹ 40,00,000 to the suppliers and agreed to pay balance after 3 months.

The contribution by the owner is termed as capital; the loans are termed as liabilities. Whenever the loan is repayable in the short-run, say within one year, it is called short-term loan or liability. On the other hand, if the loan is repayable atleast after one year, it would be termed as long term loan or liability.

Some other short-term liabilities relating to credit purchase of merchandise are popularly called as trade payables, and for other purchases and services received on credit as expense payables. The short-term liabilities are also termed as current liabilities and long term liabilities are termed as non-current liabilities.

On the other hand, money raised has been invested in two types of assets–fixed assets and current assets. Furniture is a fixed asset, if it lasts long, say more than one year, and has utility to the business, while inventory and cash balance will not remain fixed for long as soon as the business starts to roll-these are current assets.

Often the owner's claim or fund in the business is called equity. Owner's claim implies capital invested plus any profit earned minus any loss incurred.

Now we have an equation:

Equity + Liabilities = Assets or, Equity + Long-Term Liabilities = Fixed Assets + Current Assets - Current Liabilities

Check : L.H.S.	**(₹ in '000)**
Equity	₹ 5,000
Long–term Liabilities	₹ 1,000
Current Liabilities	₹ 1,000
	₹ 7,000

Check : R. H. S.	(₹ in '000)
Assets	
Fixed Assets:	
Furniture	₹ 1,000
Current Assets:	
Inventory	₹ 5,000
Cash	₹ 1,000
	₹ 7,000

Cash = Capital + Loan - Furniture - Payment to Trade payables (₹' 000)

= ₹ 5,000 + ₹ 1,000 - ₹ 1,000 - ₹ 4,000 = ₹ 1,000

Let us use E_0, L_0 and A_0 to mean Equity, Liabilities and Assets respectively at t_0. Thus the basic accounting equation becomes

$E_0 + L_0 = A_0$

or $E_0 = A_0 - L_0$ ...(Eq. 1)

(₹' 000)

Now, let us suppose that at the end of period inventory valuing ₹ 2,500 is in hand, cash ₹ 2,000; trade payables ₹ 500; bank loan ₹ 1,000 (interest was properly paid); furniture ₹ 800 {₹ 200 is taken as loss of value due to use (also known as depreciation)}. So at t_1 -

Assets:	**(₹' 000)**
Fixed assets	
Furniture	₹ 800
Current assets	
Inventory	₹ 2,500
Cash	₹ 2,000
(A_1)	₹ 5,300
Liabilities:	
Long-term Liabilities	₹ 1,000
Current Liabilities	₹ 500
(L_1)	₹ 1,500
Equity (A_1 - L_1)	₹ 3,800

Equity = Assets - Liabilities

i.e., $E_1 = A_1 - L_1$

or $E_1 + L_1 = A_1$ ...(Eq. 2)

Let us compare E1 with E0. Equity is reduced by ₹ 12,00,000 (50,00,000 - 38,00,000). Reduction in equity is termed as loss incurred.

Since the business has incurred loss during the period, E_1 becomes less than E0.

$E_1 < E_0$ implies loss during t01

Similarly, $E_2 < E_1$ implies loss during t_{12} and so on.

On the other hand, $E_1 > E_0$ implies profit earned by business during t_{01}, $E_2 > E_1$ implies profit earned during $t_{2\&1}$ and so on.

So if En> En-1, in general terms, equity has increased, while En< En-1 implies that equity has decreased. Increase in equity is termed as profit while decrease in equity is termed as loss.

ILLUSTRATION 2

Develop the accounting equation from following information available at the beginning of accounting period:

Particulars	***(₹ in '000)***
Capital	*51,000*
Loan	*11,500*
Trade payables	*5,700*
Fixed Assets	*12,800*
Inventory	*22,600*
Trade receivables	*17,500*
Cash and Bank	*15,300*

At the end of the accounting period the balances appear as follows:

	₹
Capital	*?*
Loan	*11,500*
Trade payables	*5,800*
Fixed Assets	*12,720*

Inventory	*22,900*
Trade receivables	*17,500*
Cash at Bank	*15,600*

(a) *Reset the equation and find out profit.*

(b) *Prepare Balance Sheet at the end of the accounting period.*

SOLUTION

(All the figures in solution are in '000)

(a) Accounting equation is given by

Equity + Liabilities = Assets

Let us use E_0, L_0 and A_0 to mean equity, liabilities and assets respectively at the beginning of the accounting period.

E_0 = ₹ 51,000

L_0 = Loan + Trade payables

= ₹ 11,500 + ₹ 5,700 = ₹ 17,200

A_0 = Fixed Assets + Inventories + Trade receivables + Cash at Bank

= ₹ 12,800 + ₹ 22,600 + ₹ 17,500 + ₹ 15,300 = ₹ 68,200

So, at the beginning of accounting period

$E_0 + L_0 = A_0$

i.e., ₹ 51,000 + ₹ 17,200 = ₹ 68,200

Let us use E_1, L_1, A_1 to mean equity, liabilities and assets respectively at the end of the accounting period.

L_1 = Loan + Trade payables

= ₹ 11,500 + ₹ 5,800 = ₹ 17,300

A_1 = Fixed Assets + Inventories + Trade receivables + Cash at Bank

= ₹ 12,720 + ₹ 22,900 + ₹ 17,500 + ₹ 15,600 = ₹ 68,720

E_1 = $A_1 - L_1$ = ₹ 68,720 - ₹ 17,300 = ₹ 51,420

Profit = $E_1 - E_0$ = ₹ 51,420 - ₹ 51,000 = ₹ 420

(b) **Balance Sheet**

Liabilities	**₹**	**₹**	**Assets**	**₹**
Capital			Fixed Assets	12,720
Balance	51,000		Inventories	22,900
Add: Profit	420	51,420	Trade receivables	17,500
Loan		11,500	Cash at Bank	15,600
Trade payables		5,800		
		68,720		68,720

ILLUSTRATION 3

Mr. Dravid. has provided following details related to his financials. Find out the missing figures:

Particulars	***(₹ in'000)***
Profits earned during the year	*5,000*
Assets at the beginning of year	*A*
Liabilities at the beginning of year	*12,000*
Assets at the end of the year	*B*
Liabilities at the end of the year	*C*
Closing capital	*35,000*
Total liabilities including capital at the end of the year	*50,000*

SOLUTION

Computing opening capital: (All figure in ₹' 000)

Closing capital - profits earned during the year (35,000 - 5,000) = 30,000

We also know:

Assets = liabilities + capital

Therefore, opening assets (A) (12,000 + 30,000) = 42,000

Computation of liabilities at the end of the year:

Total liabilities including capital - closing capital (C) (50,000 – 35,000) = 15,000

Also assets at the end of the year (B)= closing capital + liabilities at the end of the year

= 35,000 + 15,000 = 50,000

1.7 TRADITIONAL APPROACH

Under traditional approach of recording transactions one should first understand the term debit and credit and their rules. The term debit and credit have already been explained in para 1.4 of this Unit.

Transactions in the journal are recorded on the basis of the rules of debit and credit only. For the purpose of recording, these transactions are classified in three groups:

(i) Personal transactions.

(ii) Transactions related to assets and properties.

(iii) Transactions related to expenses, losses, income and gains.

1.7.1 Classification of Accounts

(i) Personal Accounts: Personal accounts relate to persons, trade receivables or trade payables. Example would be the account of Ram & Co., a credit customer or the account of Jhaveri & Co., a supplier of goods. The capital account is the account of the proprietor and, therefore, it is also personal but adjustment on account of profits and losses are made in it. This account is further classified into three categories:

(a) Natural personal accounts: It relates to transactions of human beings like Ram, Rita, etc.

(b) Artificial (legal) personal accounts: For business purpose, business entities are treated to have separate entity. They are recognised as persons in the eye of law for dealing with other persons. For example: Government, Companies (private or limited), Clubs, Co-operative societies etc.

(c) Representative personal accounts: These are not in the name of any person or organisation but are represented as personal accounts. For example: outstanding liability account or prepaid account, capital account, drawings account.

(ii) Impersonal Accounts: Accounts which are not personal such as machinery account, cash account, rent account etc. These can be further sub-divided as follows:

(a) Real Accounts: Accounts which relate to assets of the firm but not debt. For example, accounts regarding land, building, investment, fixed deposits etc., are real accounts. Cash in hand and Cash at the bank accounts are also real.

(b) Nominal Accounts: Accounts which relate to expenses, losses, gains, revenue, etc. like salary account, interest paid account, commission received account. The net result of all the nominal accounts is reflected as profit or loss which is transferred to the capital account. Nominal accounts are, therefore, temporary.

1.7.2 Golden Rules of Accounting

All the above classified accounts have two rules each, one related to Debit and one related to Credit for recording the transactions which are termed as golden rules of accounting, as transactions are recorded on the basis of double entry system.

Types of Account	Account to be Debited	Account to be Credited
Personal Account	Receiver	Giver
Real Account	What comes in	What goes out
Nominal Account	Expense and losses	Income and gains

Example:-

From the following information, state the nature of account and state which account will be debited and which will be credited.

1. Started business with a capital of ₹ 50,00,000.
2. Wages and salaries paid ₹ 50,000
3. Rent received ₹ 2,00,000
4. Purchased goods on credit ₹ 9,00,000
5. Sold goods for ₹ 8,16,000 and received payment in cheque.

SOLUTION

Transaction	ACCOUNTS INVOLVED	NATURE	DEBIT OR CREDIT	Journal Entry
Started business with capital of ₹ 50,00,000	Bank account Capital account	Personal Personal	Debit (Receiver) Credit (giver)	Bank A/c Dr. To Capital A/c
Wages and salaries paid	Wages/salaries Bank	Nominal Personal	Debit (expense) Credit (giver)	Wages/ Salaries Dr. To Bank A/c
Rent received	Bank Rent	Personal Nominal	Debit (Receiver) Credit (income)	Bank A/c Dr. To Rent A/c
Purchases made on credit	Purchases Creditor	Nominal Personal	Debit (expense) Credit (giver)	Purchases A/c Dr. To Creditor A/c
Goods sold and payment received in cheque	Bank Sales	Personal Nominal	Debit (Receiver) Credit (gains)	Bank A/c Dr. To Sales A/c

1.8 MODERN CLASSIFICATION OF ACCOUNTS

Real, nominal and personal accounts is the traditional classification of accounts. Now, let us see the modern and more acceptable classification of accounts:-

Types of account	Normal balance of account	Account to be debited when there is:	Account to be credited when there is:
Asset account	Debit	Increase	Decrease
Liabilities account	Credit	Decrease	Increase
Capital account	Credit	Decrease	Increase
Revenue account	Credit	Decrease	Increase
Expenditure account	Debit	Increase	Decrease
Withdraw account	Debit	Increase	Decrease

Let us solve the same example with the modern approach now:-

Accounts involved	Nature	Debit/Credit	Reason
Cash	Asset	Debit	Increase
Capital	Liability	Credit	Increase
Wages/salaries paid	Expense	Debit	Increase
Cash	Asset	Credit	Decrease
Rent received	Revenue	Credit	Increase
Purchase	Expense	Debit	Increase
Creditor	Liability	Credit	Increase
Cash	Asset	Debit	Increase
Sales	Revenue	Credit	Increase

1.9 JOURNAL

Transactions are first entered in this book to show which accounts should be debited and which credited. Journal is also called subsidiary book. Recording of transactions in journal is termed as journalizing the entries. It is the book of original entry in which transactions are entered on a daily basis in a chronological order.

1.9.1 Journalising Process

All transactions may be first recorded in the journal as and when they occur; the record is chronological; otherwise it would be difficult to maintain the records in an orderly manner. Debits and credits are listed along with the appropriate explanations. There are basically two types of journals:-

1. General journal
2. Specialized journal

The latter is used when there are many repetitive transactions of the same nature. The form of the journal is given below:

JOURNAL

Date	**Particulars**	**Ledger Folio (L.F.)**	**Amount** Dr.	**Amount** Cr.
			₹	₹
(1)	(2)	(3)	(4)	(5)

The columns have been numbered only to make clear the following but otherwise they are not numbered. The following points should be noted:

(1) In the first column the date of the transaction is entered-the year is written at the top, then the month and in the narrow part of the column the particular date is entered.

(2) In the second column, the names of the accounts involved are written; first the account to be debited, with the word "Dr" written towards the end of the column. In the next line, after leaving a little space, the name of the account to be credited is written preceded by the word "To" (the modern practice shows inclination towards omitting "Dr." and "To"). Then in the next line the explanation for the entry together with necessary details is given-this is called narration.

(3) In the third column the number of the page in the ledger on which the account is written up is entered.

(4) In the fourth column the amounts to be debited to the various accounts concerned are entered.

(5) In the fifth column, the amount to be credited to various accounts is entered.

1.9.2 Points to be taken into account while recording a transaction in the Journal

1. Journal entries can be single entry (i.e. one debit and one credit) or compound entry (i.e. one debit and two or more credits or two or more debits and one credit or two or more debits and credits). In such cases, it is important to check that the total of both debits and credits are equal.

2. If journal entries are recorded in several pages then both the amount column of each page should be totalled and the balance should be written at the end of that page and also that the same total should be carried forward at the beginning of the next page.

An entry in the journal may appear as follows:

			₹	₹
May 5	Bank Account	Dr.	14,50,000	
	To Mohan			14,50,000
	(Being the amount received from Mohan in payment of the amount due from him)			

We will now consider some individual transactions.

(i) Mohan commences business with ₹ 50,00,000 in his bank account. This means that the firm has ₹ 50,00,000 in bank. According to the rules given above, the increase in an asset has to be debited. The firm also now owes ₹ 50,00,000 to the proprietor, Mohan as capital. The rule given above also shows that the increase in capital should be credited. Therefore, the journal entry will be:

Bank Account	Dr.	₹ 50,00,000	
To Capital Account			₹ 50,00,000
(Being capital introduced by Mohan)			

(ii) Out of the above, ₹ 25,000 is withdrawn from the bank. By this transaction the bank balance is reduced by ₹ 25,000 and another asset, cash account, comes into existence. Since increase in assets is debited and decrease is credited, the journal entry will be:

Cash Account	Dr.	₹ 25,000	
To Bank Account			₹ 25,000
(Being cash withdrawn in Bank)			

(iii) Furniture is purchased for ₹ 12,00,000. Applying the same reasoning as above the entry will be:

Furniture Account	Dr.	₹ 12,00,000	
To Bank Account			₹ 12,00,000
(Being Furniture purchased vide voucher No....)			

(iv) Purchased goods for ₹ 4,00,000. The student can see that the required entry is:

Purchases Account	Dr.	₹ 4,00,000	
To Bank Account			₹ 4,00,000
(Being goods purchased vide voucher No....)			

(v) Purchased goods for ₹ 10,00,000 on credit from M/s Ram Narain Bros. Purchase of merchandise is an expense item so it is to be debited. ₹ 10,00,000 is now owing to the supplier; his account should therefore be credited, since the amount of liabilities has increased. The entry will be:

Purchases Account	Dr.	₹ 10,00,000	
To M/s Ram Narain Bros.			₹ 10,00,000
(Being goods purchased on credit vide Bill No.....)			

(vi) Sold goods to M/s Ram & Co. for ₹ 6,00,000. Amount is received in cheque. The amount of bank increases and therefore, the bank amount should be debited; sale of merchandise is revenue item so it is to be credited. The entry will be:

Bank Account	Dr.	₹ 6,00,000	
To Sales Account			₹ 6,00,000
(Being goods sold vide sales invoice No....)			

(vii) Sold goods to Ramesh on credit for ₹ 13,00,000. The Inventories of goods has decreased and therefore, the goods account has to be credited. Ramesh now owes ₹ 13,00,000; that is an asset and therefore, Ramesh should be debited. The entry is:

Ramesh	Dr.	₹ 13,00,000	
To Sales Account			₹ 13,00,000
(Being goods sold vide Bill No....)			

(viii) Received cheque from Ramesh ₹ 13,00,000. The amount of bank increased therefore the bank account has to be debited. Ramesh's liability towards firm has decreased in fact in this case he no longer owes any amount to the firm now, i.e., this particular form of assets has disappeared; therefore, the account of Ramesh should be credited. The entry is:

Bank Account	Dr.	₹ 13,00,000	
To Ramesh			₹ 13,00,000
(Being amount received vide cheque No.......against sales invoice No....)			

(x) Paid rent ₹ 1,00,000. The bank balance has decreased and therefore, the bank account should be credited. No asset has come into existence because the payment is for services enjoyed and is an expense. Expenses are debited. Therefore, the entry should be:

Rent Account	Dr.	₹ 1,00,000	
To Bank Account			₹ 1,00,000
(Being rent paid for the month of ....)			

(xi) Paid ₹ 22,000 to the clerk as salary. Applying the reasons given in (x) above, the required entry is:

Salary Account	Dr.	₹ 22,000	
To Bank Account			₹ 22,000
(Being salary paid to Mr..... for the month of ....)			

(xii) Received ₹ 2,20,000 interest. The bank account should be debited since there is an increase in the bank balance. There is no increase in any liability; since the amount is not returnable to any one, the amount is an income, incomes are credited. The entry is:

Bank Account	Dr.	₹ 2,20,000	
To Interest Account			₹ 2,20,000
(Being interest received from.........for the period ....)			

When transactions of similar nature take place on the same date, they may be combined while they are journalised. For example, entries (x) and (xi) may be combined as follows:

Rent Account	Dr.	₹ 1,00,000	
Salary Account	Dr.	₹ 22,000	
To Bank Account (Being expenses done as per detail attached)			₹ 1,22,000

When journal entry for two or more transactions are combined, it is called composite journal entry. Usually, the transactions in a firm are so numerous that to record the transactions for a month will require many pages in the journal. At the bottom of one page the totals of the two columns are written together with the words "Carried forward" in the particulars column. The next page is started with the respective totals in the two columns with the words "Brought forward" in the particulars column.

ILLUSTRATION 4

Analyse transactions of M/s Sahil & Co. for the month of March, 2022 on the basis of double entry system by adopting the following approaches:

(A) Accounting Equation Approach.

(B) Traditional Approach.

Transactions for the month of March, 2022 were as follows (figures are in '000):

1. *Sahil introduced capital through bank of ₹ 4,000.*
2. *Cash withdrawn from the City Bank ₹ 200.*
3. *Loan of ₹ 500 taken from Mr. Y.*
4. *Salaries paid for the month of March, 2022, ₹ 300 and ₹ 100 is still payable for the month of March, 2022.*
5. *Furniture purchased ₹ 500.*

Required

What conclusions one can draw from the above analysis?

SOLUTION

(A) Analysis of Business Transaction: Accounting Equation Approach

The accounting equation is

Assets = Liabilities + Capital

(₹ in '000)

ASSETS						=	CAPITAL	+	LIABILITIES
	CASH	+	BANK	+	FURNITURE	=	CAPITAL	+	LIABILITIES
(a)	-	+	4,000	+	-	=	4,000	+	-
(b)	+200	+	-200	+	-	=	-	+	-
(c)	-	+	500	+	-	=	-	+	500
(d)	-	+	-300	+	-	=	-400	+	100
(e)	-	+	-500	+	500	=	-	+	-
Balance	**200**	**+**	**3,500**	**+**	**500**	**=**	**3,600**	**+**	**600**
			4,200				**4,200**		

(B) Analysis of Business Transactions: Traditional Approach

Transaction	**Analysis**	**Account Affected and Nature of Account**	**Rule**	**Entry**
Introduction of ₹ 4,000 through bank by the proprietor	Bank has received the money; Owner has given Bank balance	Bank–Personal Capital–Personal	Debit the receiver Credit the giver	Debit Bank Credit Capital
Cash Withdrawn from Bank ₹ 200	Cash comes into business; Bank gives out cash	Cash–Real Bank–Personal	Debit what comes in Credit the giver	Debit Cash Credit Bank
Loan from Y ₹ 500	Bank receives the amount : Y pays through bank	Bank–Personal Y's Loan–Personal	Debit the receiver Credit the giver	Debit Bank Credit Y's Loan
Salary paid ₹ 300 and still payable ₹ 100	Cost of services used ₹ 400; Bank gives out ₹300; Still payable or outstanding for services received ₹ 100	Salary Nominal Bank–Personal Salary Outstanding-Personal	Debit all expenses Credit the giver Credit the giver	Debit Salary (₹ 400) Credit Bank (₹ 300) Credit Salary outstanding (₹ 100)

Furniture purchased ₹ 500	Furniture is purchased; Bank gives out money	Furniture Real Bank–Personal	Debit what comes in Credit the giver	Debit Furniture Credit Bank

Conclusion:

It is evident from above analysis that procedure for analysis of transactions, classification of accounts and rules for recording business transactions under accounting equation approach and traditional approach are different. But the accounts affected and entries entered/passed remains the same under both approaches. Thus, the recording of transactions in affected accounts on the basis of double entry system is independent of the method of analysis followed by a business enterprise. In other words, accounts to be debited and credited to record the dual aspect remains the same under both the approaches.

ILLUSTRATION 5

Journalise the following transactions. Also state the nature of each account involved in the Journal entry.

Following figures are given in ('00)

1. *December 1, 2022, Ajit started business with capital ₹ 4,00,000*
2. *December 3, he withdrew cash for business from the Bank ₹ 2,000.*
3. *December 5, he purchased goods by making payment through bank ₹ 15,000.*
4. *December 8, he sold goods for ₹ 16,000 and received payment through bank.*
5. *December 10, he purchased furniture and paid by cheque ₹ 2,500.*
6. *December 12, he sold goods to Arvind ₹ 2,400.*
7. *December 14, he purchased goods from Amrit ₹ 10,000.*
8. *December 15, he returned goods to Amrit ₹ 500.*
9. *December 16, he received from Arvind ₹ 2,300 in full settlement.*
10. *December 18, he withdrew goods for personal use ₹ 1,000.*
11. *December 20, he withdrew cash from business for personal use ₹ 2,000.*
12. *December 24, he paid telephone charges ₹ 110.*
13. *December 26, amount paid to Amrit in full settlement ₹ 9,450.*
14. *December 31, paid for stationery ₹ 200, rent ₹5,000 and salaries to staff ₹ 2,000 from bank.*

15. December 31, goods distributed by way of free samples ₹ 2,000.

SOLUTION

JOURNAL **(₹ in '00)**

Sl. No	Date	Particulars		Nature of Account	L.F.	Dr. Debit (₹)	Cr. Credit (₹)
1.	Dec. 1	Bank Account	Dr.	Personal A/c		4,00,000	
		To Capital Account		Personal A/c			4,00,000
		(Being commencement of business with capital)					
2.	Dec. 3	Cash Account	Dr.	Real A/c		2,000	
		To Bank Account		Personal A/c			2,000
		(Being cash withdrawn from the Bank)					
3.	Dec. 5	Purchases Account	Dr.	Nominal A/c		15,000	
		To Bank Account		Personal A/c			15,000
		(Being purchase of goods for cash)					
4.	Dec. 8	Bank Account	Dr.	Personal A/c		16,000	
		To Sales Account		Nominal A/c			16,000
		(Being goods sold for cash)					
5.	Dec. 10	Furniture Account	Dr.	Real A/c		2,500	
		To Bank Account		Personal A/c			2,500
		(Being purchase of furniture, paid by cheque)					
6.	Dec. 12	Arvind Account	Dr.	Personal A/c		2,400	
		To Sales Account		Nominal A/c			2,400
		(Being sale of goods on credit)					

7.	Dec. 14	Purchases Account To Amrit Account (Being purchase of goods from Amrit)	Dr.	Nominal A/c Personal A/c		10,000	 10,000
8.	Dec. 15	Amrit To Purchases Returns Account (Being goods returned to Amrit)	Dr.	Personal A/c Nominal A/c		500	 500
9.	Dec. 16	Bank Account Discount Account To Arvind Account (Being amount received from Arvind in full settlement and allowed him ₹ 100 as discount)	Dr. Dr.	Personal A/c Nominal A/c Personal A/c		2,300 100	 2,400
10.	Dec. 18	Drawings Account To Purchases Account (Being withdrawal of goods for personal use)	Dr.	Personal A/c Nominal A/c		1,000	 1,000
11.	Dec. 20	Drawings Account To Cash Account (Being cash withdrawal from the business for personal use)	Dr.	Personal A/c Real A/c		2,000	 2,000
12.	Dec. 24	Telephone Expenses Account To Bank Account (Being telephone expenses paid)	Dr.	Nominal A/c Personal A/c		110	 110

13.	Dec 26	Amrit Account	Dr.	Personal A/c		9,500	
		To Bank Account		Personal A/c			9,450
		To Discount Account		Nominal A/c			50
		(Being cash paid to Amrit and he allowed ₹ 50 as discount)					
14.	Dec. 31	Stationery Expenses	Dr.	Nominal A/c		200	
		Rent Account	Dr.	Nominal A/c		5,000	
		Salaries Account	Dr.	Nominal A/c		2,000	
		To Bank Account		Personal A/c			7,200
		(Being expenses paid)					
15.	Dec. 31	Advertisement Expenses Account	Dr.	Nominal A/c		2,000	
		To Purchases Account		Nominal A/c			2,000
		(Being distribution of goods by way of free samples)					

ILLUSTRATION 6

Show the classification of the following Accounts under traditional and accounting equation approach:

(a) Building; (b) Purchases; (c) Sales; (d) Bank Fixed Deposit; (e) Rent; (f) Rent Outstanding; (g) Cash; (h) Adjusted Purchases; (i) Closing Inventory; (j) Investments; (k) Trade receivables; (l) Sales Tax Payable, (m) Discount Allowed; (n) Bad Debts; (o) Capital; (p) Drawings; (q) Interest Receivable account; (r) Rent received in advance account; (s) Prepaid salary account; (t) Bad debts recovered account; (u) Depreciation account, (v) Personal income-tax account.

SOLUTION

Nature of Account

Sl. No.	Title of Account	Traditional Approach	Accounting Equation Approach
(a)	Building	Real	Asset
(b)	Purchases	Nominal	Expense
(c)	Sales	Nominal	Revenue

(d)	Bank Fixed Deposit	Personal	Asset
(e)	Rent	Nominal	Expense
(f)	Rent Outstanding	Personal	Liability
(g)	Cash	Real	Asset
(h)	Adjusted Purchases	Nominal	Expense
(i)	Closing Inventory	Real	Asset
(j)	Investment	Real	Asset
(k)	Trade receivables	Personal	Asset
(l)	GST Payable	Personal	Liability
(m)	Discount Allowed	Nominal	Expense
(n)	Bad Debts	Nominal	Expense
(o)	Capital	Personal	Capital
(p)	Drawings	Personal	Capital - Drawings
(q)	Interest receivable	Personal	Asset
(r)	Rent received in advance	Personal	Liability
(s)	Prepaid salary	Personal	Asset
(t)	Bad debts recovered	Nominal	Gain
(u)	Depreciation	Nominal	Expense
(v)	Personal Income Tax	Personal (Drawings)	Capital - Drawings

ILLUSTRATION 7

Transactions of Ramesh for April are given below. Journalise them.

2022			₹
April	*1*	*Ramesh started business with*	*10,00,000*
"	*3*	*Bought goods for cash*	*50,000*
"	*5*	*Drew cash from bank*	*10,000*
"	*13*	*Sold to Krishna- goods on credit*	*1,50,000*
"	*20*	*Bought from Shyam goods on credit*	*2,25,000*
"	*24*	*Received from Krishna*	*1,45,000*
"		*Allowed him discount*	*5,000*

"	*28*	*Paid Shyam cash*	*2,15,000*
"		*Discount allowed*	*10,000*
"	*30*	*Cash sales for the month*	*8,00,000*
		Paid Rent	*50,000*
		Paid Salary	*1,00,000*

SOLUTION

JOURNAL

Date 2022	Particulars		L.F.*	Amount (Dr.)	Amount (Cr.)
April 1	Bank Account	Dr.	1	10,00,000	
	To Capital Account		4		10,00,000
	(Being the amount invested by Ramesh in the business as capital)				
" 3	Purchases Account	Dr.	7	50,000	
	To Bank Account		1		50,000
	(Being goods purchased for cash)				
" 5	Cash Account	Dr.	5	10,000	
	To Bank Account		1		10,000
	(Being cash withdrawn from bank)				
" 13	Krishna	Dr.	9	1,50,000	
	To Sales Account		11		1,50,000
	(Being goods sold to Krishna on credit)				
" 20	Purchases Account	Dr.	7	2,25,000	
	To Shyam		10		2,25,000
	(Being goods bought from Shyam on credit)				
" 24	Bank Account	Dr.	1	1,45,000	
	Discount Account	Dr.	12	5,000	
	To Krishna		9		1,50,000
	(Being cash received from Krishna and discount allowed to him)				

" 28	Shyam	Dr.	10	2,25,000	
	To Bank Account		1		2,15,000
	To Discount Account		12		10,000
	(Being cash paid to Shyam and discount allowed by him)				
" 30	Bank Account	Dr.	1	8,00,000	
	To Sales Account		11		8,00,000
	(Being sales for the month of April 2022)				
" 30	Rent Account	Dr.	15	50,000	
	Salaries Account	Dr.	14	1,00,000	
	To Bank Account		1		1,50,000
	(Being the amount paid for rent and salary)				
	Total			27,60,000	27,60,000

***Ledger Folio imaginary**

1.10 ADVANTAGES OF JOURNAL

In journal, transactions recorded on the basis of double entry system, fetch the following advantages:

1. As transactions are recorded in chronological order, one can get complete information about the business transactions on timely basis.
2. Entries recorded in the journal are supported by a note termed as narration, which is a precise explanation of the transaction for the proper understanding of the entry. One can know about the transactions through these narrations.
3. Journal forms the basis for posting the entries in the ledger and reduces the chances of error.

1.11 ACCOUNTING FOR GST

1.11.1 Introduction to GST

Goods and Services Tax (GST) is a comprehensive Indirect Tax* which has subsumed multiple Indirect Taxes in India such as State Value added Tax (VAT) which was levied on sale of goods, Excise Duty, which was levied on manufacture or production of goods, Service Tax which was levied on provision of services etc. GST is a single tax on the supply of goods and services, right from the manufacturer to consumer.

* An indirect tax is a tax whose incidence is borne by the consumers who ultimately consume the product or service. The immediate liability to pay the tax may fall upon another person such as a manufacturer or provider of service or seller of goods, but the same is collected from the person purchasing the goods (recipient of goods or services).

Pre-GST scenario:

Prior to introduction of GST, the following duties were levied:

(a) On manufacture of goods: Excise Duty (levied by Central Government)

(b) On sale of goods within the State: State Value Added Tax (VAT)

(c) On sale of goods outside the State: Central Sales Tax (levied by Central Government)

(d) On provision of services provided: Service Tax (levied by Central Government)

Since the taxes were levied by different authorities (central and state authorities), it was not possible to take the benefit of credit of taxes paid at different stages. For instance, when a trader received goods (say costing ₹ 1,00,000) from the manufacturer, excise duty (say @ 18% = ₹ 18,000) was levied on the goods sold by the manufacturer. When such trader would sell the goods to the customer, he would charge VAT (assume 18%). However, the trader could not avail the benefit of the credit of the excise duty of ₹ 18,000 paid in respect of the goods purchased from the manufacturer. Accordingly, the 'cost' of the goods to the trader would be ₹ 1,00,000 + ₹ 18,000 = ₹ 1,18,000, on which the trader would add his profit margin and levy VAT while selling to the consumer. This created a scenario wherein a tax (in our example, VAT) was levied on the tax (in our example, excise duty) also, in addition to the tax levied on the goods. This cascading effect (tax-on-tax) increased the price of the product, and resulted in an unjust enrichment at the cost of the ultimate consumer.

Post-GST scenario:

On introduction of GST, the tax to be levied at all stages right from manufacture up to final consumption was a single tax- GST, with credit of taxes paid at previous stages available as setoff. Thus, in the example above, the GST (erstwhile excise duty) of ₹ 18,000 paid by the trader could be availed as a credit (an asset), for set off against the tax charged by the trader (a liability for the trader, which would be received from the consumer). Hence, the cost of the goods to the trader would be ₹ 1,00,000 only, as ₹ 18,000 can be set off against the GST charged by the trader to the consumer. The tax levied by the manufacturer to the trader becomes 'input tax' for the trader, since the goods are purchased by him (it is his input). The tax levied by the manufacturer to the trader, or the trader to the consumer is known as 'output tax' (since it is output for both the manufacturer and trader) both for the manufacturer and trader. The 'input tax' cannot be added to the cost of the goods or services procured, as it will be adjusted against the 'output tax' liability. In a nutshell, since the input tax is availed as a credit, only the value addition (i.e., the profit margin levied by the trader to the consumer in our example) will be taxed, with the burden of tax being borne by the final consumer.

1.11.2 Salient features of GST

- GST is levied on supply i.e., manufacture or sale of goods and provision of services. In other words, supply is taxable event which own its occurrence creates or attracts the liability to pay tax.
- Under GST, tax in levied only the value added at each stage of the supply chain.
- GST is a destination-based consumption tax, i.e. the tax is levied at the place where the goods or services are consumed, rather than the place where they are produced.
- There is no **tax on tax** or cascading of taxes under GST system.
- Under GST, there is a harmonization of laws, procedures and rates of tax across the country.

1.11.3 Types of Taxes under GST

Before going through the types of taxes under GST, it is important to understand the concept of intra-State supply and inter-State supply under GST which determines the type of tax to be charged by the supplier.

The Concept of intra-state supply and inter-state supply depends upon on the location of the supplier and place of supply (place of supply is the place where goods/services are consumed.

As a general rule, where the location of the supplier and the place of supply of goods or services are in the same State/Union territory, it is treated as **intra-State supply** of goods or services respectively.

Similarly, where the location of the supplier and the place of supply of goods or services are in (i) two different States or (ii) two different Union Territories or (iii) a State and a Union territory, it is treated as **inter-State supply** of goods or services respectively.

GST has a dual aspect with the Centre and States simultaneously levying on a common tax base. There are three main components of GST which are:

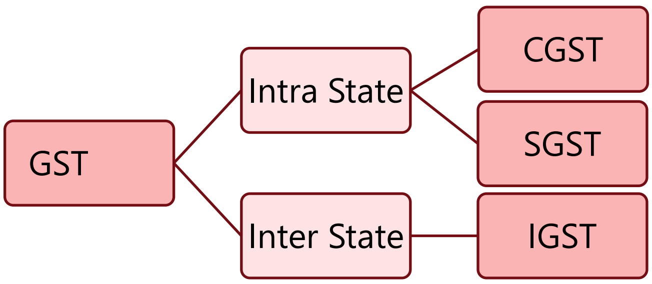
(i) **Central Goods and Service Tax (CGST)** is levied and collected by the Centre on the **"Intra -State"** supply of goods and services.

(ii) **State Goods and Services Tax (SGST)** is levied and collected by the State Governments (including Union Territories with legislature, for example Delhi, Pondicherry, Jammu and Kashmir) on "**Intra state"** supply of goods and services

(iii) **Union Territory Goods and Service Tax (UTGST)** is levied and collected by Union Territories without Legislatures [i.e. Andaman and Nicobar Islands, Lakshadweep, Ladakh, Dadra and Nagar Haveli & Daman and Diu and Chandigarh] on "intra-state" supply of goods and services.

(iv) **Integrated Goods and services tax (IGST):** It is the GST levied on the "**inter state**" supply of goods and services and is collected by the Centre. IGST is equivalent to the sum total of CGST and SGST.

GST is a "Consumption Based Tax" i.e. the tax is received by the State in which the goods or services are consumed and not by the state in which the goods and services are manufactured.



1.11.4 Input and Output GST

The tax paid by the recipient on procurement of goods /services is called **Input tax**. An entity at each stage is permitted to avail credit of GST paid on the purchase of goods and /or availment of services and can set off this credit against the GST payable on the goods and/or services supplied by him. Thus, the final consumer bears the GST charged in the supply chain, with set-off benefits at all the previous stages. Hence, the tax will be levied only on the value added, which results in avoiding double taxation. For example, if tax payable by a manufacturer on the output, i.e. final product is ₹750 and he has already paid tax on ₹500 on input, i.e. purchases, then he can claim 'Input Credit' of ₹500 and he needs to deposit only ₹250 in cash.

Output tax means the GST charged on supply of goods or services made by a supplier.

Input tax means the credit of Input tax already paid.

Utilisation of Input Tax Credit under GST

Tax credit of CGST, SGST and IGST can be utilized in the following manner:

- Utilization of IGST Credit: IGST credit has to be first utilized against IGST liability and if any balance is still available, the same can be utilized against CGST or/and SGST in any order and in any proportion.
- Utilization of CGST Credit: CGST credit has to be first utilized against CGST liability and if any balance is available, same can be utilized against IGST. However, CGST credit cannot be utilized against SGST.
- Utilization of SGST Credit: SGST credit has to be first utilized against SGST liability and if any balance is available, same can be utilized against IGST. However, SGST credit cannot be utilized against CGST.

	Input GST (credit can be availed, hence asset)	**Output GST (charged to the consumer, payable by the supplier, hence liability)**
Nature	At the time of purchases of goods (including fixed assets) or services, input GST A/c (CGST and SGST or IGST) is debited.	At the time of sale of goods/assets or supply of services, Output GST A/c (CGST and SGST or IGST) is credited.
Intra-state transaction	CGST paid is debited to “Input CGST Account” and SGST paid is debited to Input SGST”.	CGST charged is credited to “Output CGST Account” and SGST charged is credited to “Output SGST Account ”
Inter-state transaction	IGST paid is debited to “Input IGST Account”.	IGST charged is credited to “Output IGST Account”
Reversal of GST	Input GST paid at the time of purchase are reversed in the following situations: (i) Purchases Return (ii) Drawings (iii) Goods distributed as free samples (iv) Goods distributed as gift (if the same does not qualify as “supply under GST”).	Output GST charged is reversed when the goods are returned by the purchaser.

	(v) Goods lost in fire or theft. (vi) Input tax credit of supplies which are not allowed to be availed by recipient.	
Utilization of Input tax credit	Input GST A/c is credited when tax is paid by utilizing input tax.	

Double entry book-keeping with GST

The Double entry book-keeping records need to show the GST values separately so that the purchases, expenses and sales are posted net i.e. without the addition of GST.

Journal entry in case of Sales of Goods or services

Account Receivable/Debtors A/c	Dr.	Gross Amount (including GST)	
To Sales A/c			Net Amount (excluding GST)
To Output GST			Amount of GST

Journal entry in case of Purchase of Goods or services

Purchases A/c	Dr.	Net Amount (excluding GST)	
Input GST A/c	Dr.	Amount of GST	
To Account Payable/Creditors			Gross Amount (including GST)

Journal entry in case of Utilization of Input Tax Credit towards payment of Output Tax

Output CGST A/c	Dr.	Amount of GST liability	
Output SGST A/c	Dr.	Amount of GST liability	
Output IGST A/c	Dr.	Amount of GST liability	
To Input CGST A/c			Amount of output GST liability paid utilizing Input CGST
To Input SGST A/c			Amount of output GST liability paid utilizing Input SGST
To Input IGST A/c			Amount of output GST liability paid utilizing Input IGST

ILLUSTRATION 8

Journalise the following transactions in the books of Mr. Rohit:

(i) *Purchased goods from Sahil for ₹ 50,000 plus CGST and SGST @ 9% each.*

(ii) *Purchased goods from Sam for ₹ 40,000 at a trade discount of 10% plus CGST and SGST @ 9% each. ₹ 20,000 was paid immediately and balance payable after 3 months.*

(iii) *Goods costing ₹ 20,000 withdrawn for personal use. Such goods were purchased by paying CGST and SGST @ 9% each.*

(iv) *Paid rent to Gagandeep for ₹ 30,000 plus CGST and SGST @ 6% each.*

(v) *Goods costing ₹ 5,000 (before trade discount of 10%) returned to Sam. Such goods were purchased by paying CGST and SGST @ 9% each.*

(vi) *Purchased furniture for ₹ 44,800 including IGST @ 12%.*

(vii) *Purchased machinery from M/s Symphony industries for ₹ 1,40,000 plus CGST and SGST @ 9% each. Paid ₹ 1,00,000 immediately and balance to be paid after two months.*

SOLUTION

In the books of Mr. Rohit

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
(i)	Purchases A/c	Dr.		50,000	
	Input CGST A/c (50,000 x 9%)	Dr.		4,500	
	Input SGST A/c (50,000 x 9%)	Dr.		4,500	
	To Sahil's A/c				59,000
	(Being goods purchased from Sahil, CGST and SGST paid @ 9% each)				
(ii)	Purchases A/c (40,000 x 90%)	Dr.		36,000	
	Input CGST A/c (36,000 x 9%)	Dr.		3,240	
	Input SGST A/c (36,000 x 9%)	Dr.		3,240	
	To Sam's A/c				22,480
	To Bank A/c				20,000
	(Being goods purchased from Sam, CGST and SGST payable @ 9% each)				
(iii)	Drawings A/c*	Dr.		23,600	
	To Purchase A/c				20,000

	To Input CGST A/c (20,000 x 9%)			1,800
	To Input SGST A/c (20,000 x 9%)			1,800
	(Being goods withdrawn for personal use and input GST and input SGST debited at the time of purchase reversed)			
(iv)	Rent A/c Dr.		30,000	
	Input CGST A/c (30,000 x 6%) Dr.		1,800	
	Input SGST A/c (30,000 x 6%) Dr.		1,800	
	To Gagandeep A/c			33,600
	(Being rent paid to Gagandeep)			
(v)	Sam's A/c Dr.		5,310	
	To Purchases Return A/c **			4,500
	(5,000 – 10% trade Discount)			
	To Input CGST A/c (4,500 x 9%)			405
	To Input SGST A/c (4,500 x 9%)			405
	(Being goods returned to Sam and input IGST debited at the time of purchases reversed)			
(vi)	Furniture A/c (WN 1) Dr.		40,000	
	Input IGST A/c Dr.		4,800	
	To Bank A/c			44,800
	(Being furniture purchased paid IGST @ 12%)			
(vii)	Machinery A/c Dr.		1,40,000	
	Input CGST A/c (1,40,000 x 9%) Dr.		12,600	
	Input SGST A/c (1,40,000 x 9%) Dr.		12,600	
	To Bank A/c			1,00,000
	To Symphony Industries			65,200
	(Being machinery purchased and paid ₹ 1,00,000 immediately, CGST and SGST @ 9% each)			

* The input tax availed earlier is reversed, because these goods are 'consumed' by Mr. Rohit himself. Since he cannot 'sell' goods to himself and charged output tax, the input tax thereon is reversed, since in this case Mr. Rohit himself is the ultimate consumer of those goods.

** Since goods are returned to the supplier, the input tax credit availed earlier on those goods is to be reversed, since these goods are no longer available to be sold.

Working Note.

1. Furniture purchased is including IGST @ 12%. So, value of furniture excluding IGST = ₹ 44,800 × 100/112 = ₹ 40,000. IGST = ₹ 40,000 × 12% = ₹ 4,800.

ILLUSTRATION 9

Journalise the following transactions in the books of Ms. Nidhi traders

July, 2022

3 Sold Goods for ₹ 50,000, charged CGST and SGST @ 6% each.

4 Sold goods to Surjeet for ₹ 28,000 including CGST and SGST @ 6% each.

5 Received ₹ 25,200 from Surjeet in full settlement of his account of ₹ 28,000.

6 Sold goods to Kapil for ₹ 30,000 charged IGST @ 12%. Received ₹ 12,000 immediately and balance to be received after one month.

10 Kapil was allowed rebate of ₹ 5,000 as goods supplied to him were defective. These goods were sold by charging IGST @ 12%.

12 Sold goods to Manpreet for ₹ 1,00,000 at trade discount of 20% and charged IGST @ 12%

13 Goods of list price ₹ 20,000 returned by Manpreet.

17 Received commission of ₹ 15,000, charged CGST and SGST @ 6% each.

SOLUTION

In the Books of Ms. Nidhi
Journal

Date July, 2022	Particulars	L.F.	Dr. (₹)	Cr. (₹)
3	Bank A/c Dr.		56,000	
	To Sales A/c			50,000
	To Output CGST A/c			3,000
	To Output SGST A/c			3,000
	(Being goods sold for cash, charged CGST and SGST @ 6% each)			
4	Surjeet's A/c Dr.		28,000	
	To Sales A/c			25,000

	To Output CGST A/c To Output SGST A/c (Being goods sold to Surjeet, charged CGST and SGST @ 6% each)(refer W.N.)			1,500 1,500
5	Bank A/c Dr. Discount Allowed A/c Dr. To Surjeet A/c (Being amount received from Surjeet in full settlement of ₹ 28,000 after allowing him discount of ₹ 2,800)		25,200 2,800	 28,000
6	Bank A/c Dr. Kapil's A/c Dr. To Sales A/c To Output IGST A/c (Being goods sold to Kapil, charged IGST @ 12% and received ₹ 12,000 in cash and balance receivable after one month)		12,000 21,600	 30,000 3,600
10	Rebate A/c * Dr. Output IGST A/c Dr. To Kapil's A/c (Being rebate allowed on goods sold to Kapil, Output IGST charged at the time of sales, now reversed)		5,000 600	 5,600
12	Manpreet's A/c Dr. To Sales A/c (1,00,000 x 80%) To Output IGST A/c (80,000 x 12%) (Being goods sold to Manpreet at trade discount of 20% and charged IGST @ 12%)		89,600	 80,000 9,600
13	Sales Return A/c Dr. Output IGST A/c Dr. To Manpreet A/c (Being goods returned by Manpreet and Output IGST charged at the time of sales now reversed)		16,000 1,920	 17,920

17	Cash A/c Dr.		16,800	
	To Commission A/c			15,000
	To Output CGST A/c (15,000 x 6%)			900
	To Output SGST A/c (15,000 x 6%)			900
	(Being commission received charged CGST and SGST @ 6% each)			

*Since rebate is on account of defective goods which cannot be sold/utilized further by Kapil, the output GST charged thereon is also reversed. This treatment is like that of Sales Return. If rebate was on account of other reasons (such as prompt payment), Output IGST would not be reversed.

Working Note:

Goods sold to Surjeet is including CGST and SGST @ 6% each. So, sales excluding CGST and SGST = ₹ 28,000 × 100/112 = ₹ 25,000. CGST and SGST = ₹ 25,000 × 6% = ₹ 1,500 each.

ILLUSTRATION 10

Record the following transactions in a Journal, assuming CGST and SGST@ 6% each.

(i) Sold goods to Mukesh at the list price of ₹ 50,000 less 20% trade discount.

(ii) Sold goods to Mukesh at the list price of ₹ 1,00,000 less 20% trade discount and 5% cash discount.

(iii) Sold goods to Mukesh at the list price of ₹ 1,50,000 less 20% trade discount. Out of the amount due 60% is received out of which three-fourth is received by cheque.

SOLUTION

Journal

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
(i)	Mukesh A/c Dr.		44,800	
	To Sales A/c			40,000
	To Output CGST A/c			2,400
	To Output SGST A/c			2,400
	(Being goods sold to Mukesh at a trade discount of 20% charged CGST and SGST @ 6% each)			

(ii)	Discount Allowed A/c Dr.		4,000	
	Bank A/c		85,600	
	To Sales A/c			80,000
	To Output SGST A/c			4,800
	To Output SGST A/c			4,800
	(Being goods sold to Mukesh at a trade discount of 20% and 5% cash discount, charged CGST and SGST @ 6% each)*			
(iii)	Bank A/c Dr.		60,480	
	Cash A/c Dr.		20,160	
	Mukesh's A/c (refer W. N.) Dr.		53,760	
	To Sales A/c (1,50,000 x 80%)			1,20,000
	To Output CGST A/c (1,20,000 x 6%)			7,200
	To Output SGST A/c (1,20,000 x 6%)			7,200
	(Being goods sold to Mukesh at a trade discount of 20% and received 60%, charged CGST and SGST @ 6% each)			

*Note : After allowing cash discount of ₹ 4,000 (₹ 80,000 × 5%), the balance of ₹ 85,600 is received. Since discount is on account of prompt payment, output CGST and SGST is computed on value determine after deducting trade discount.

Working Note: After allowing trade discount of ₹ 30,000 on ₹ 1,50,000 = ₹ 1,20,000, 60% of the balance amount i.e. ₹ 1,34,400 (₹ 1,20,000 + 12% GST ₹ 14,400) is paid in cash and by cheque.

Hence, the amount paid in cash and cheque = ₹ 1,34,400 × 60% = ₹ 80,640.

Amount paid by cheque = ₹ 80,640 × 3/4 = ₹ 60,480

Amount paid in cash = ₹ 80,640 x ¼ = ₹ 20,160

Mukesh's A/c = (₹ 1,20,000 + ₹ 14,400 – ₹ 60,480 – ₹ 20,160) = ₹ 53,760

SUMMARY

- The accounting process starts with the recording of transactions in the form of journal entries.
- The recording is based on double entry system. This book or register called journal is the book of first or original entry.
- Next step is to post the entries in the ledger which is covered in the next unit.

TEST YOUR KNOWLEDGE

True and False

1. *In accounting equation approach, equity + Long-term liabilities = fixed asset + current assets – current liabilities.*
2. *In the traditional approach, for an entity a debtor will be receiver after sale of goods.*
3. *The rule of nominal account states that all expenses & losses are recorded on credit side.*
4. *Journal proper is also called a subsidiary book.*
5. *Capital account has a debit balance.*
6. *Purchase account is a nominal account.*
7. *All the personal & real account are recorded in P&L A/c.*
8. *Asset side of balance sheet contains all the personal & nominal accounts.*
9. *Capital account is a personal account.*
10. *Journal is also known as the book of original entry.*

Multiple Choice Question

1. *The rent paid to landlord is credited to*

   (a) *Landlord's account.*

   (b) *Rent account.*

   (c) *Cash account.*

2. *In case of a debt becoming bad, the amount should be credited to*

   (a) *Trade receivables account.*

(b) Bad debts account.

(c) Cash account.

3. *A Ltd. has a ₹ 35,000 account receivable from Mohan. On January, 22, Mohan makes a partial payment of ₹ 21,000 to A Ltd. The journal entry made on January, 22 by A Ltd. to record this transaction includes:*

   (a) A credit to the cash received account of ₹ 21,000.

   (b) A credit to the Accounts receivable account of ₹ 21,000.

   (c) A debit to the cash account of ₹ 14,000.

4. *Which financial statement represents the accounting equation -*

   Assets = Liabilities + Owner's equity:

   (a) Income Statement

   (b) Statement of Cash flows

   (c) Balance Sheet.

5. *Which account is the odd one out?*

   (a) Office furniture & Equipment.

   (b) Freehold land and Buildings.

   (c) Inventory of materials.

6. *The debts written off as bad, if recovered subsequently are*

   (a) Credited to Bad Debts Recovered Account

   (b) Credited to Trade Receivables Account.

   (c) Debited to Profit and Loss Account.

7. *In Double Entry System of Book-keeping every business transaction affects:*

   (a) Two accounts

   (b) Two sides of the same account.

   (c) The same account on two different dates.

8. *A sale of goods to Ram for cash should be debited to:*

   (a) Ram

   (b) Cash

   (c) Sales

Theory Questions

1. *Write short note on classification of accounts.*
2. *Distinguish between Real account and nominal account.*

Practical Questions

1. *Show the classification of the following Accounts under traditional and accounting equation approach:*

a	Rent outstanding	g	Capital
b	Closing Inventory	h	Sales Tax Payable
c	Sales	i	Trade receivables
d	Bank Fixed Deposit	j	Depreciation
e	Cash	k	Drawings
f	Bad Debts		

2. *Pass Journal Entries for the following transactions in the books of Gamma Bros.*

   (i) *Employees had taken inventory worth ₹ 1,00,000 (Cost price ₹ 75,000) on the eve of Deepawali and the same was deducted from their salaries in the subsequent month.*

   (ii) *Wages paid for erection of Machinery ₹ 18,000.*

   (iii) *Income tax liability of proprietor ₹ 17000 was paid out of petty cash.*

   (iv) *Purchase of goods from Naveen of the list price of ₹ 2,00,000. He allowed 10% trade discount, ₹ 5,000 cash discount was also allowed for quick payment.*

3. *Calculate the missing amount for the following.*

	Assets	**Liabilities**	**Capital**
(a)	15,00,000	2,50,000	?
(b)	?	1,50,000	75,000
(c)	14,50,000	?	13,75,000
(d)	57,00,000	- 2,80,000	?

4. *Show the effect of increase = (+), decrease = (-) and no change=(0) on the assets of the following transactions:*

   a. *Purchased office furniture, payment to be made next month.*

b. *Collected cash for repair services*

c. *Goods sold on credit.*

d. *Withdrawal of cash by the owner for personal use.*

e. *Hired an employee as sales manager of the north wing.*

f. *Returned goods worth ₹ 50,000.*

g. *One of our debtor agreed to pay his dues to Mr. C who is a creditor of the company with the same amount being due to him.*

h. *Entered into an agreement with Mehta & Co. to purchase all raw materials from their company from next year.*

Also give reasons for your answers.

5. *Following is the information provided by Mr. Gopi pertaining to year ended 31st March 2022. Find the unknowns, showing computation to support your answer:*

Particulars	**₹**	**Particulars**	**₹**
Machinery	*12,00,000*	*Trade Receivables*	*B*
Accounts Payable	*1,00,000*	*Loans*	*C*
Inventory	*60,000*	*Closing Capital*	*D*
Total Liabilities including capital	*14,15,000*	*Opening Capital*	*10,00,000*
Cash	*A*	*Loss incurred during the year*	*35,000*
Bank	*80,000*	*Capital Introduced during the year*	*1,00,000*

Additional Information: During the year sales of ₹ 15,55,000 was made of which ₹ 15,00,000 have been received.

5. *Pass journal entries for the following transactions in the books of Mr. Manish:*

(i) *Purchased goods from Sonu for ₹ 3,00,000 at a trade discount of 10% plus CGST and SGST@ 6% each.*

(ii) *Sold goods to Mohit for ₹ 1,00,000 and charged CGST and SGST @ 5% each. Out of the amount due 40% is received by cheque immediately.*

(iii) *Goods costing ₹ 25,000 withdrawn for personal use. Such Goods were purchased by paying CGST and SGST @ 6% each.*

(iv) Machinery purchased from M/s Bright Industries for ₹ 2,00,000 plus CGST and SGST @ 9% each. Paid ₹ 1,00,000 immediately by cheque and balance to be paid after two months.

ANSWERS/HINTS

True and False

1. True: As per the modern accounting equation approach- it is the basic formula in the accounting process

2. False: In the traditional approach, a debtor will be giver since he will be paying money for the sale of goods by the entity.

3. False: The rule of nominal account states that all expenses & losses are recorded on debit side.

4. True: It is one of the book where in the transactions not entered in the other books are entered in this book.

5. False: Capital account has a credit balance.

6. True: As it is considered as an expense.

7. False: All the personal & real account are recorded in balance sheet.

8. False: Asset side of balance sheet contains all the personal & real accounts.

9. True: As it is in the name of the proprietor who is bringing in the capital to the business.

10. True: As the transactions are entered first in this book as a first hand record.

Multiple Choice Questions

1.	(c)	**2.**	(a)	**3.**	(b)	**4.**	(c)	**5.**	(c)	**6.**	(a)
7.	(a)	**8.**	(b)								

Theoretical Questions

1. **a.** Accounts are broadly classified into assets, liabilities and capital. The basic accounting equation specifies broad categories, which are as follows:

(i) **Assets:** These are resources controlled by the enterprise as a result of past events and from which future economic benefits are expected to flow to the enterprise, namely cash, stock of goods, land, buildings, machinery etc.

(ii) **Liabilities:** These are financial obligations of an enterprise other than owner's equity namely long term loans, creditors, outstanding expenses etc.

(iii) **Capital:** It generally refer to the amounts invested in an enterprise by its owner(s), the accretion to it or a reduction in it. Since capital is affected by expenses and incomes of revenue nature, there are two more categories of accounts, namely expenses and incomes. The difference between incomes and expenses are taken into capital account.

- **Expenses:** These represents those accounts which show the amount spent or even lost in carrying on operations.
- **Incomes:** These represent those accounts which show the revenue amounts earned by the enterprise.

However, traditionally accounts are classified as follows:

(i) **Personal Accounts:** These accounts relate to persons, institutions, debtors or creditors.

(ii) **Impersonal Accounts:** These represent accounts which are not personal. These can be further sub-divided as follows:

- Real Accounts: These accounts relate to assets of the firm but not debt e.g. accounts relating to land, buildings, cash in hand etc.
- Nominal accounts: These accounts relate to expenses, losses, gains, revenues etc.

2. A real account is an account relating to properties and assets, other than personal accounts of the firm. Examples are land, buildings, machinery, cash, investments etc. Nominal accounts relate to expenses or losses, incomes and gains. Examples are: wages, salaries, rent, depreciation etc. The net result of all the nominal accounts is reflected as profit or loss which is transferred to the capital account. Nominal accounts are therefore, temporary. The real accounts are shown in the balance sheet along with personal accounts.

Practical Problems

1. **Nature of Account**

Sl. No.	Title of Account	Traditional Approach	Accounting Equation Approach
a	Rent Outstanding	Personal	Liability
b	Closing Inventory	Real	Asset
c	Sales	Nominal	Revenue
d	Bank Fixed Deposit	Personal	Asset
e	Cash	Real	Asset
f	Bad Debts	Nominal	Expense
g	Capital	Personal	Capital
h	Sales Tax Payable	Personal	Liability
i	Trade receivables	Personal	Asset
j	Depreciation	Nominal	Expense
k	Drawings	Personal	Capital -Drawings

2. **Journal Entries in the books of Gamma Bros.**

	Particulars		Dr. Amount ₹	Cr. Amount ₹
(i)	Salaries A/c	Dr.	75,000	
	To Purchase A/c			75,000
	(Being entry made for inventory taken by employees)			
(ii)	Machinery A/c	Dr.	18,000	
	To Bank A/c			18,000
	(Being wages paid for erection of machinery)			
(iii)	Drawings A/c	Dr.	17,000	
	To Petty Cash A/c			17,000
	(Being the income tax of proprietor paid out of business money)			

(iv)	Purchase A/c To Naveen A/c (Being goods purchased from Naveen)	Dr.	1,80,000	 1,80,000
	Naveen A/c To Bank To Discount Received A/c (Being amount paid for the goods purchased from Naveen for ₹ 2,00,000. 10% trade discount and cash discount of ₹ 5,000 allowed by him)	Dr.	1,80,000	 1,75,000 5,000

Note:

i. Here wages paid on erection of machinery have been capitalised therefore machinery account has been debited directly instead of wages being recorded as an expenditure.

ii. The students may also note that trade discount is allowed on the list price of goods. It is deducted to compute the invoice amount of the goods to be recorded in the books. Cash discount is a discount allowed in case of early payments to the seller. The entry is made in the books of accounts for cash discount.

3. (a) 12,50,000

(b) 2,25,000

(c) 75,000

(d) 59,80,000

These have been solved using the Accounting Equation:

Assets = Capital + Liabilities

4.

S. No.	Increase (+) / Decrease (-) / No Change (0) in Assets	Reasons
(a)	+	Furniture has been purchased making it an increase in assets and also it being purchased on credit it increases liability and there is no outflow of assets like cash or bank.
(b)	+	Cash has flowed in for services provided making it an increase in assets.

(c)	+	For goods sold, it is a decrease in inventory (assets) but correspondingly there is an increase in debtors. However, there will be a net increase in assets because goods sold on profit. Though if goods are sold at cost; it will result in no change whereas if sold at below cost; it will result in decrease in assets.
(d)	-	Here cash has been withdrawn from business resulting in decrease in assets and capital.
(e)	0	Only hiring of employee has been done resulting in no change in assets.
(f)	-	Outflow of goods has resulted in decrease in assets while money owed to creditors reduce on the liability side.
(g)	-	Both assets and liabilities reduced by same amounts meaning a decrease in assets.
(h)	0	Only a purchase agreement has been entered into with no transaction taking place yet.

5. Trade Receivable Balance (B) = Sales- Amount received during the year

= ₹ (15,55,000 – 15,00,000) = ₹ 55,000.

Since, we know Assets = Capital + Liabilities

Therefore, balance of assets is also ₹ 14,15,000

So, total assets:

Particulars	**₹**
Total Assets	14,15,000
Less: Machinery	(12,00,000)
Less: Inventory	(60,000)
Less: Bank	(80,000)
Less: Receivables	(55,000)
Cash (A)	20,000

Computation of Closing Capital (D):

Particulars	**₹**
Opening Capital	10,00,000
Add: Introduced during the year	1,00,000
Less: Loss incurred during the year	(35,000)
Closing Capital	10,65,000

So, Loan amount (C) = Total Liabilities and capital - Closing Capital - Trade Payables

= ₹ (14,15,000 - 10,65,000 - 1,00,000)= ₹ 2,50,000

5. **Journal entries in the books of Mr. Manish**

S No.	Particulars		L.F.	Amount Dr. (₹)	Amount Cr. (₹)
(i)	Purchases A/c	Dr.		2,70,000	
	Input CGST A/c	Dr.		16,200	
	Input SGST A/c	Dr.		16,200	
	To Sonu's A/c				3,02,400
	(Being goods purchased from Sonu, CGST and SGST payable @ 6% each)				
(ii)	Bank A/c	Dr.		44,000	
	Mohit's A/c	Dr.		66,000	
	To Sales A/c				1,00,000
	To Output CGST A/c				5,000
	To Output SGST A/c				5,000
	(Being goods sold to Mohit, charged CGST and SGST @ 5% each and received 40% in cash)				
(iii)	Drawings A/c	Dr.		28,000	
	To Purchase A/c				25,000
	To Input CGST A/c				1,500
	To Input SGST A/c				1,500
	(Being goods withdrawn for personal use and input CGST and input SGST debited at the time of purchase reversed)				
(iv)	Machinery A/c	Dr.		2,00,000	
	Input CGST A/c	Dr.		18,000	
	Input SGST A/c	Dr.		18,000	
	To Bank A/c				1,00,000
	To Bright Industries				1,36,000
	(Being machinery purchased and paid ₹ 1,00,000 immediately, CGST and SGST @ 9% each)				