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**Lecture – 24**
**2.7 Tutorial - Entering transactions in Journal I (Part I)**

Hi, I hope you are getting a hang of the process of journalizing the business transactions. In this video, we are going to look at another set of transactions and write Journal entries for them. Some of these transactions will help you recall your learnings from the previous videos, while others are new transactions to enable you to learn more about writing journal entries for some complex transactions. Let us get started.

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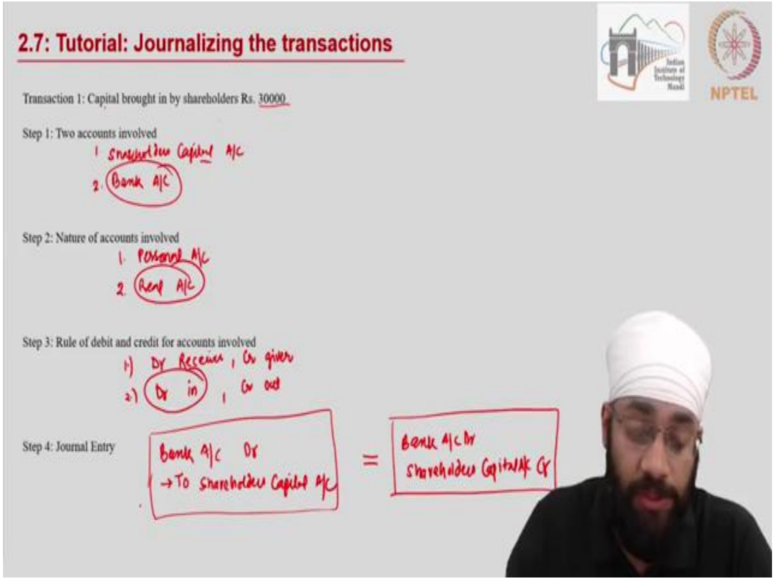


As usual, I have the same format on the slide. I am going to skip as many steps as possible, so that you also get an idea about how to write the journal entry directly. The first transaction on the screen is capital brought in by shareholders. This is nothing new, we have looked at similar transactions in the previous videos. So, I am quickly going to do this to get you into the groove and then we will do more of other types of transactions.

The first step is to identify the two accounts involved. The two accounts involved are shareholders' capital and bank account of the company as money is brought into it. So, these are the two accounts involved number 1 and 2. The first account shareholders capital is a personal account because it represents the liability that the business has towards the shareholders. So, it represents the shareholders. The second account bank account is a real account. The rule for the personal account is debit the receiver and credit the giver and the rule for the real account is debit what comes in and credit what goes out. Using these notes, the transactions should be written as follows. The bank is the real account that is coming in- bank balance is coming in. So, you write bank account debit; on the other hand, you have shareholders' capital. And now, in this video I am going to use the alternative nomenclature, the convention to write the credit account which is as follows: To shareholders' capital A/c. Now, it is the same as writing Bank A/c (Dr.) and Shareholders' Capital account (Cr.). It does not make a difference. However, as I said earlier, some textbooks use this format. Do not be worried about what is this 'To'. 'To'  is simply a convention. It represents the account which is being credited. So, there is no technical or scientific meaning to the use of word *To* and why this is staggered with some space, just a convention to distinguish between which account is debited and which account is credited. Let us go to the next transaction.

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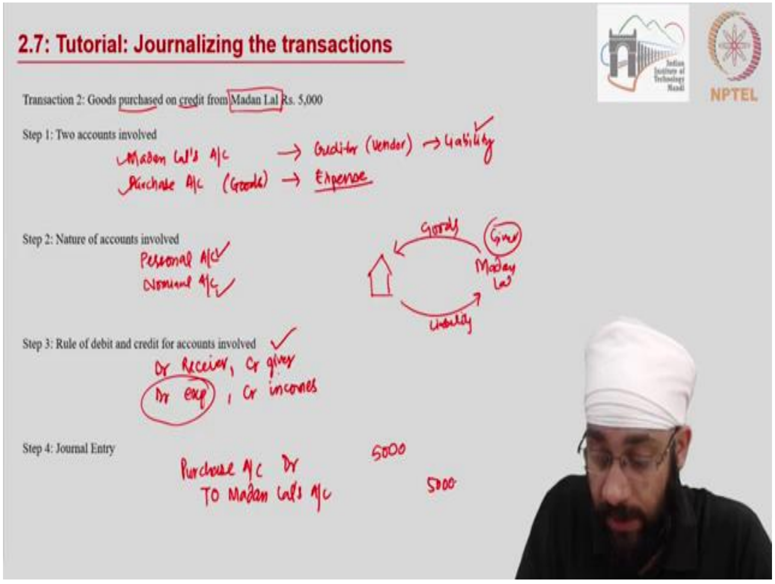


Goods purchased on credit; now as soon as we see a transaction in credit, we are interested in knowing the party with whom the transaction is being done. Madan Lal is the person with whom the transaction is being done. As it is on credit, no cash is being paid; Madan Lal's account is one of the accounts where you should record this transaction. The other is purchase of goods. So, this is a purchase account. Purchase account represents the goods that you purchase for resale purposes. The nature of accounts involved: Madan Lal is a personal account; it is an individual personal account, the purchase account is a nominal account because this is an expense. Let me clarify a little bit. Madan Lal is the creditor, he is the supplier, he is the vendor to the business. So, this is a liability. That is why I am calling it a personal account. The purchase of goods is an expense as discussed earlier and hence, the nominal account. So, for a personal account you have to debit the receiver and credit the giver. Nominal account you have debit all expenses and losses and credit all incomes and gains. So, you have a liability here which is a personal account; for personal account debit the receiver, credit the giver. In this case Madan Lal is the giver of the goods to the business. So, here is the business and here is, let us say, Mr. Madan Lal and he is supplying goods to the business and he is not getting the money back, he is getting a liability generated for the business. As he is the giver of the goods and we debit the receiver and credit the giver, therefore, I am going to write- To Madan Lal’s A/c. Here you go. And which account is to be debited? Now, the other account is purchase account which is nominal because it’s an expense; you debit all expenses and losses. So, you are going to write Purchase A/c (Dr.), To Madan Lal’s account; when you write *To,* you do not have to write credit- they replace each other. So, there you go you have Purchase A/c (Dr.), To Madan Lal’s A/c.

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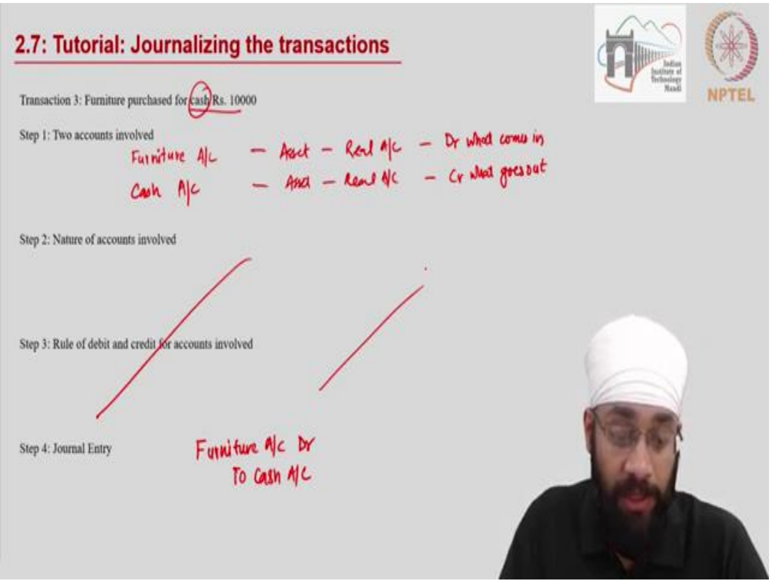


Next is furniture purchased for cash 10000. Two accounts involved. Furniture account clearly, is an asset and hence it is going to be a real account and the rule for real account is debit what comes in and furniture is coming into the business.

So, I am just going to write furniture account debit. You pay for it in cash and in this video, I am going to take the transactions at their face value: if it says cash I am going to use a cash account not bank account here. Cash, again, is an asset. It is a real account and cash is going out in exchange for furniture. So, credit what goes out, there you go- To Cash A/c. Done.

I am skipping these steps to make things a little bit faster. You need not spend so much time on writing every journal entry. You have to think carefully but you will get a hang of it. There are only about 30 to 40 types of transactions that you would get on a repeated basis. Once you know how to write a journal entry for capital brought in by shareholders, it is always going to be the same with slight changes like those in the name of the person bringing in the amount etc. but the process remains the same. So, it is only about getting to know around 30 – 40 types of journal entries and then you are done.

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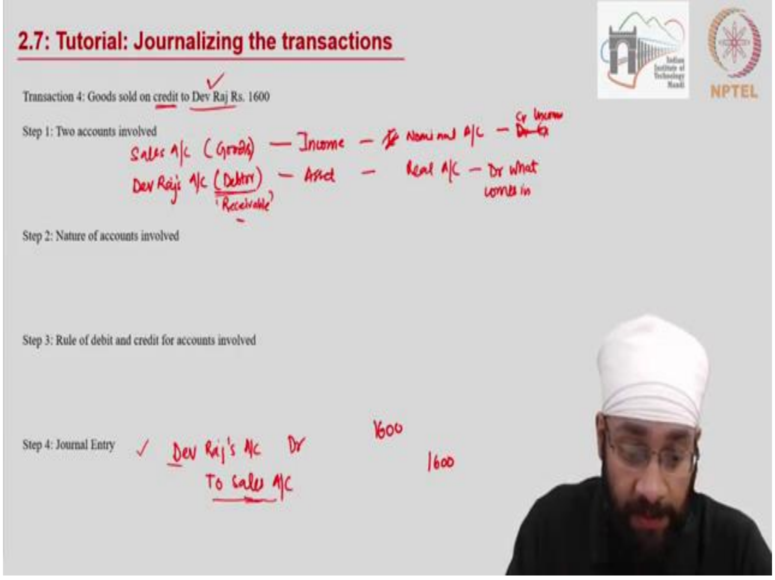


Let us take transaction 4: Goods sold on credit to Dev Raj. Goods are being sold, I am going to take a sales account here; sales account represents the goods and sales is an income and is a type of nominal account. You debit all expenses and you credit all incomes and gain. So, I will write credit all incomes. Goods are being sold on credit, there is no cash involved. Therefore, we are interested in knowing the person with whom the transaction is being done. The name of the person is Dev Raj. So, Dev Raj's account, he is our debtor. He is our customer to whom goods are being sold. We will recover this money from him. So, this new asset is called debtor. This is the  receivable as you would better understand it. This is an asset you will generate temporary capacity from it, the cash will come in within next one year. This is an asset, thus, a real account and this asset is increasing, the asset is coming into the business- you debit what comes in. So, you debit Dev Raj's account. Dev Raj's A/c (Dr.), To Sales A/c: transaction done.

I want to compare this transaction to the previous transaction no. 2. In transaction 2 you were purchasing goods on credit and in transaction 4, you are selling goods on credit. So, the journal entry in transaction 2 was Purchase A/c (Dr.), To Madan Lal's A/c. (Madan Lal is the name of the person from whom we were purchasing the goods) It was credited because it is a liability for us which means claims of business go down hence credit given to Madan Lal. So, a creditor is being created, a liability is being created. On the other hand, in transaction 4 goods are being sold to Dev Raj an asset is being created, receivable is being created. So, his name is being debited here. The other side of the transaction is you have a credit to the sales account. Contrast crediting the sales account to debiting the purchase account when goods are bought on credit; both are goods accounts. Purchase of goods is an expense and sale is an income: incomes are credited and expenses are debited. So, just trying to show you the contrast, it will start making sense as well. In effect, the transaction has reversed. When you purchase the goods versus when you sell the goods, the transaction is reversed. The name of the person or name of the customer is debit here, name of the vendor is credited in purchase transaction; sale is credited here purchase is debited there. I will keep showing you more such comparisons where it will make intuitive sense as to how journal entries are written and how they compare to each other. Let us look at another transaction.

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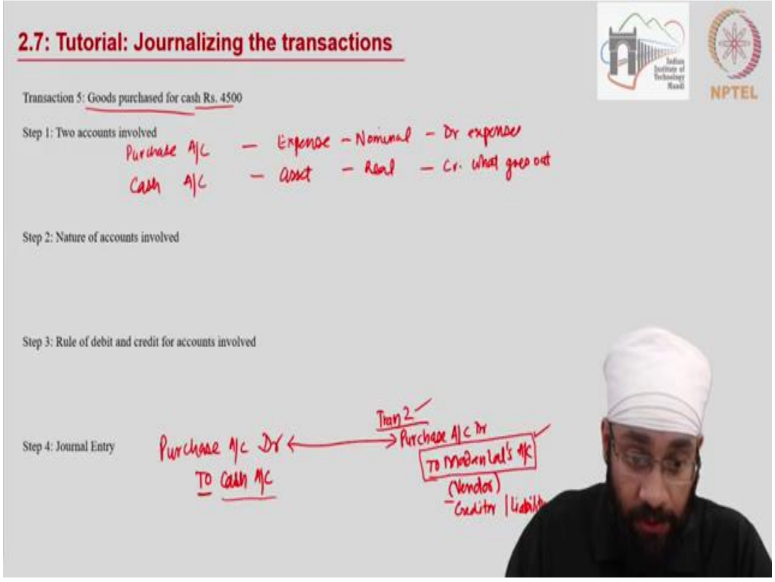


Now, goods purchased for cash: we will do this transaction and then we will look at goods sold on cash as well. So, purchase account is involved clearly, purchase account and cash account in this case. There is no vendor given and you may not be interested even if the vendor's name was given to you. You may not be interested in writing this transaction in the vendor's account because you do not have to pay him and if you do not have to pay him then no point writing it in his book, because writing in the vendor’s account means you have to pay him. Let us be clear about that. Again, purchase is an expense, it is a nominal account and we debit all expenses. So, I am going to write a purchase account debit. On the other hand, cash is an asset; assets are real account. Cash is being paid, it is going out of the business you debit what comes in and you credit what goes out. Therefore, Purchase A/c (Dr.), To cash account. I am using a different convention here and repeating that it does not matter whether you write To Cash A/c or Cash A/c (Cr.), both mean the same thing. Just to show you that this method exists, I am using it in this video.

Now, let me see if we had a cash sale transaction. Not yet, maybe the next transaction is going to be a sale transaction, but let me compare this to the credit purchase transaction which was transaction 2- goods purchased from Madan Lal; so, Purchase A/c (Dr.), To Madan Lal. Let me write it here transaction 2 Purchase A/c (Dr.), To Madan Lal A/c- he is your vendor just writing it here for clarity. Now, what is happening in the two transactions is as follows. Purchase is being done, so, both the debit accounts are the same across the two transactions transaction 2 and 5. In transaction 5, we are paying with cash for it, so are writing cash account credit. But, in transaction 2 you did not pay cash instead you have to pay cash in future. You create a liability and you have written the name of that liability. You owe this money to Madan Lal's account. Madan Lal, the vendor becomes your creditor, it is the liability. A liability is being created. When a liability is being created it means that the vendor has a claim on the business which is equal to businesses claims going down because an external party claims on business are going up. So, when a business' claim goes down it is shown by a credit. So, there you go Madan Lal is being given a credit in this transaction. We are just comparing transactions to help you make intuitive sense of how these transactions are being written.

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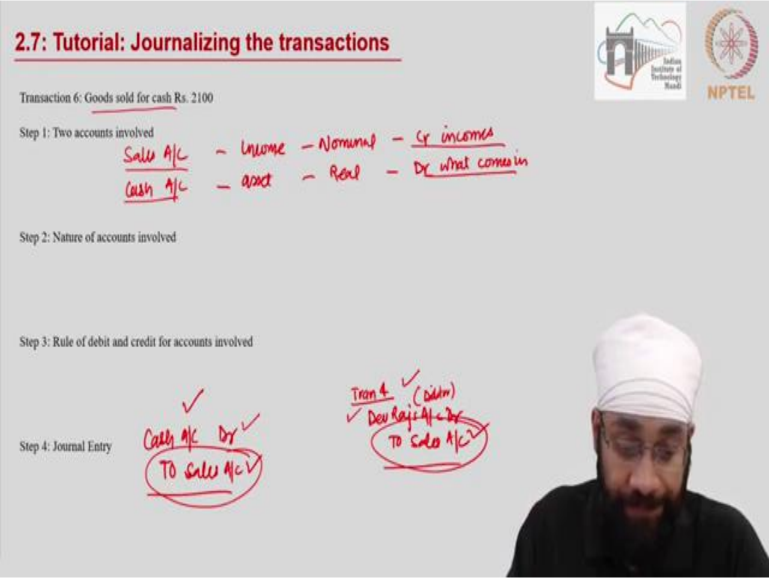


Let us go to transaction 6. Goods sold for cash. Now, we have a cash transaction. You have a sales account and you have a cash account. Again, it is cash, no vendor is involved. So, sales account being an income account is a nominal account and we credit all incomes and gains. Cash is an asset, it is a real account and you debit what comes in. Using this logic, the cash is coming in, so you debit the cash account and you are selling goods so credit sales account: Cash A/c (Dr.), To Sales A/c. There you go. That is a cash sale transaction.

Let me go back to the credit sale transaction. Transaction 4 where we had a credit sale with entry was Dev Raj A/c (Dr.), To Sales A/c. So, let me write transaction 4 here: Dev Raj A/c (Dr.), To Sales A/c. So, this is a cash transaction and this is a credit transaction. In both the transactions, the sale account is being credited because income is being made. Again, I am invoking the accrual principle. According to accrual principle, it does not matter whether you receive cash for a sale or not. If you have delivered the goods, you have earned that revenue and if you have earned that revenue you have to consider it, you have to show it as a revenue, that is what is happening in this transaction. You are writing an entry in the sales account when you write it there it means more sales, that is it. You have a notebook for sales related transactions. Anything you write in there tells anybody who reads the book that a sale has taken place. In this transaction, you receive cash; in this transaction you do not receive cash. Regardless you say sales account credit; credit means increase in the income, i.e., you have more income.In cash sales, the debit account is cash whereas in credit sales it is Dev Raj. Cash is an asset while Dev Raj is a debtor of the business. He is the customer of the business; he is also an asset that comes in. So, instead of cash another asset is being created which is Dev Raj's account which is debtors. So, that is a comparison between a cash sale and a credit sale.

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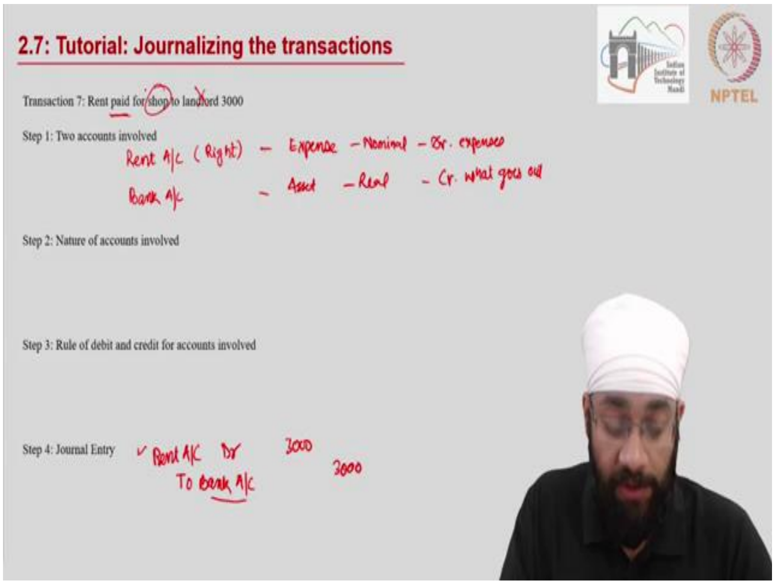


Let us look at another transaction. Rent paid for the shop to the landlord. It says paid already. So, I am not worried about the landlord's account; I am worried about the rent account because this rent account represents my right to use the building, this represents my claim. On the other hand, rent has been paid so, and it does not say cash. So, I am going to assume I paid it through the bank the business paid it through the bank account.

Now, rent is an expense, hence a nominal account and for nominal accounts we debit all expenses and losses. Bank account on the other hand is an asset which is a real account for which we debit what comes in and credit what goes out. So, I am going to debit the rent account and credit the bank account: Rent A/c (Dr.) 3000, To Bank A/c 3000. There you go. Bank account, bank balance goes out for you are paying with it and rent represents the increase in the claim of the business over the use of whatever shop or property that you have rented from the landlord.

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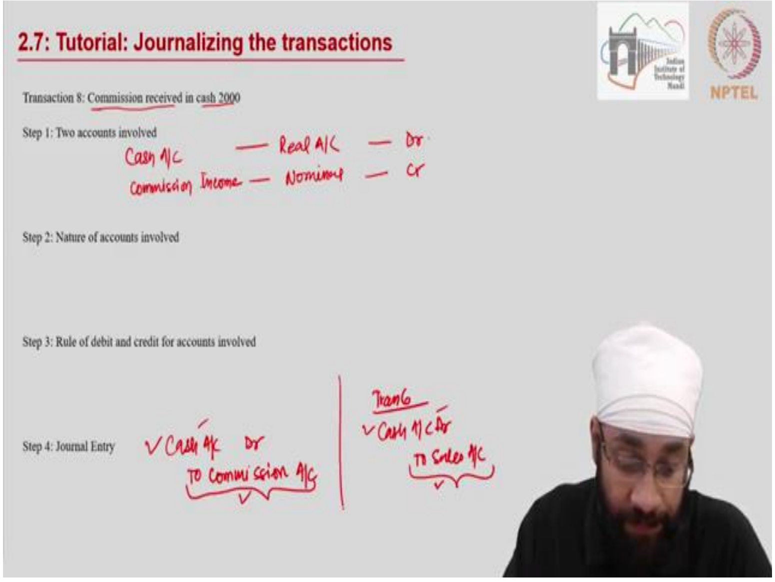


Let us look at another transaction. You receive commission in cash. So, I am going to write a cash account; cash account is involved as you receive a commission. Commission is a type of income and you are receiving it, it is your income. Now, if you are in a regular manufacturing business, possibly commission is a side business that you are running. So, it is a non-operating income, but depending upon the nature of the business it could also be primary income. For example, if your business is to sell insurance policies your primary way of earning the money is by way of commission that you get on each premium paid by the customer. So, depending upon the type of business you decide whether it is operating or non-operating. I am going to leave that judgment for now. Cash account is a real account because it is an asset; commission is an income therefore, it is a nominal account. Cash is coming in. So, you are going to debit it. All incomes are credit. Again, I skip some steps here to just show you how we move forward without going through the working notes. So, cash coming in- I am going to write Cash A/c (Dr.), To Commission A/c.

Now, I want to compare this transaction to a sales transaction – goods sold for cash here, the transaction was cash to sales. So, I am going to write Cash A/c (Dr.), To Sales A/c and the transaction number was 6. This is transaction 6. Both the transactions have a cash account in debit because in both the cases cash is coming into the business. In both the cases income is also being earned by the business. The only difference is the income is coming in by way of commission here and by way of sale of goods here. If we analyze more such transactions where cash is coming in, you will see that we always debit the cash because cash is coming in. So, whenever you see a transaction where cash is coming in without looking through all the rules it should naturally come to you that cash is coming in, a cash account is certainly debit. What is the reason for cash coming in? Well, the reason is there is an income. What is the name of the income? It is either commission on sale or interest on a deposit or you know any other income by way of which the cash can come into the business. That is how you would analyze these transactions.

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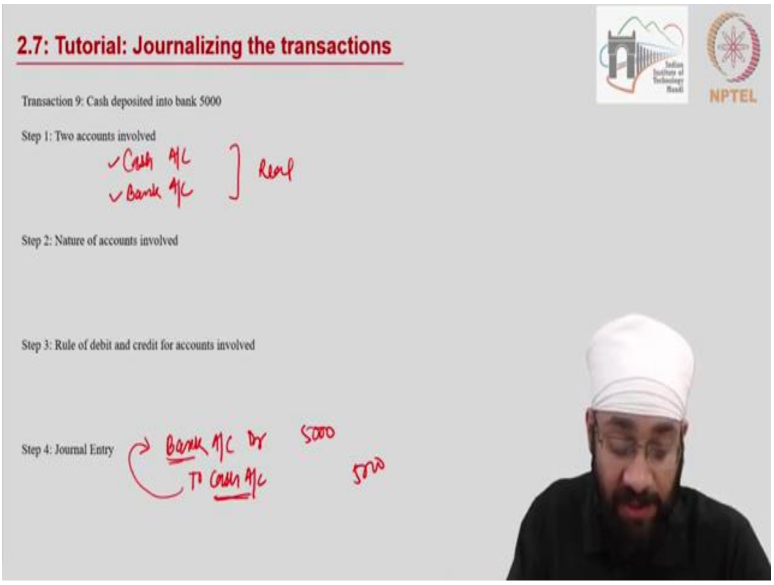


Let me look at the other transaction. Cash deposited into the bank. Now, a cash account is involved and a bank account is involved, both are real accounts because both are assets. So, what is coming in, what is going out? Well, you are depositing into the bank. So, the bank account goes up with a bank account debit and you are depositing cash. Your cash in hand will go down to the cash account that is it. This was pretty straightforward. All you are doing is converting one asset into another. This is going out; this is coming in; effectively cash remains in the business only.

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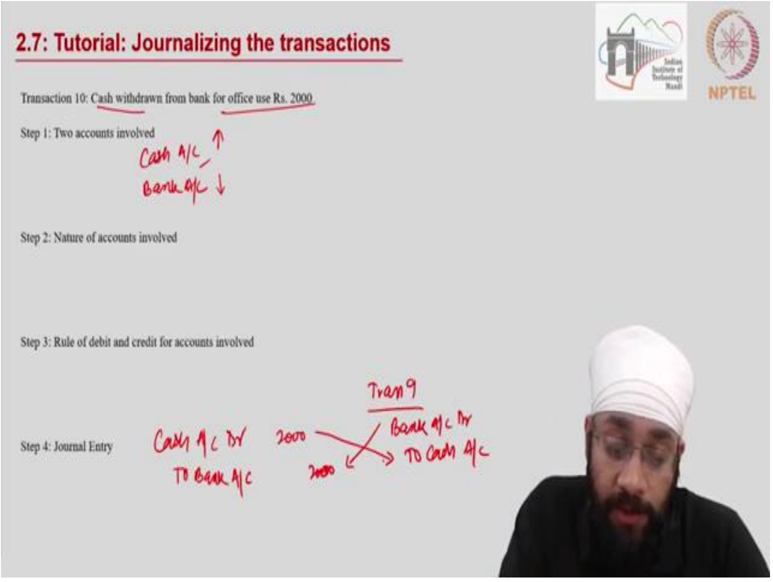


Let me look at one last transaction for this video. Cash withdrawn from bank for office use. Now, it is the opposite of the previous transaction. You have a cash account, you have a bank account. Instead in the previous transaction we deposited cash into the bank, now you are withdrawing cash from the bank. So, when you withdraw the cash, then cash is going up and bank account is going down, both are real accounts. What comes in is cash. So, I am going to write Cash account (Dr.) 2000, To Bank A/c 2000, because bank account is going down. Let me just quickly compare bank to cash in transaction 9. So, like transaction 9 bank account debit to cash account. So, it is just the opposite: when you deposit money, it is opposite to when you withdraw money. Again, it should start making some intuitive sense to you. Regardless, without going through the rules you should be able to now start writing the journal entries because it should start coming naturally to you. Let me stop here. There is a continuation of this video where we will go through another ten transactions of different nature and some complex transactions as well. So, I will see you in the next video.