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**Manual Accounting - Module 10**

**Opening Entry in a Business**

When a business starts a new financial year, it must carry forward the balances of all assets and liabilities from the previous year to the new year. This is done through an opening entry, which is the first journal entry recorded in the new year's books of accounts.



**What is Opening Journal Entry?**

The opening journal entry is that journal entry which is recorded at the time of opening of the books of the current year to brought forward the balance of accounts of the previous years but only when, if the business has worked in the previous year(s). With the help of it, we can transfer all balance of the accounts of Assets, Liabilities and Capital of the previous year to the current year.

In other words, according to the **going concern principle of accounting**, the business has a long life means for so many numbers of financial years. So, that's why every accountant finalizes the accounting books of the business at the end of each financial year. These accounting books carry all final/closing balances of all accounts of Assets, Liabilities, and Capital.

In the next financial year, an accountant has to transfer this closing balance to the current year by posting a journal entry, this journal entry known as an Opening Journal Entry.

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**The opening entry includes:**

- **Assets:** All the assets owned by the business, such as cash, bank balances, inventory, machinery, buildings, etc.
- **Liabilities:** All the obligations or debts owed by the business, such as loans, creditors, and any other payable accounts.
- **Owner's Equity:** The owner's capital or equity at the start of the new financial year.

**Purpose of the Opening Entry:**

- **Continuity:** Ensures continuity in the accounting records by carrying forward the closing balances of the previous year.
- **Accurate Financial Position:** Reflects the true financial position of the business at the beginning of the new financial year.
- **Consistency:** Maintains consistency in accounting records, making it easier to compare financial data across different periods.

**Rules of Opening Journal Entry**

There will be two rules of the opening journal entry one is for debit and another is for credit. The rules guide us to debit or credit accounts. These are shown as follows: -

**Rules of Debit:**

Debit the closing balance of all Assets accounts because assets account always have a debit balance.

**Rules of Credit:**

Credit the closing balance of Liabilities and Capital because those accounts which have credit balance known as liability for the business.

**How to Record the Opening Entry**

To record the opening entry:

- **Identify the Closing Balances:** Determine the closing balances of all assets, liabilities, and equity accounts from the previous financial year.
- **Create the Opening Entry:** Journalize these balances in the new year's books.

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**Solved Example**

**Example No. 1: When Both sides total is equal to each other**

Balance sheet year ending 31/03/2020 shown the following balances post it to next financial year:

Closing balances of Assets are:

1. Furniture and Fixture = 50,000/-
2. Plant and machine = 2,50,000/-
3. Land and Building = 25,00,000/-
4. Vehicle = 3,30,000/-
5. Copyright = 50,000/-
6. Debtors = 80,000/-
7. Cash = 35,000/-
8. Bank = 2,75,000/-

Closing balances of Capital and Liabilities are:

1. Capital = 9,90,000/-
2. Bank loan A/c = 15,00,000/-
3. Mortgage Loan = 10,00,000/-
4. Creditors = 80,000/-

**Solution:**

**Journal Day Book**

| Date     | Particulars  | L. F. | Debit     | Credit    |
|----------|--|-------|-----------|-----------|
| 01/04/20 | Furniture & Fixture A/c  | Dr.   | 50,000    |           |
|          | Plant & machine A/c  | Dr.   | 2,50,000  |           |
|          | Land & Building A/c  | Dr.   | 25,00,000 |           |
|          | Vehicle A/c  | Dr.   | 3,30,000  |           |
|          | Copy right A/c   | Dr.   | 50,000    |           |
|          | Debtors A/c  | Dr.   | 80,000    |           |
|          | Cash A/c   | Dr.   | 35,000    |           |
|          | Bank A/c   | Dr.   | 2,75,000  |           |
|          | To Capital A/c   |       |           | 9,90,000  |
|          | To Bank loan A/c   |       |           | 15,00,000 |
|          | To Mortgage Loan A/c   |       |           | 10,00,000 |
|          | To Creditors A/c   |       |           | 80,000    |
|          | ( Being all closing balance last year transferred to new financial year) |       |           |           |

Working Note: –

Total of Debit – Total of Credit

= 35,70,000 – 35,70,000

= 0

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**Example No. 2: When the credit side is short and the balance of the capital account is missing**

Balance sheet year ending 31/03/2020 shown the following balances post it to next financial year:

Closing Balances of Assets are:

1. Plant and machine = 30,00,000/-
2. Land and Building = 50,00,000/-
3. Cash = 35,000/-
4. Bank = 5,15,000/-

Closing Balances of Liabilities are:

1. Bank loan A/c = 10,50,000/-
2. Mortgage Loan = 30,00,000/-

**Solution:**

**Journal Day Book**

| Date    | Particulars  | L. F. | Debit     | Credit    |
|---------|--|-------|-----------|-----------|
| 01/4/20 | Plant & machine A/c  | Dr.   | 30,00,000 |           |
|         | Land & Building A/c  | Dr.   | 50,00,000 |           |
|         | Cash A/c   | Dr.   | 35,000    |           |
|         | Bank A/c   | Dr.   | 5,15,000  |           |
|         | To Bank loan A/c   |       |           | 10,50,000 |
|         | To Mortgage Loan A/c   |       |           | 30,00,000 |
|         | To Capital A/c ( <i>Balancing Figure</i> )                               |       |           | 45,00,000 |
|         | ( Being all closing balance last year transferred to new financial year) |       |           |           |

Working Note: –

**Total of Debit – Total of Credit**

= 85,50,000 – 40,50,000

= 45,00,000

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**Example No 3: When the credit side is short but the balance of the capital account is also given**

Balance sheet year ending 31/03/2020 shown the following balances post it to next financial year:

Closing Balances of Assets are:

1. Plant and machine = 30,00,000/-
2. Land and Building = 50,00,000/-
3. Cash = 35,000/-
4. Bank = 5,15,000/-

Closing Balances of liabilities and Capital are:

1. Bank loan A/c = 10,50,000/-
2. Mortgage Loan = 30,00,000/-
3. Capital= 40,00,000/-

Solution:

| Journal Day Book   |  |       |           |           |
|--|--|-------|-----------|-----------|
| Date   | Particulars  | L. F. | Debit     | Credit    |
| 01/4/20  | Plant & machine A/c  | Dr.   | 30,00,000 |           |
|  | Land & Building A/c  | Dr.   | 50,00,000 |           |
|  | Cash A/c   | Dr.   | 35,000    |           |
|  | Bank A/c   | Dr.   | 5,15,000  |           |
|  | To Bank loan A/c   |       |           | 10,50,000 |
|  | To Mortgage Loan A/c   |       |           | 30,00,000 |
|  | To Capital A/c   |       |           | 40,00,000 |
|  | To Capital Reserve A/c (Bal. Fig.)                                       |       |           | 5,00,000  |
|  | ( Being all closing balance last year transferred to new financial year) |       |           |           |
| Working Note: –  |  |       |           |           |
| <b>Total of Debit – Total of Credit</b>  |  |       |           |           |
| = 85,50,000 – 80,50,000  |  |       |           |           |
| = 5,00,000   |  |       |           |           |
| The Capital account is given in the question so we cannot post this balance amount in the capital account, so we have to open a new account Capital Reserve A/c. |  |       |           |           |

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**Example No. 4: When the Debit side is short**

Balance sheet year ending 31/03/2020 shown the following balances post it to next financial year:

Closing Balances of Assets are:

1. Plant and machine = 30,00,000/-
2. Land and Building = 50,00,000/-
3. Cash = 35,000/-
4. Bank = 5,15,000/-

Closing Balances of liabilities and Capital are:

1. Bank loan A/c = 10,50,000/-
2. Mortgage Loan = 30,00,000/-
3. Capital = 50,00,000/-

Solution:

| Journal Day Book |  |       |           |           |
|------------------|--|-------|-----------|-----------|
| Date             | Particulars  | L. F. | Debit     | Credit    |
| 01/4/20          | Plant & machine A/c  | Dr.   | 30,00,000 |           |
|                  | Land & Building A/c  | Dr.   | 50,00,000 |           |
|                  | Cash A/c   | Dr.   | 35,000    |           |
|                  | Bank A/c   | Dr.   | 5,15,000  |           |
|                  | Goodwill A/c (Balancing Figure)  | Dr.   | 5,00,000  |           |
|                  | To Bank loan A/c   |       |           | 10,50,000 |
|                  | To Mortgage Loan A/c   |       |           | 30,00,000 |
|                  | To Capital A/c   |       |           | 50,00,000 |
|                  | ( Being all closing balance last year transferred to new financial year) |       |           |           |

Working Note: –

**Total of Debit – Total of Credit**

= 85,50,000 – 90,50,000

= – 5,00,000

In this question the debit side is short then the credit side, so we have open new asset account named goodwill account.

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Assignment

Questions for Recording Banking Transactions



CBSE

Ques 1:

On September 1, 2024, the following transactions occurred:

Ram started a business with cash ₹5,00,000.

Transactions:

1. September 2, 2024: Paid rent Rs. 5,000 by issuing a cheque.

2. September 3, 2024: Received Rs. 8,000 from customer Ravi and deposited the same into the bank.

3. September 4, 2024: Purchased office supplies for Rs. 3,000 and paid by cheque.

4. September 5, 2024: Withdrew Rs. 2,500 from the bank for office expenses.

5. September 6, 2024: Issued a cheque of Rs. 4,500 to supplier Mahesh.

6. September 7, 2024: Paid Rs. 1,500 for utilities by issuing a cheque.

7. September 8, 2024: Received a cheque of Rs. 6,000 from customer Anil and deposited it into the bank.

8. September 9, 2024: Withdrew Rs. 2,000 from the bank for personal use by the proprietor.

9. September 10, 2024: Bank allowed interest of Rs. 200 on the bank balance.

10. September 11, 2024: Bank charged Rs. 100 for service charges.

Pass journal entries for the above transactions.



Ques 2:

On October 1, 2024, the following transactions occurred:

Vinod started business with cash ₹1,00,000, furniture ₹2,00,000, and

Building ₹10,00,000.

Transactions:

1. October 2, 2024: Paid Rs. 6,000 for insurance by issuing a cheque.

2. October 3, 2024: Received Rs. 10,000 from customer Geeta and deposited the same into the bank.

3. October 4, 2024: Purchased machinery for Rs. 15,000 and paid by cheque.

4. October 5, 2024: Withdrew Rs. 3,500 from the bank for office expenses.

5. October 6, 2024: Issued a cheque of Rs. 5,500 to supplier Sohan.

6. October 7, 2024: Paid Rs. 2,000 for electricity by issuing a cheque.

7. October 8, 2024: Received a cheque of Rs. 7,000 from customer Manoj and deposited it into the bank.

8. October 9, 2024: Withdrew Rs. 2,500 from the bank for personal use by the proprietor.

9. October 10, 2024: Bank allowed interest of Rs. 300 on the bank balance.

10. October 11, 2024: Bank charged Rs. 150 for service charges.

Pass journal entries for the above transactions.



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Ques 3:

On November 1, 2024, the following transactions occurred:

Mohan's Books of Account shows Cash ₹16,000, Stock ₹54,000, Debtors ₹47,000, Furniture ₹42,000, Creditors ₹37,000, and Capital ₹1,22,000.

Transactions:

1. November 2, 2024: Paid Rs. 7,000 for rent by issuing a cheque.
  2. November 3, 2024: Received Rs. 9,000 from customer Karan and deposited the same into the bank.
  3. November 4, 2024: Purchased office equipment for Rs. 8,000 and paid by cheque.
  4. November 5, 2024: Withdrew Rs. 4,000 from the bank for office expenses.
  5. November 6, 2024: Issued a cheque of Rs. 6,000 to supplier Raju.
  6. November 7, 2024: Paid Rs. 2,500 for water bill by issuing a cheque.
  7. November 8, 2024: Received a cheque of Rs. 8,000 from customer Neha and deposited it into the bank.
  8. November 9, 2024: Withdrew Rs. 3,000 from the bank for personal use by the proprietor.
  9. November 10, 2024: Bank allowed interest of Rs. 250 on the bank balance.
  10. November 11, 2024: Bank charged Rs. 120 for service charges.
- Pass journal entries for the above transactions.

Ques 4:

On December 1, 2024, the following transactions occurred:

Amit's Books of Account shows Cash ₹4,000, Bank ₹10,000, Stock ₹27,000, Debtors ₹23,500, Land and building ₹30,000, Creditors ₹10,000, and Capital ₹1,00,000.

Transactions:

1. December 2, 2024: Paid Rs. 8,000 for rent by issuing a cheque.
2. December 3, 2024: Received Rs. 12,000 from customer Meena and deposited the same into the bank.
3. December 4, 2024: Purchased office furniture for Rs. 10,000 and paid by cheque.
4. December 5, 2024: Withdrew Rs. 5,000 from the bank for office expenses.
5. December 6, 2024: Issued a cheque of Rs. 7,000 to supplier Vinod.
6. December 7, 2024: Paid Rs. 3,000 for telephone bill by issuing a cheque.
7. December 8, 2024: Received a cheque of Rs. 9,000 from customer Pooja and deposited it into the bank.
8. December 9, 2024: Withdrew Rs. 4,000 from the bank for personal use by the proprietor.
9. December 10, 2024: Bank allowed interest of Rs. 400 on the bank balance.
10. December 11, 2024: Bank charged Rs. 180 for service charges.



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Pass journal entries for the above transactions.

Ques 5:

On January 1, 2025, the following transactions occurred:

Vikas's Books of Account show, Cash ₹30,000, Bank ₹10,000, Stock ₹80,000, Debtors ₹48,000, Furniture ₹7,200, Creditors ₹25,000, and Bank Loan ₹20,000.

Transactions:

1. January 2, 2025: Paid Rs. 6,500 for rent by issuing a cheque.
2. January 3, 2025: Received Rs. 11,000 from customer Rohit and deposited the same into the bank.
3. January 4, 2025: Purchased office supplies for Rs. 9,000 and paid by cheque.
4. January 5, 2025: Withdrew Rs. 4,500 from the bank for office expenses.
5. January 6, 2025: Issued a cheque of Rs. 5,000 to supplier Seema.
6. January 7, 2025: Paid Rs. 2,200 for internet bill by issuing a cheque.
7. January 8, 2025: Received a cheque of Rs. 10,000 from customer Kiran and deposited it into the bank.
8. January 9, 2025: Withdrew Rs. 3,500 from the bank for personal use by the proprietor.
9. January 10, 2025: Bank allowed interest of Rs. 350 on the bank balance.
10. January 11, 2025: Bank charged Rs. 130 for service charges.

Pass journal entries for the above transactions.

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