

**Financial Accounting**  
**Dr. Puran Singh**  
**School of Humanities and Social Sciences**  
**Indian Institute of Technology, Mandi**

**Lecture – 29**  
**2.10 Practice Problem I**

I am sure now you are ready for some practice problems let us look at a few.

(Refer Slide Time: 00:21)

**Problem 1**

On April 1, 2015, Mayank and Rajat come together to start a business. Mayank bring in 8000 million <sup>① Capital</sup> cash while Rajat got 3000 million. On May 2, 2015, they open a bank account for business in State Bank and deposit 3000 million cash for various purposes. The plant starts functioning smoothly. On 31 <sup>② Bank deposit</sup> March 2016, they pay 100 million wages to shop floor workers for the whole year (in lump sum) in cash. On the same day, they need to pay 200 million salaries to other employees but only pay 110 <sup>③ wages</sup> million via state bank, remaining <sup>④ Salaries</sup> being overdue. The products are well received in market and they record revenue worth 1400 million on March 31, 2016 out of which they'll receive 400 million in <sup>⑤ Sale</sup> following year. They have a cheque only policy. Write journal entries.

The slide includes logos for Indian Institute of Technology Mandi and NPTEL. A video inset shows a man wearing a white turban and glasses.

So, this is a scenario business scenario where in a bunch of transactions have been given. You have to identify which of these transactions need to be recorded and how. There are some simple journal entries, there are some complex journal entries, there is a sequence; there is a chronology as well.

Let us read through to identify the key events and the journal entries which need to be written, and then actually write those journal entries. So, on April 1, 2015; we are also going to keep track of the time now. This is the beginning of the financial year. Mayank and Rajat, let us say 2 partners, start a business. Well, they start a business very good, but no journal entry, because right now there is no money that is exchanging hands. There is no monetary transaction which is happening, it is simply an event, a qualitative event. Two friends come together and they are starting a business. Mayank brought 8,000 million cash, while Rajat got 3,000 million cash. Now, this is a monetary transaction. This is the first transaction that we are going to record and this transaction is that the share capital is being brought in by these 2 partners into the business.

So, I have marked it as 1, because I want to keep track of which transactions I need to write in the journal. The next one is on 2nd May 2015, which is after roughly a month, they open a bank account for the business in the State Bank. They open a bank account fine, but there is no transaction. So, we are not going to record this. They deposit 3,000 million cash for various purposes. Now they are depositing cash, so I am going to write transaction number 2. This is a bank deposit. You deposit some money in the bank account and the remaining money is in the hand. The plant starts functioning smoothly now. Plant is functioning, but there is no monetary transaction being mentioned. So, ignore this line. On 31st March 2016, this is the end of the financial year, they pay 100 million wages. Another transaction of wages to the shop floor workers for the whole year in lump sum. Only for simplicity we have said lump sum: usually wages will be paid daily, weekly, monthly at the most and they are paying it in cash. On the same day, they need to pay 200 million salaries to other employees. So, point 4 you are paying salaries, but only pay 110 million via the bank account and remaining become overdue and I am going to club it in transaction 4 itself. Salaries have been paid and salaries are overdue. This is another transaction for me. I will write a complex journal entry for this. The products are well received and they record a revenue. They record a revenue means they have received the revenue. So, I am going to write transaction 5 for sales. On 31st March end of the financial year, out of which they receive 400 million in the following year. Not all the amount is received. I am again going to write a complex journal entry: some amount received in cash, the rest of the amount recoverable and an asset will be created. They have a cheque only policy, you have to write the journal entries for the transactions that you have identified. So, I am going to write 5 journal entries that I have identified, and some of these are going to be complex and I am going to use the chronology as well.

(Refer Slide Time: 04:17)

**Problem 1**

| Date            | Particulars  | Debit Amount<br>Rs (million) | Credit Amount<br>Rs (Million) |
|-----------------|--|------------------------------|-------------------------------|
| 2015<br>April 1 | Cash A/c Dr<br>To Rajat's Capital A/c<br>To Mayank's Capital A/c<br>(Being capital brought in by the shareholders) | 11000                        | 3000<br>8000                  |
| May 2           | SBI Bank A/c Dr<br>To Cash A/c<br>(Being cash deposited in the bank)   | 3000                         | 3000                          |
| 2016<br>Mar 31  | Wages A/c Dr<br>To Cash A/c<br>(Being wages paid to workers)   | 100                          | 100                           |
| Mar 31          | Salaries A/c Dr<br>To SBI Bank A/c<br>To Outstanding Salaries A/c<br>(Being salaries paid and outstanding)         | 200                          | 110<br>90                     |

Here is the format of the journal and I am going to write the date here. The date is 2015. Typically, we write the year at the top 2015, and then we write the month and date April 1st. On April 1st 2015, two partners started the business and they brought in capital to the business. The journal entry for that is you receive cash so you are going to say cash account is debit and the cash is being received because 2 people Rajat and Mayank are bringing in 8,000 and 3,000; so, I am going to write To Rajat's Capital A/c and I am going to write To Mayank's Capital A/c. Till now we have been writing shareholders' capital account. Now, we have the name of the shareholders. So, I am going to write the name of that shareholder. So, Rajat's share capital you could write share capital and Mayank's share capital account. And, since it says it is cash I am following that, but this is million- 3,000 millions is a large business and these people have filthy rich. So, Mayank brings in 8,000 billion and Rajat 3000, so 8,000 and 3,000 and amount is rupees and is in million rupees. So, the total cash that comes into business is 11,000 million. There you go you have written the first journal entry and you could write a small note here which is called narration which says *being capital brought in by the partners*. It does not say partners, let me say, shareholders. There you go and you can close it with a small line only restricted to the particular section. This is how you would see the book of journal. Let us move forward. The second transaction is on May 2nd, 2015 I am going to write May 2nd, 2015 is already written at the top. So, I am not going to repeat it.

The business is depositing 3,000 million into the bank account. So, a bank account is being opened and the bank account goes up by 3,000 million and the cash from hand is going into

the bank account, same amount. The explanation is *being cash deposited in the bank* and one detail that I missed is that it is SBI. You will say SBI bank account, it was written. So, you could have multiple bank accounts. You may want to keep track of that as well. You may have a SBI bank account, an ICICI bank account, or some other bank accounts. So, you write the specifics as much as possible. Transaction 2 is done.


Transaction 3 is wages- 31st March, 2016. Now, the year has ended, 2016 has begun and we are on March 31<sup>st</sup>. You are paying wages for the whole year in cash 100 million to be paid. So, I am going to pay wages. I will write wages account debit: it is an expense. Does it say cash or bank? It says cash. So, we are going to write cash, To Cash A/c. Again, very hypothetical millions of rupees in cash is not practical. But, just for illustration purposes, I am going to write *being wages paid to workers* and I am going to close this. Transaction 3 is done. You pay for the whole year, and on the same day you need to pay 200 million salaries to other employees, but you pay only 110 million via State Bank; remaining is overdue. So, salaries to be paid on the same day March 31<sup>st</sup>- Salaries A/c (Dr.), it is 110 and you pay some through SBI bank account. How much should you pay? You paid 110, you need to pay 200 salaries actually. So, you need to pay 200 and you pay 110 through the bank account, and what about the remaining? The remaining being overdue. Whenever you have overdue, you have to create an outstanding salaries account or any expense which is overdue, To Outstanding Salaries A/c 90 and you are going to write *being salaries paid and outstanding*. You could write in more detail as well, but I said I do not want to make an accountant, but you should know this is the process.

This is the back end of the balance sheet and income statement. You have to know how these things work for you to figure out where possible mistakes could be. So, salary is done, let us move on the products received and sale transaction 5 on 31st March.

(Refer Slide Time: 10:41)

**Problem 1**

| Date           | Particulars   | Debit Amount<br>₹s (millions) | Credit Amount<br>₹s (millions) |
|----------------|---|-------------------------------|--------------------------------|
| 2016<br>Mar 31 | SBI bank A/c Dr<br>Debtors A/c Dr<br>To Sales A/c<br>(Being sales recorded during the year) | 1000<br>400                   | (1400)                         |



On March 31st 2016, sale is taking place. For the sale we have some money that is coming here so products are well received. You record a revenue and you have a cheque policy for the customers. I did not follow the cheque policy for the rest of the staff because it was written cash there. So, let us assume this is only for customers. For customers, we follow a cheque policy. They have given you a cheque so bank account will be used here. 1,400 is the revenue and you receive 400 million in the following year which means 1,000 is what you receive right now. You are going to receive money in SBI bank account; SBI bank account 1,000 debit to sales account which is 1,400. 1,400 is the total sale; 400 will be received in the next year. Till the time you receive, you to recover it, they are your debtors. So, you are going to write debtors- I did not create sufficient space here. I will just edit this quickly. I will erase this and I will take a pen and I will say Debtors A/c (Dr.) 400, To Sales A/c 1,400, again amount is in rupees and millions. You can write a narration *being sales recorded during the year and some due* you could write more. Done, that is it. These are the 5 transactions that were supposed to be identified and written in the books of accounts.

I hope you have a stronger sense of how the journal entries, transactions from a story, from a paragraph from day-to-day operations of business, can be identified. How will you write them and how will the journal actually look? This is how the transactions are going to look in 3-4 steps. You don't display all of that, that is just for learning purposes. I will see you in the next practice problem.