



Financial Accounting 11 – Journal Entries II

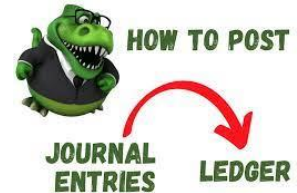
By

Dr. Sanjay Banerji

Founder Director/Dean of Amrita School of Business



Bala Sir welcomed the SHG members, and said, “We shall discuss the journal entries for each of the remaining transactions of APS for the month of October. We follow the standard practice of making the journal entries along with making appropriate entries in the corresponding T-Accounts.



We have already dealt with the first one, but we reproduce it for the sake of convenience:

Journal Entry

# Date	Description	Debit	Credit
1 Oct. 1, 2021	Promoters' contribution	Dr Cash	60,000
		Cr Shareholders' equity	60,000

T Accounts:

Cash	
Debit	Credit
60,000 (1)	

Shareholders' Equity	
Debit	Credit
	60,000 (1)

Please note that the number in bracket indicates the transaction number of the journal entry.

Now we take up the next transaction. For convenience, the facts are reproduced below:

Mr. Selvaraj, happily agreed, and prepared an initial estimate of Rs. 400,000 for the project. He said that they must put forth 15% of the total cost from their own resources, before any bank could extend them a loan for the remaining amount. That meant, they had to invest Rs. 60,000 in total, and they agreed to share this equally, everyone paying Rs. 6,000 towards the business. So, on October 1st, 2021, they contributed Rs. 6000 each, and opened an account with the local bank in the name of Arathi Provision Stores (APS). Selvaraj explained to them that they were the owners of APS, and each one of them owned 6000 shares each. The value of each share was Re. 1/= only. The bank agreed to extend a loan of Rs. 340,000 on October 5th at an annual interest rate of 12%.

“APS was now ready to start their store, and rented a shop on the roadside, and paid Rs. 12,000 in advance, as rental for one year on October 7th. They bought some essential items like storage shelves, weighing scales, a packing machine, a table and chair, a cash register, a tri-cycle for home delivery, etc. costing Rs. 120,000. They also purchased from the wholesale market, all groceries that they expected to sell over a month, at a total cost of Rs. 200,000. The wholesaler accepted a down payment of 50% of the amount, and agreed to extend a credit period of 30 days for the balance. For the sake of simplicity, we shall assume that by the end of the month, APS was able to sell merchandise worth 180,000 at a price of Rs. 240,000, but Rs. 40,000 was sold on credit, and they received cash of Rs. 200,000 for the sales.

“During the month, they paid an electricity bill for Rs. 1000. They had engaged a full-time assistant to help them in the stores on a monthly salary of Rs. 7500. Each member took turns in assisting the running of the store, like supervision and training,

pre-packing, home delivery, sorting and cleaning etc. They decided to charge the store a monthly remuneration of Rs. 2,500 each for this service. All the salaries, including those charged to themselves for their services were paid at the end of the month”.

Transaction 2: The bank agreed to extend a loan of Rs. 340,000 on October 5th at an annual interest rate of 12%.

Journal entry:

#	Date	Brief transaction description	Debit (Account name)	Amount	Credit (Account name)	Amount
	2 October 5, 2021	Bank loan taken	Dr. Cash	340,000	Cr. Bank loan	340,000

T Accounts

Cash	
Debit	Credit
60,000 (1)	
340,000 (2)	

Bank Loan	
Debit	Credit
	340,000 (2)

Transaction 3: APS paid Rs. 12,000 in advance, as rental for one year on October 7th.

Journal entry:

3 Oct. 7, 2021	Shop rental advance	Dr. Pre-paid rent	12,000
		Cr. Cash	12,000

T Accounts

Pre-paid rent	
Debit	Credit
12,000 (3)	

Cash	
Debit	Credit
60,000 (1)	
340,000 (2)	
	12,000 (3)

Transaction 4: APS bought furniture and fixture costing Rs. 120,000 on October 8th 2021.

Journal entry:

4 Oct. 8, 2021	Purchase furniture and fixture	Dr. Furniture and Fixture	120,000
		Cr. Cash	120,000

T Accounts

Cash	
Debit	Credit
60,000 (1)	
340,000 (2)	
	12,000 (3)
	120,000 (4)

Furniture and Fixture	
Debit	Credit
120,000 (4)	

Transaction 5: On October 9th, APS purchased groceries worth Rs. 200,000 with down payment of 50%, balance to be paid within 30 days for the balance.

Journal entry:

5 Oct 9 2021	Purchase of merchandise	Dr. Merchandise inventory	200,000
		Cr. Cash	100,000
		Cr. Accounts Payable	100,000

