

F) Purchased Furniture For Rs. 12,000 Giving Rs. 4,000 In Cash And Balance On Credit. Journal Entry

F) Purchased Furniture For Rs. 12,000 Giving Rs. 4,000 In Cash And Balance On Credit. Journal Entry is a fundamental transaction in accounting that involves recording the acquisition of furniture where part of the payment is made immediately in cash, and the remaining amount is financed through credit. Properly documenting such transactions ensures accurate financial records, compliance with accounting standards, and clear tracking of assets and liabilities. In this article, we will explore the details of this transaction, the journal entries involved, and related accounting concepts, providing a comprehensive guide for students, accountants, and business owners alike.

Understanding the Transaction

Nature of the Purchase

When a business purchases furniture worth Rs. 12,000, it involves acquiring a fixed asset that will be used over multiple accounting periods. The purchase can be made through various modes, including cash, credit, or a combination of both. In this case, the payment is split into Rs. 4,000 paid immediately in cash, and the remaining Rs. 8,000 financed on credit.

Implications for Financial Statements

This transaction affects multiple components of the financial statements:

- Assets: The furniture (a fixed asset) increases by Rs. 12,000.
- Liabilities: The credit payable (a liability) increases by Rs. 8,000.
- Cash: Cash decreases by Rs. 4,000.

Accounting Principles Involved

Accrual Basis of Accounting

Under the accrual basis, transactions are recorded when they occur, regardless of when cash is received or paid. Hence, the furniture purchase is recorded when the asset is acquired and the obligations are recognized.

Matching Principle

Expenses related to the furniture are matched with the periods in which the furniture is used, ensuring accurate profit calculation.

Historical Cost Principle

Assets are recorded at their cost price, Rs. 12,000 in this case, regardless of market value or other considerations.

Journal Entry for the Purchase of Furniture

Step-by-Step Recording

To correctly record this transaction, the accountant must identify the accounts involved:

- Furniture (Asset Account): Debited with Rs. 12,000.
- Cash (Asset Account): Credited with Rs. 4,000.
- Creditors / Accounts Payable (Liability Account): Credited with Rs. 8,000.

The Journal Entry

```plaintext

Date: [Transaction Date]

Furniture A/c Dr. Rs. 12,000

To Cash A/c Rs. 4,000

To Accounts Payable A/c Rs. 8,000

(Being furniture purchased for Rs. 12,000, paid Rs. 4,000 in cash and balance on credit)

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This entry reflects:

- The increase in furniture (asset) by Rs. 12,000.
- The decrease in cash by Rs. 4,000.
- The recognition of a liability (accounts payable) for Rs. 8,000.

Detailed Explanation of the Journal Entry

Debit Side

- Furniture A/c (Rs. 12,000): This debit increases the asset account, indicating the addition of furniture to the company's assets at its cost.

Credit Side

- Cash A/c (Rs. 4,000): This credit decreases cash assets, reflecting the

immediate cash outflow.

- Accounts Payable A/c (Rs. 8,000): This credit records the obligation to pay the remaining amount in the future, representing a liability.

Additional Considerations

Recording the Transaction in the Books

- The transaction should be recorded in the journal on the date of purchase.
- It should then be posted to the respective ledger accounts.
- Proper referencing and narration help in future audits and reviews.

Impact on Financial Ratios

- Liquidity Ratios: Cash decreases; current liabilities increase, affecting current ratio.
- Asset Turnover Ratios: Asset base increases, potentially improving asset utilization metrics.

Practical Examples and Variations

Example 1: Purchase with Full Cash Payment

If the entire Rs. 12,000 is paid in cash:

```plaintext

Furniture A/c Dr. Rs. 12,000

To Cash A/c Rs. 12,000

```

- No liability is created; the entire payment is immediate.

Example 2: Purchase on Credit Only

If Rs. 12,000 is purchased entirely on credit:

```plaintext

Furniture A/c Dr. Rs. 12,000

To Accounts Payable A/c Rs. 12,000

```

- Cash remains unaffected; liability increases.

Additional Journal Entries Related to the

Purchase

- Payment of the credit amount later:

```plaintext

Accounts Payable A/c Dr. Rs. 8,000

To Cash A/c Rs. 8,000

```

- This records the payment of the credit liability.

Conclusion

Accurately recording the purchase of furniture involving cash and credit is essential for maintaining transparent and reliable financial records. The journal entry discussed reflects the dual nature of the transaction—an increase in assets and liabilities balanced by a decrease in cash. Understanding such transactions helps in better financial analysis, decision-making, and compliance with accounting standards. Proper documentation and adherence to accounting principles ensure that the company's financial statements present a true and fair view of its financial position.

Summary Checklist for Recording Such Transactions

- Identify the asset acquired and its cost.
- Determine the mode of payment (cash, credit, or both).
- Record the increase in asset (debit Furniture A/c).
- Record the decrease in cash (credit Cash A/c) if paid immediately.
- Recognize the liability (credit Accounts Payable A/c) if paid on credit.
- Ensure proper narration and date on the journal entry.
- Post the entries to respective ledger accounts for clarity.

By following these steps and understanding the underlying principles, businesses can keep their books accurate and compliant, facilitating smoother audits and better financial management.

Frequently Asked Questions

What is the journal entry to record furniture purchased for Rs. 12,000, paid Rs. 4,000 in cash, and the remaining on credit?

The journal entry is: Debit Furniture Rs. 12,000; Credit Cash Rs. 4,000; Credit Accounts Payable Rs. 8,000.

How do you record the purchase of furniture worth Rs. 12,000 with partial cash payment in the journal?

Record by debiting Furniture Rs. 12,000, crediting Cash Rs. 4,000, and crediting Accounts Payable Rs. 8,000 for the balance on credit.

What accounts are affected when furniture is purchased for Rs. 12,000 with Rs. 4,000 paid in cash and the rest on credit?

The accounts affected are Furniture (debit), Cash (credit), and Accounts Payable (credit).

Is the journal entry different if the entire Rs. 12,000 furniture was paid in cash instead of credit?

Yes, if paid entirely in cash, the entry would be: Debit Furniture Rs. 12,000; Credit Cash Rs. 12,000, with no credit accounts involved.

Why is it important to record the credit portion separately in the journal entry for furniture purchase?

Recording the credit separately ensures accurate tracking of liabilities and reflects the company's obligation to pay the remaining amount later.

Can you provide a step-by-step explanation of the journal entry for this furniture purchase?

Certainly. First, debit Furniture Rs. 12,000 to record the asset increase. Then, credit Cash Rs. 4,000 to reflect the cash paid. Finally, credit Accounts Payable Rs. 8,000 to record the amount owed on credit.

Additional Resources

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In the realm of accounting, every financial transaction tells a story—one that reflects the operational health, strategic decisions, and financial positioning of a business. Among these transactions, the purchase of furniture stands out as a common fixture in most organizations, impacting both the balance sheet and the cash flow. When a business acquires furniture worth Rs. 12,000 by paying Rs. 4,000 in cash and settling the remaining amount on credit, it exemplifies a typical mixed payment transaction. Understanding how this transaction is recorded through a journal entry is fundamental for accurate bookkeeping and financial reporting.

This article delves into the nuances of such a purchase, exploring the journal entry involved, the underlying accounting principles, and the broader implications for a business's financial statements. Whether you're an accounting student, a small business owner, or an aspiring accountant, grasping this concept is essential for maintaining transparent and accurate records.

Understanding the Transaction: Purchase of Furniture

Before examining the journal entry, it's important to understand the nature of the transaction:

- **Asset Acquisition:** Furniture is classified as a fixed asset or non-current asset on the balance sheet, representing a long-term investment in the business.
- **Payment Terms:** The total cost is Rs. 12,000, with an immediate cash payment of Rs. 4,000 and the remaining Rs. 8,000 on credit.
- **Impact on Cash Flows:** Cash outflow occurs immediately for Rs. 4,000, while Rs. 8,000 payable on credit affects the liabilities.

This combination of cash and credit payments is common in business transactions as companies seek to manage cash flow efficiently while acquiring necessary assets.

The Accounting Principles at Play

The transaction adheres to several fundamental accounting principles:

- **Accrual Principle:** Expenses and assets are recognized when incurred or acquired, not necessarily when paid.
- **Matching Principle:** Expenses related to asset acquisition are matched with the periods benefiting from the asset.

- Conservatism: Recognizing liabilities when obligations are certain, even if not yet paid.
- Historical Cost Principle: Assets are recorded at their purchase price, including all costs necessary to bring the asset to its intended use.

Applying these principles, the purchase of furniture is recorded at Rs. 12,000, reflecting the true cost of acquisition.

Breaking Down the Journal Entry

The core of this article is understanding the journal entry that accurately records this transaction. The entry must:

- Recognize the increase in furniture (asset) by Rs. 12,000.
- Account for the cash paid immediately.
- Record the liability created due to the credit purchase.

The journal entry is as follows:

Date	Particulars	Dr. (Rs.)	Cr. (Rs.)
[Date of Transaction]	Furniture A/c	12,000	
	To Cash A/c	4,000	
	To Accounts Payable (or Creditors)		8,000

Explanation of Each Component

1. Furniture A/c (Debit Rs. 12,000):

This increases the furniture asset account, reflecting the acquisition of new furniture worth Rs. 12,000. Since furniture is an asset, it is debited to show an increase.

2. Cash A/c (Credit Rs. 4,000):

The cash account is credited because Rs. 4,000 has been paid immediately in cash, representing a decrease in cash resources.

3. Accounts Payable (or Creditors) A/c (Credit Rs. 8,000):

The remaining Rs. 8,000 payable on credit is recorded as a liability, acknowledging the obligation to pay the supplier in future periods.

Significance of the Journal Entry

This journal entry provides a clear, concise record of the transaction, ensuring:

- Accurate Asset Valuation: The furniture's cost is recorded at Rs. 12,000, aligning with the historical cost principle.
- Liability Recognition: The credit purchase increases accounts payable, reflecting the company's obligation.
- Cash Management Reflection: The immediate Rs. 4,000 cash payment is properly recorded, impacting cash flow statements.

This accurate recording is essential for preparing the balance sheet, profit and loss account, and cash flow statement, providing stakeholders with a truthful picture of the company's financial health.

Broader Implications for Financial Statements

1. Balance Sheet:

- Assets: Furniture increases by Rs. 12,000.
- Liabilities: Accounts payable increase by Rs. 8,000.
- Cash: Decreases by Rs. 4,000.

2. Income Statement:

- The purchase of furniture does not directly impact the income statement unless depreciation is considered over subsequent periods.

3. Cash Flow Statement:

- Shows an outflow of Rs. 4,000 under investing or operating activities, depending on the classification.

Additional Considerations

While the basic journal entry is straightforward, certain nuances can influence its recording:

- Tax Implications: If applicable, input tax credit or GST considerations might alter the journal entry.
- Depreciation: Over time, furniture depreciates. Future entries will account for depreciation expense.
- Vendor Terms: If there are discounts or credit terms, the amount payable may differ, affecting the journal entry.

Practical Tips for Accurate Recording

- Always verify the invoice or purchase receipt for the exact amount.
- Record the date accurately to reflect the transaction period.

- Ensure the correct accounts are used—asset accounts for furniture, liability accounts for credit.
- Maintain supporting documents for audit trails.

Conclusion

The purchase of furniture for Rs. 12,000, paid Rs. 4,000 in cash and the remaining on credit, is a classic example of a mixed payment transaction in accounting. The proper journal entry—debiting the furniture account and crediting cash and accounts payable—ensures that the financial records accurately reflect the company's assets, liabilities, and cash position. Understanding this process is vital for maintaining transparent financial statements, facilitating effective decision-making, and ensuring compliance with accounting standards.

Whether you're managing your own business or studying accounting principles, recognizing how to record such transactions precisely forms the backbone of sound financial management. As businesses continue to evolve, mastering these fundamental journal entries remains a cornerstone of professional accounting practice.

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