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RAJASTHAN

JUNIOR ACCOUNTANT

Paper – II

Rajasthan Staff Selection Board, Jaipur

Volume – 1

Accounting & Business Methods

SIERRA INNOVATIONS

RAJASTHAN JR. ACCOUNTANT PAPER - 2

ACCOUNTING

Accounting has rightly been termed as the language of the business. The basic function of a language is to serve as a means of communication. With the help of accounting records, the business is able to ascertain the profit or loss and the financial position of the business at the end of a given period and communicate such information to all interested parties.
"Accounting is the art of recording, classifying and summarizing in a significant manner and in terms of money, transactions and events, which are, in part at least, of financial character and interpreting the results thereof"

Characterstics of accounting

1. **Recording of business transactions -** Accounting is Heart of recording business transactions according to some specified rules. In small scale business number of transactions is too less so all the transactions are firstly recorded in a book named "Journal". Where as in a large scale business where plumber of transactions is very large, it is difficult to record all the transactions in a single book 'Journal', therefore, the journal is further sub-divided into various parts as subsidiary books, e. g
   (1) Cash Book - For recording cash transactions,
   (2) Sales Book -For recording credit sales;
   (3) Sales Return Book - For recording of return of sold goods;
   (4) Purchases Book - For recording of credit purchases;
   (5) Purchases Return - For recording of return of purchased goods;
   (6) Bills Receivable Book -- For recording of B/R;
   (7) Bills Payable Book -- For recording of B/P;
   (8) Journal Proper - Transactions which are not recorded in above books are recorded in this book. It depends on the size of business that how many subsidiary books have to be maintained.
2. **Only financial transactions recorded -** Transactions and events which are of financial character are recorded in accounting. There are number of events and transactions in the business which are important for the business but which cannot be measured in money and hence these will not be recorded, e.g., new competitor in the market, death of an experienced senior manager, strike in the factory etc. These events affect Hess adversely but cannot be recorded because no one can measure the effects of these events in terms of money.
3. **Classification -** Classification is the process of ping the transactions of one nature at one place, in a separate account. Accounting is the art of classifying business transactions. All the accounts are opened in a book named "Ledger". Separate accounts are opened in the name of every individual, e.g. Ram's a/c, Girish's a/c, Rent a/c, Salaries a/c, Cash a/c, Bank a/c, Interest a/c, Sales a/c, Purchases a/c etc.

4. **Summarisation-** Summarising is the art of presenting the classified data in a manner which is understandable and useful to management and other users of such data. For example, various customers are grouped under a single item as "Sundry Debtors", and various suppliers are grouped under a single item as "Sundry Creditors". This involves balancing of ledger accounts, then preparing Trial Balance from these balances and later on preparation of final accounts from trial balance. Final accounts include Trading and Profit & Loss account and Balance Sheet. Trading account is prepared to ascertain the gross profit/loss of the firm whereas profit & loss account is prepared to ascertain the net profit/loss of the trim during the accounting year. Balance sheet is prepared to know the financial position of the business as on that date.
5. **Recording of transactions in terms of money -** Every transaction is recorded in terms of money to give meaningful information For example, if a businessman has a building, a car, a machinery, some furniture, stock of goods as 1000 tons, all these cannot be added or recorded until these are represented in terms of money such as Building Rs. 2,00,000; Car Rs 1,50,000, Machinery Rs. 1,00,000, Furniture Rs. 50,000, Stock of Goods 1000 Tons Rs. 10,00,000. Hence when above items are expressed in terms of money they can be easily recorded and they provided us useful information.
6. **Analysis and interpretation of the results -** Analysis and interpretation of data is also required which accounting provides us. What is profit or loss? and why? We can make comparative study and forecast for the future when we analyse the final accounts of any business. So analysis helps management to take decisions. The entire accounting process can be explanned under following flow charts.

Functions of Accounting

1. **Record Keeping Function**: The primary function of accounting relates to recording, classification and summary of financial transactions—journalisation, posting, and preparation of final statements. These facilitate to know operating results and financial positions.
2. **Managerial Function:** Decision making programme is greatly assisted by accounting. The managerial function and decision making programmes, without accounting, may mislead. The day-to-day operations are compared with some pre-determined standard. The variations of actual operations with pre-determined standards and their analysis is possible only with the help of accounting.
3. **Legal Requirement Function:** Auditing is compulsory in case of registered firms. Auditing is not possible without accounting. Thus accounting becomes compulsory to comply with legal requirements. Accounting is a base and with its help various returns, documents, statements etc., are prepared.
4. **Language of Business:** Accounting is the language of business. Various transactions are communicated through accounting. There are many parties—owners, creditors, government, employees etc., who are interested in knowing the results of the firm and this can be

communicated only through accounting. The accounting shows a real and true position of the firm or the business.

Objectives of Accounting

- **Maintenance of records of transactions-** Accounting is used for the maintenance of a systematic record of all financial transactions in book of accounts.
- **Calculation of Profit and Loss-** Another objective of accounting is to ascertain the profit earned or loss sustained by a business during an accounting period which can be easily worked out with help of record of incomes and expenses relating to the business by preparing a profit or loss account for the period.
- **Depiction of Financial Position-** Accounting also aims at ascertaining the financial position of the business concern in the form of its assets and liabilities (Balance sheet) at the end of every accounting period.
- **Providing Accounting information to its users-** The accounting information generated by the accounting process is communicated in the form of reports, statements, graphs and charts to the users who need it in different decision situations.

Classification of Accounting

1. **Financial Accounting** - assists in keeping a systematic record of financial transactions and the preparation and presentation of financial reports in order to arrive at a measure of organisational success and financial soundness. It relates to the past period, serves the stewardship function and is monetary in nature.
2. **Cost Accounting** - assists in analysing the expenditure for ascertaining the cost of various products manufactured or services rendered by the firm and fixation of prices thereof. It also helps in controlling the costs and providing necessary costing information to management for decision-making.
3. **Management Accounting** – it deals with the provision of necessary accounting information to people within the organisation to enable them in decision-making, planning and controlling business operations. It generates other information (quantitative and qualitative, financial and non-financial) which relates to the future and is relevant for decision-making in the organisation.

Accounting Equation

Accounting equation is based on dual aspect concept, according to which double entry is made for each transaction in debit and credit. The entire system of recording business transaction is based on accounting equation. It signifies that the assets of a business are always equal to total of Capital and liabilities.

Assets = Liabilities + Capital

Rules for Accounting Equations

1. **Capital**: When capital is increased, it is credited (+) and when some part of the capital is withdrawn, i.e., drawings are made, it is debited (-).
2. **Revenue**: Owner's equity (Capital) is increased by the amount of revenue.
3. **Expenses**: Owner's equity (Capital) is decreased by the amount of expenses.
4. **Outsider's Equity**: When liabilities are increased, outsiders' liabilities are credited (+).
5. **Assets**: If there is an increase in Assets, the increase is debited (+) in the Asset Account. If there is decrease in Assets, the decrease in credited (-) in the Asset Account.
6. **Effects of Outstanding Expenses**: Increase in liabilities and decrease in capital.
7. **Accrued Income**: Increase in asset and increase in capital.
8. **Income Received in Advance**: Increase in asset (as cash) and increase in liabilities.
9. Interest on Capital is an expense for the business, and thus, profit is reduced by the amount and since interest on capital is an income for the owner it is added to capital. So the net effect of this transaction is nil on capital.
10. Asset and Liabilities will not be affected by interest on capital and interest on drawings.

Generally Accepted Accounting Principles

Generally Accepted Accounting Principles (GAAP) refers to the rules or guidelines adopted for recording and reporting of business transactions, in order to bring uniformity in the preparation and the presentation of financial statements. These are constantly influenced by changes in the legal, social and economic environment as well as the needs of the users. Hence, they have evolved over a long period of time.

Kinds of accounting principle

1.concept

2.conventions

Accounting concepts -Accounting Concepts refer to the basic assumptions, rules and principles which work as the basis of recording of business transactions and preparing accounts

- **Business entity concept:** This concept assumes that the organisation/business has a separate entity from its owners. Therefore, in accounting, the business and its owners are treated as two separate entities. So, if the owner brings in some amount as capital into the business, it is treated as a liability of the business towards the owner because the business, having a separate identity, owes that amount to the owner. Important points to remember:
  1. Accounting records are made from the point of view of the business, not the owner.
  2. Personal assets and liabilities of the owner are not considered while recording the assets and liabilities of the business.
  3. Similarly, personal transactions of the owner are not recorded in the books of accounts of the business unless it involves inflow or outflow of business funds.

- **Money Measurement Concept:** This concept states that only those transactions which can be expressed in terms of money are to be recorded in the books of accounts. Therefore, non-monetary transactions or events like hiring a manager, creativity of an employee, capabilities of its human resources are not recorded in the books. Moreover, assets and liabilities should be expressed in monetary terms and NOT in terms of physical units. For example, if an organisation owns 30 PCs valued 15 lakhs, the monetary value of the PCs (15 lakhs) is recorded in the books.
- **Going concern concept:** This concept assumes that a business firm would continue to carry out its operations indefinitely i.e. for a long period of time and would not be liquidated in the foreseeable future. On the basis of this assumption, only part of an asset owned or purchased which has been consumed or used in that given time period is charged for that period from the revenue of the same period. (As it provides a more realistic picture of the revenue earned during that time period.)
- **Accounting Period:** Accounting period refers to the span of time at the end of which financial statements of an enterprise are prepared. The financial statements are prepared at a regular interval, normally after a period of one year, so that timely information is made available to the users. This interval of time is called accounting period.
- **Cost concept:** According to this concept, all assets recorded in the books should be recorded at their purchase price which should include cost of acquisition, transportation, installation and all costs incurred to make the asset ready for use. The concept of cost is historical in nature as it is something, which has been paid on the date of acquisition and does not change year after year. Limitation of this concept: It does not show the true worth of the business and may lead to hidden profits.
- **Dual aspect concept:** This concept is the basic principle of accounting. It states that every concept has dual or two-fold effect and therefore, should be recorded at two places. Hence, at least two accounts will be involved in one transaction. It can be expressed in by this accounting equation: Assets= Liabilities + Capital
  For example, suppose one of the owners brings in Rs. 50,000 as capital, it would result in an increase in the Cash/Bank balance of the organisation (which is an asset) and equal increase in the capital of the organisation. Another example: Suppose the organisation wants to pay Rs. 30,000 to its creditors, it would result in decrease in the Creditors (Liabilities) and equal decrease in the cash/bank balance of the organisation (asset).
- **Revenue Recognition concept:** The concept of revenue recognition requires that the revenue for a business transaction should be included in the accounting records only when it is realised. Revenue is assumed to be realised when a legal right to receive it arises, i.e. the point of time when goods have been sold or service has been rendered.
- Thus, credit sales are treated as revenue on the day sales are made and not when money is received from the buyer. As for the income such as rent, commission, interest, etc. these are recognised on a time basis. For example, rent for the month of March 2017, even if received

in April 2017, will be taken into the profit and loss account of the financial year ending March 31, 2017 and not into financial year beginning with April 2017. The purpose of this concept is to provide a realistic and accurate picture of the revenue generated and expenses incurred by the organisation irrespective of when the amount was paid/received.

- **Matching concept:** It states that expenses incurred in an accounting period should be matched with revenues during that period. It follows from this that the revenue and expenses incurred to earn these revenues must belong to the same accounting period. The matching concept, thus, implies that all revenues earned during an accounting year, whether received during that year, or not and all costs incurred, whether paid during the year, or not should be taken into account while ascertaining profit or loss for that year.
- **Objectivity Concept:** The concept of objectivity requires that accounting transactions should be recorded in an objective manner, free from the bias of accountants and others. This can be possible when each of the transactions is supported by verifiable documents or vouchers. For example, the transaction for the purchase of materials may be supported by the cash receipt for the money paid.
- Conventions- Accounting conventions refer to common practices which are universally followed in recording and presenting accounting information of the business entity. These are followed like customs, traditions etc. in a society.
- **Conventions of full disclosure:** The principle of full disclosure requires that all material and relevant facts concerning financial performance of an enterprise must be fully and completely disclosed in the financial statements and their accompanying footnotes. This is to enable the users to make correct assessment about the profitability and financial soundness of the enterprise and help them to make informed decisions.
- **convention of consistency -** Accounting policies and practices followed by enterprises should be uniform and consistent over the period of time for drawing conclusions and to make inter-firm and intra-firm comparisons accurate. Comparison between the financial results of two enterprises would be meaningful only if the same kind of accounting methods and policies are adopted in the preparation of financial statements.
- **Conventions of conservatism:** This convention is based on the principle that "Anticipate no profit, but provide for all possible losses". it states that a conscious approach should be adopted in ascertaining income so that profits of the enterprise are not overstated. If the profits ascertained are more than the actual, it may lead to distribution of dividend out of capital, which is not fair as it will lead to reduction in the capital of the enterprise. The concept of conservatism requires that profits should not be recorded until realised but all losses, even those which may have a remote possibility, are to be provided for in the books of account. To illustrate, valuing closing stock at cost or market value whichever is lower; creating provision for doubtful debts, discount on debtors; writing of intangible assets like goodwill, patents, etc. from the book of accounts are some of the examples of the application of the principle of conservatism.

- **Convention of materiality:** The concept of materiality requires that accounting should focus on material facts. Efforts should not be wasted in recording and presenting facts, which are immaterial in the determination of income. Any fact would be considered as material if it is reasonably believed that its knowledge would influence the decision of informed users of financial statements. For example, money spent on creation of additional capacity of a theatre would be a material fact as it is going to increase the future earning capacity of the enterprise.

JOURNAL AND LEDGER

In every business, there is a certain process of Accounting, which is called Accounting Cycle. The following activities are included in Accounting Cycle

1. Recording of financial transactions in primary books of accounts, e. g. Journal, Purchases Book, Sales Book, Cash Book etc.
2. Posting of transactions from primary books to Ledger.
3. Closing of accounts at the end of accounting period to know the economic results and status. Preparation of Trial Balance to know the correctness of ledger and preparation of Final Accounts (Trading, Profit & Loss Account and Balance Sheet)

This Accounting Cycle is based on Double Entry System.

Origin of Double Entry System

Double Entry System of Accounting was originated in Italy when Lucas Pacioli wrote a book entitled "De Compaset Scripturis" in 1494. Pacioli described the Double Entry System in this book Accounting is as old in India as money The Mahajani Bahi-Khata System has been prevalent in India since ancient time In 1949 Institute of Chartered Accountants of India established under complete autonomy lo evolve profession and qualified Accountants in India. In recent years computer accounting is adopted by many big and small companies

Double entry system

In double entry accounting, every transaction affects and is recorded in at least two accounts. When recording each transaction, the total amount debited must equal to the total amount credited. In accounting, the terms — debit and credit indicate whether the transactions are to be recorded on the left-hand side or right-hand side of the account. The left side is called debit (often abbreviated as Dr.) and the right side is known as credit (often abbreviated as Cr.).

Rules of Debit and Credit

All accounts are divided into five categories for the purposes of recording the transactions:
(a) Asset
(b) Liability
(c) Capital
(d) Expenses/Losses, and
(e) Revenues/Gains.

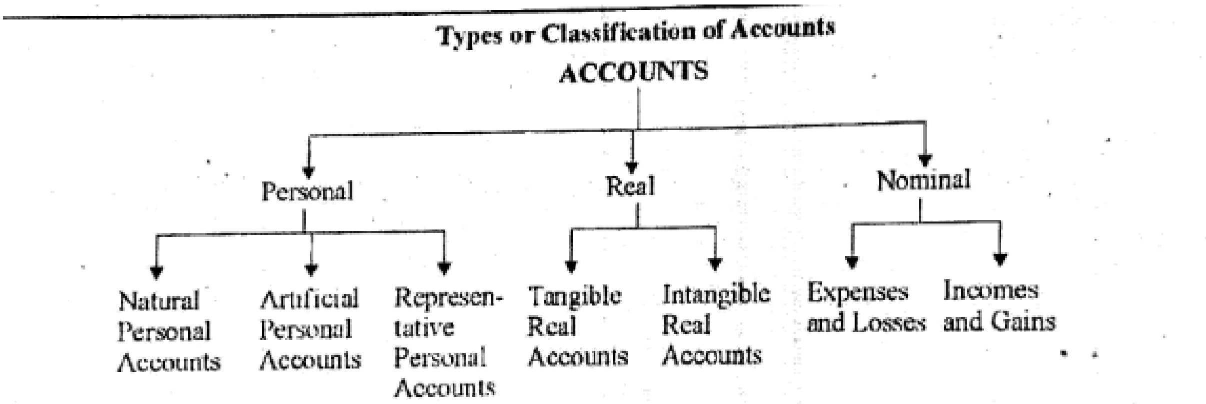
a) For recording changes in Assets/Expenses (Losses):
   (i) “Increase in asset is debited, and decrease in asset is credited.”
   (ii) “Increase in expenses/losses is debited, and decrease in expenses/losses is credited.”

b) For recording changes in Liabilities and Capital/Revenues (Gains):
   (i) “Increase in liabilities is credited and decrease in liabilities is debited.”

(ii) "Increase in capital is credited and decrease in capital is debited."

(iii) "Increase in revenue/gain is credited and decrease in revenue/gains debited."

Type of accounts



1. **Personal Accounts:** The accounts which relate to an individual, firm, company or an institution are called personal accounts. These can be classified into three categories –
   - **(a) Natural Personal Accounts:** Accounts of Natural Persons' means the accounts of human beings, e.g. Mohan's a/c, Sohan's a/c, Ravi's a/c, Sunidhi's a/c etc. Proprietor's Capital Account. Proprietor's Drawings a/c, Debtors a/c and Creditors a/c are also included in this category.
   - **(b) Artificial Personal Accounts:** These accounts do not have physical existence as human beings but they work as personal accounts, e.g. any firm's a/c, any limited company's a/c, any institution's a/c, any banks' a/c etc. These accounts also include the accounts of clubs, Insurance companies, and the accounts of Government Departments which are recognised as 'persons in the business dealings.
   - **(c) Representative Personal Accounts:** When an account represents a particular person or group of persons, it is termed as a representative personal account, e.g. Salary for the month of March not paid to the employees "Outstanding Salaries Account Prepaid Insurance a/c, Accrued Interest a/c, Unearned Commission a/c etc.
2. **Real Accounts:** The accounts of all those things which really exist and whose value can be measured in terms of money. Real accounts can be classified into following two categories:
   - (a) **Tangible Real Accounts**: The accounts of those thing which can be touched, felt, measured, purchased, sold etc. e.g. Cash a/c, Land a/c, Building a c etc.
   - (b) **Intangible Real Accounts** : Such things which cannot be touched but of course, their value can be measured in terms of money, e.g. Goodwill a/c, Patent a/c, Trade Mark a/c, Copyrights a/c etc.

4. **Nominal Accounts:** Examples of nominal a/c's are Salary paid, Rent paid, Discount allowed, Commission Derived. Interest received, Discount received etc. Nominal Accounts include accounts of all expenses, losses, incomes and gains.

Three golden rules of accounting is

- Personal accounts - Debit the receiver, credit the giver.

- Real accounts - Debit what comes in, credit what goes out.
- Nominal accounts -Debit all expenses and losses and credit all incomes and gains.

If for a single transaction, only one account is debited and one account is credited, it is known as **simple journal.**

If the transaction requires more than one account which is to be debited or more than one account is to be credited, it is known as **Compound Journal**

JOURNAL

Journal comes from an Old French word which meant daily (*jour* being the French word for day, as in *soup du jour*, or "soup of the day".A journal is often referred to as Book of Prime Entry or the book of original entry. In this book transactions are recorded in their chronological order. The process of recording transaction in a journal is called as 'Journalisation'. The transactions are recorded in the journal in the manner of their occurrence along with a suitable explanation, called '**Narration**' which supports the entry.The entry made in this book is called a 'journal entry'.

The book in which the transaction is recorded for the first time is called journal or book of original entry.

After the debits and credits for each transaction are entered in the journal, they are transferred to the individual Ledger accounts. The process of recording transactions in journal is called journalising. Once the journalising process is completed, the journal entry provides a complete and useful description of the event's effect on the organisation. The process of transferring journal entry to individual accounts is called posting.

This sequence causes the journal to be called the Book of Original Entry and the ledger account as the Principal Book of entry

Journal of Shri / M/s ……………………

Date (1)	Particulars (2)	L.F (3)	Dr. Amount (4)	Cr. Amount (5)

- In Journal, transactions are recorded in the chronological order, as and when they take place.
- The first column in a journal is Date on which the transaction took place.
- In the Particulars column, the account title to be debited is written on the first line beginning from the left-hand corner and the word 'Dr.' is written at the end of the column. The account title to be credited is written on the second line leaving sufficient margin on the left side with a prefix 'To'. Below the account titles, a brief description of the transaction is given which is called Narration. Having written the Narration a line is drawn in the Particulars column, which indicates the end of recording the specific journal entry.

- The column relating to Ledger Folio records the page number of the ledger book on which relevant account appears.
- The Debit amount column records the amount against the account to be debited and similarly the Credit Amount column records the amount against the account to be credited. the number of transactions is very large and these are recorded in number of pages in the journal book. Hence, at the end of each page of the journal book, the amount columns are totaled and carried forward (c/f) to the next page where such amounts are recorded as brought forward (b/f) balances.

Special Consideration

(1) If any transaction is related to sales or purchase and name of buyer or vendor is given but it is not mentioned that the transaction is for cash or on credit, it will be assumed that it is a credit transaction. If name of buyer or vendor is not given, only goods purchased or goods sold is given then it represents cash transaction.

(2) When name of person is given with receipts and payments of nominal accounts it will be treated as cash income and cash payment respectively and personal account will not be opened. For example, Rent paid to Ram Rs. 100. Rent Account will be debited and Cash Account will be credited. Ram's Account is not affected in this transaction.

(3) For investment by proprietor, Capital Account is credited and for withdrawal of goods or cash by proprietor for personal use Drawings Account is debited

(4) For purchases of goods Purchases Account, for sale of goods Sales Account, for goods returned to vendor Purchases Returns Account and for goods returned by customer Sales Returns Account is opened instead of Goods Account.

(5) Word 'a/c' is not added after personal accounts out word 'a/c can be used after using's, e.g. Ramesh's a/c .

Entries of some specific transactions

1. **Discount:** Reduction in sale price by businessman is called discount li is of two types –

   (i) Trade discount (ii) Cash discount

   (i) Trade Account: When certain per cent of sale price is reduced by businessman at the time of sale contract it is called trade discount. Invoice is prepared after deducting this discount from sale price. The object of trade discount is to increase sales No separate entry is passed for this discount, but entry of' sale is passed with net amount after deducting such trade discount

   (ii) Cash Discount: For prompt payment temptation is given to debtors through cash discount, it means if they pay within stipulated time they will be entitled to certain per cent of discount on the amount to be paid When businessman receives such discount from creditors it is a gain and when he allows such discount to his debtors it is a loss to business which is recorded in the books of accounts as discount received or discount allowed as the case may be. The following entry may be passed –

Cash a/c Dr.
Discount a/c Dr.
To Debtor's Personal a/c

This is also known as 'Discount allowed'.

When discount is received from creditors at the time of payment the following entry is passed –

Creditor's Personal a/c Dr.
To Cash a/c
To Discount a/c

This discount is also known as "Discount received".

2. **Bad Debts:** When a debtor becomes bankrupt the entire amount due from him is not realised, the unrealised amount is loss to business, the same is called Bad debts. Entry of bad debts is given below –

   Cash a/c Dr.
   Bad debts a/c Dr.
   To Debtor's Personal a/c

3. **Bad debts recovered:** Sometimes insolvent debtor whose account was earlier written off as 'Bad debts pays some cash which is gain to business. The entry of bad debts recovered will be –

   Cash a/c Dr.
   To Bad debts recovered a/c

4. **Banking transactions:** With the expansion of trade mostly businessmen keep accounts with bank and business transactions are carried out through bank Payment cheques received, withdrawal of cash from bank, deposited into bank withdrawal from bank, for personal use, interest credited or debited by bank, bank charges charged by bank are examples of bank transactions The following entry passed for different bank transactions-

   (i) When cash, cheque or draft is deposited into bank-

   Bank a/c Dr. To Cash a/c
   To Debtor's Personal a/c (draft or cheque received)

   (ii) Payment by cheque and withdrew from bank –

   Cash a/c Dr.
   Creditor's Personal a/c Dr. (cheque given to creditor)
   To bank a/c

   (iii) For amount withdrawn from bank for personal use-

   Drawings a/c Dr.
   To Bank a/c

   (iv) For interest credited by bank -

   Bank a/c Dr.

To Interest a/c

(v) For commission charged by bank –

Commission a/c Dr.

To Bank a/c

If cheque is received from debtor and not deposited into bank on the same day then cash account is debited assuming as cash receipt, while on the day cheque is sent to bank, Bank account is debited and cash account is credited

5. **Live Stock:** Purchases of animals like - horses. camels etc. are assets for business. The death of such animals is loss of asset to business which is charged to Profit & Loss Account.

Live Stock a/c Dr.

To Cash a/c

(Live Stock Purchased)

6. **Opening Entry:** The entry which is passed in the beginning of the year to bring the balances of assets accounts and liabilities accounts given in previous year's Balance Sheet into new year's book, is called opening entry. All the balances shown in asset column of Balance Sheet are debited and liabilities column are credited.

Q7. Enter the following Transactions in the Journal of Mudit: (6-8 marks)

2017		**Rs**
Jan.01	**Commenced business with cash**	**1,75,000**
Jan.01	**Building**	**1,00,000**
Jan.02	**Goods purchased for cash**	**75,000**
Jan.03	**Sold goods to Ramesh**	**30,000**
Jan.04	**Paid wages**	**500**
Jan.06	**Sold goods for cash**	**10,000**
Jan.10	**Paid for trade expenses**	**700**
Jan.12	**Cash received from Ramesh**	**29,500**
	Discount allowed	**500**
Jan.14	**Goods purchased for Sudhir**	**27,000**
Jan.18	**Cartage paid**	**1,000**
Jan.20	**Drew cash for personal use**	**5,000**
Jan.22	**Goods use for house hold**	**2,000**
Jan.25	**Cash paid to Sudhir**	**26,700**
	Discount allowed	**300**

Books of Mudit

Journal

Date	**Particulars**	**L.F.**	**Debit Amount Rs**	**Credit Amount Rs**
2017				

Jan.01	Building A/c	Dr.		1,00,000	
	Cash A/c	Dr.		1,75,000	
	To Capital A/c				2,75,000
	(Commenced business with cash and building)				
Jan.02	Purchases A/c	Dr.		75,000	
	To Cash A/c				75,000
	(Goods purchased for cash)				
Jan.03	Ramesh	Dr.		30,000	
	To Sales A/c				30,000
	(Goods sold to Ramesh)				
Jan.04	Wages A/c	Dr.		500	
	To Cash A/c				500
	(Wages paid in cash)				
Jan.06	Cash A/c	Dr.		10,000	
	To Sales A/c				10,000
	(Goods sold for cash)				
Jan.10	Trade Expenses A/c	Dr.		700	
	To Cash A/c				700
	(Trade expenses paid in cash)				
Jan.12	Cash A/c	Dr.		29,500	
	Discount Allowed A/c	Dr.		500	
	To Ramesh				30,000
	(Cash received from Ramesh and discount allowed to him)				
Jan.14	Purchases A/c	Dr.		27,000	
	To Sudhir				27,000
	(Goods purchased from Sudhir on credit)				
Jan.18	Cartage A/c	Dr.		1,000	
	To Cash A/c				1,000
	(Cartage paid in cash)				

Jan.20	Drawings A/c	Dr.		5,000	
	To Cash A/c				5,000
	(Cash drawn for personal use)				
Jan.22	Drawings A/c	Dr.		2,000	
	To Purchases A/c				2,000
	(Goods drawn from business for households use)				
Jan.25	Sudhir	Dr.		27,000	
	To Cash A/c				26,700
	To Discount Received A/c				300
	(Cash paid to Sudhir and discount received)				
	Total			4,83,200	4,83,200

Ledger

A ledger is the collection of all the accounts, debited or credited, in the journal proper and various special journal.

A ledger is very useful and is of utmost importance in the organisation. The net result of all transactions in respect of a particular account on a given date can be ascertained only from the ledger.

- Title of the account: The Name of the item is written at the top of the format as the title of the account. The title of the account ends with the suffix 'Account'.
- Dr./Cr.: Dr. means Debit side of the account that is left side and Cr. Means Credit side of the account, i.e. right side.
- Date: Year, Month and Date of transactions are posted in chronological order in this column.
- Particulars: Name of the item with reference to the original book of entry is written on debit/credit side of the account.
- Journal Folio: It records the page number of the original book of entry on which relevant transaction is recorded. This column is filled up at the time of posting.
- Amount: This column records the amount in numerical figure, corresponding to what has been entered in the amount column of the original book of entry.

Classification of Ledger Accounts

All accounts are further put into two groups, i.e. permanent accounts and temporary accounts. All permanent accounts are balanced and carried forward to the next accounting period. The temporary accounts are closed at the end of the accounting period by transferring them to the