## 1. Details of Module and its structure

| Module Detail | |
|---|---|
| Subject Name | Accountancy |
| Course Name | Accountancy 01 (Class XI, Semester - 1) |
| Module Name/Title | Books of Original Entry: Journal – Part 4 |
| Module Id | keac_10304 |
| Pre-requisites | Basic knowledge of Accounting Equation, Rules of Debit and Credit |
| Objectives | After going through this lesson, the learners will be able to understand recording of business transactions in the journal.<br>• Process of Journalising<br>• Journal: Concept<br>• Types of Journal entries |
| Keywords | Debit, Credit, Journalising |

## 2. Development Team

| Role | Name | Affiliation |
|---|---|---|
| National MOOC Coordinator (NMC) | Prof. Amarendra P. Behera | CIET, NCERT, New Delhi |
| Program Coordinator | Dr. Mohd. Mamur Ali | CIET, NCERT, New Delhi |
| Course Coordinator (CC) / PI | Prof. Shipra Vaidya | DESS, NCERT, New Delhi |
| Subject Matter Expert (SME) | Dr. Sunil Kumar Arora | Sarvodaya Vidyalaya, Sector 3, Rohini (Directorate of Education, Govt. of NCT of Delhi) Delhi |
| Review Team | Mrs. Savita Shangari | Gyan Bharati School, Saket, New Delhi |

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## Introduction

As already discussed in the earlier chapters, accounting process commences from the identification of monetary transactions and ends with analysis and interpretation and communication of financial results. The book in which the business transactions are recorded for the first time is called journal or book of original entry. The source document is required to record the transactions in journal. This practice provides a complete record of each transaction at one place and links the debits and credits for each transaction. After the debits and credits for each transaction are recorded in the journal, these are transferred to the respective individual accounts. The process of recording business transactions in journal is called journalizing. Once the journalizing process is over, it provides a complete and useful description of the event's effect on the organization.

## Journal- Concept

Journal is the basic book of original entry in which the transactions are recorded in chronological order, i.e. as and when they take place. Afterwards, transactions from this book are posted to the respective accounts in the ledger.

**Books of <firm>**

**Journal**

| **Date 2017** | **Particulars** | **Debit Amount (₹)** | **Credit Amount (₹)** |
|---|---|---|---|
| April 01 | Cash A/c Dr.<br>To Capital<br>(Being capital invested in business) | xxx | xxx |
| | | **xxx** | **xxx** |
| | | | |

**Fig. 1 : Format of a journal**

**Description of Journal:**

***Date****:* The first column in a journal is *Date* on which the transaction took place. While entering in this column, the year and month is written once till they change and date is changed according to the date of transactions frequently.

***Particulars****:* 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 line in that 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.

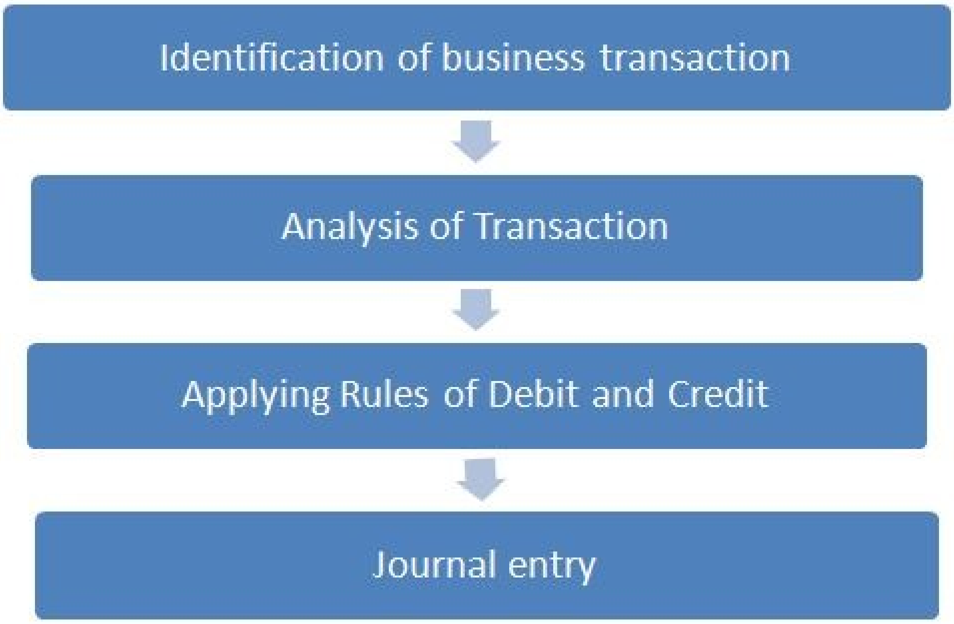
***Narration****:* Having written the *Narration* a line is drawn in the Particulars column, which indicates the end of recording the specific journal entry.

***Ledger Folio****:* The column relating to *Ledger Folio* records the page number of the ledger book on which this entry in the relevant account is posted. This column is filled up at the time of posting and *not* at the time of making journal entry.

***Amount column****:* The D*ebit amount* column records the amount against the account being debited and similarly the *Credit Amount* column records the amount against the account being credited.

Since the transactions of a business concern are recorded on daily basis, it results in voluminous accounting data. Journal records each of the daily transactions occurred in chronological order, the writing of each transaction is spread over number of pages. This may call for errors and misrepresentation while recording. In order to overcome this, each page in the journal is totalled and the amount of total is carried forward (c/f) to the next page of the journal and rewritten as total brought forward (b/f) before recording the next transaction in the journal. Such a practice helps in minimizing errors, frauds and manipulations.

**Process of Journalising**




**Types of Journal entries**

The journal entry is the basic record of a business transaction. Journal entries may be classified into two types:

**Simple journal entry:** When only two accounts are involved to record a transaction, it is called a simple journal entry.

For example:

**Rohit started business with cash ₹ 5,00,000**

*Analysis of Transaction:* The transaction increases cash on one hand and increases capital on the other hand. Increases in assets are debited and increases in capital are credited. Therefore record the transaction with debit to Cash a/c and credit to Rohit's Capital a/c.

**Books of Rohit**

**JOURNAL**

| **Date 2017** | **Particulars** | **L.F.** | **Debit Amount (₹)** | **Credit Amount (₹)** |
|---|---|---|---|---|

| | | | | |
|---|---|---|---|---|
| April 01 | Cash a/c Dr.<br>To Capital a/c<br>(Being business commenced with cash) | | 5,00,000 | 5,00,000 |

**Compound journal entry:** When the number of accounts to be debited or credited is more than one, entry made for recording the transaction is called *compound* journal entry. That means compound journal entry involves multiple accounts.

For example, Rohit sold goods to Yash for ₹ 50,000, for which half of the payment was received in cash. In this transaction, three accounts are involved Cash a/c ₹ 25,000; Yash ₹ 25,000 and Sales a/c ₹ 50,000.

**Analysis of transaction**: The total sales of amounting to ₹ 50,000; Yash paid ₹ 25,000 in cash which increase the cash in business so debited, ₹ 25,000 is yet to be received from Yash, this increases debtors for the business so it also debited and revenue in the form of sales is being generated so it is credited in the journal entry. Hence the two accounts have been debited and one account is credited in the journal entry, it is called a compound entry.

**Books of Rohit**

**JOURNAL**

| **Date 2017** | **Particulars** | **L.F.** | **Debit Amount (₹)** | **Credit Amount (₹)** |
|---|---|---|---|---|
| April 07 | Cash a/c Dr.<br>Yash a/c Dr.<br>To Sales a/c<br>(Being goods sold on cash and on credit) | | 25,000<br>25,000 | 50,000 |

**Recording of specific transactions**

Goods are the commodities in which business deals and which are bought by the business for resale purposes. For example, if a furniture trader buys furniture for resale it will be termed as ‘Purchases’ whereas buying a personal computer will be considered as an ‘Asset’ and personal computer a/c will be debited and not the purchases a/c.

Transactions of Goods can be classified into these categories for accounting purpose:

a. ***Purchases Account:*** When business buys those goods in which it deals, Purchases account is debited. Purchases of goods come under Nominal account and rule "Debit all the expenses" applies to such transaction.

b. ***Sales Account:*** When goods are sold by the business, it is income to the business. It is also treated as nominal account and rule "Credit all the incomes" applies to such transaction.

c. ***Purchases Returns Account*****:** The goods already bought can be returned because of some reason e.g., faulty or broken goods, items not as per the sample, lower quality etc. Return of goods reduces the expenses debited earlier, so "Purchases Returns a/c" is credited.

d. ***Sales Returns Account:*** The goods sold can be returned by the customers become of some reason e.g., faulty or broken goods, not according to sample, lower quality product etc. Return of goods sold reduces the income credited earlier, so "Sales Returns a/c" is debited.

e. ***Closing Stock:*** Closing stock is the stock lying unsold with the business at the end of the year. It is valued at cost price or market value, whichever is lower. It is treated as asset hence "Closing Stock a/c" is debited.

Consider the following transactions and record in journal**.**

| **Date 2017** | **Particulars** | **Amount (₹)** |
|---|---|---|
| April 01 | Praveen started business with Cash | 10,00,000 |
| April 04 | Bought goods for Cash | 2,00,000 |
| April 07 | Bought goods from Mukesh | 1,00,000 |
| April 10 | Sold goods for Cash | 1,50,000 |
| April | Paid to Mukesh ₹ 96,000 in full | |

| | | |
|---|---|---|
| 11 | settlement | |
| April 12 | Sold goods to Bhanu | 20,000 |
| April 17 | Bhanu Paid his dues, Cash discount allowed @2% | |
| April 30 | Paid salary | 10,000 |
| April 30 | Received commission | 2,000 |

**Journal**

| Date 2017 | Particulars | L.F. | Debit Amount (₹) | Credit Amount (₹) |
|---|---|---|---|---|
| April 01 | Cash a/c Dr.<br>To Capital a/c<br>(Being business started with cash) | | 10,00,000 | <br>10,00,000 |
| April 04 | Purchases a/c Dr.<br>To Cash a/c<br>(Being goods bought for cash) | | 2,00,000 | <br>2,00,000 |
| April 07 | Purchases a/c Dr.<br>To Mukesh<br>(Being goods bought for Credit) | | 1,00,000 | <br>1,00,000 |
| April 10 | Cash a/c Dr.<br>To Sales a/c<br>(Being goods sold for cash) | | 1,50,000 | <br>1,50,000 |
| April 11 | Mukesh Dr.<br>To Cash a/c<br>To Discount Received a/c<br>(Being amount paid to Mukesh in full settlement) | | 1,00,000 | <br>96,000<br>4,000 |
| April 12 | Bhanu Dr.<br>To Sales a/c<br>(Being Goods sold on credit) | | 20,000 | <br>20,000 |
| April 17 | Cash a/c Dr.<br>Discount allowed a/c Dr.<br>To Bhanu | | 19,600<br>400 | <br><br>20,000 |

| | | | | |
|---|---|---|---|---|
| | (Being Amount received from Bhanu ) | | | |
| April 30 | Salary a/c Dr.<br>To Cash a/c<br>(Being Salary paid in cash) | | 10,000 | 10,000 |
| April 30 | Cash a/c Dr.<br>To Commission Received a/c<br>(Being Commission received) | | 2,000 | 2,000 |
| | **Total** | | **16,02,000** | **16,02,000** |

**Entries related to bad debts**

Goods can be sold to customers on cash as well as on credit. Sometimes due to loss in business or break financial position that a person is declared insolvent and the due amount becomes irrecoverable. The irrecoverable amount is written off as bad debts. Journal entry for this situation is as follows:

a. **When the due amount is totally irrecoverable**

Bad Debts a/c Dr.

To Customer's Personal a/c

b. **When the due amount is partially recoverable from the customer**

Cash/Bank a/c Dr. (Amount recovered)

Bad Debts a/c Dr. (Amount not recovered)

To Customer's personal a/c (Amount due)

**Specific entries related to bank**

i. **When Cash is deposited into bank**

Bank a/c Dr.

To Cash a/c

(Being Cash deposited into bank)

ii. **When Cash is withdrawn from bank**

Cash a/c Dr.

To Bank a/c

(Being Cash withdrew from Bank)

iii. **When Cheques/Drafts received from the customers are deposited into bank same day**

Bank a/c Dr.

To Customer's Personal a/c

(Being cheque/draft received from customer and deposited into bank same day)

iv. **When payment received through cheque and discount allowed to the customer and cheque is deposited into bank same day**

Bank a/c Dr.

Discount allowed a/c Dr.

To Customer's Personal a/c

(Being payment received from customer and discount allowed, cheque deposited into bank same day)

v. **When Cheques/Drafts received from the customers are not deposited into bank same day**

Cheques in hand a/c Dr.

To Customer's personal a/c

(Being cheque/draft received from customer)

vi. **When Cheques/Drafts received earlier from the customers are deposited into bank**

Bank a/c Dr.

To Cheques in hand a/c

(Being cheque/draft received earlier deposited into bank)

vii. **When a cheque deposited with bank is dishonoured**

Customer's personal a/c Dr.

To Bank a/c

(Being Cheque dishonoured due to ......reason)

viii. **If discount was allowed while receiving the cheque and it gets dishonoured**

Customer's personal A/c Dr.

To Bank A/c

To Discount allowed A/c

(Being Cheque dishonoured due to ......reason and discount allowed cancelled)

ix. **When a customer directly deposits in Bank account**

Bank a/c Dr.

To Customer's personal a/c

(Being amount directly deposited by customer)

**x. When Payment is made by cheque to any party**

Party's Personal a/c Dr.

To Bank a/c

(Being payment made by cheque)

**xi. When business expenses are paid through cheque**

Particular Expense a/c Dr.

To Bank a/c

(Being expense paid through cheque)

xii. **When Owner withdrew money from bank for personal use**

Drawings a/c Dr.

To Bank a/c

(Being Money withdrawn for personal use)

**xiii. When Charges are deducted by bank for providing services**

Bank Charges a/c Dr.

To Bank a/c

(Being charges deducted by bank)

**xiv. When Bank charged interest**

Interest a/c Dr.

To Bank a/c

(Being interest charged by bank)

**xv. When Bank allowed/credited interest in account**

Bank a/c Dr.

To Interest a/c

(Being Interest credited by bank)

**Situations when purchase account is credited**

Purchases account is debited but there are some exceptions when Purchases a/c is credited in journal entries. These situations are discussed below:

**a. Goods taken by the proprietor for personal use:**

Drawings a/c Dr.

To Purchases a/c

(Being Goods withdrawn for personal use)

b. **Goods distributed as free sample for advertising**

Free Samples/Advertising a/c Dr.

To Purchases a/c

(Being goods given as free samples)

c. **Goods given as charity**

Charity a/c Dr.

To Purchases a/c

(Being goods given as charity)

d. **Loss of goods due to any reason e.g. Theft, Fire, Flood etc.**

Loss by ................ a/c Dr.

To Purchases a/c

(Being goods lost due to .........(reason)

e. **Goods used by the business for making/constructing any asset**

Particular Asset a/c Dr.

To Purchases a/c

(Being goods utilised for making asset)

**Some Special Entries**

**Opening Entry**: The balances of assets and liabilities as shown in the last balance sheet are brought forward in the beginning of current accounting year by passing a journal entry. This journal entry is called opening entry.

It is based on accounting equation i.e. ***Assets = Capital + Liabilities*.** In case any of these element is missing that can be found by using these formula:

**Capital = Assets – Liabilities**

**Liabilities = Assets – Capital**

**Example:**

Following balances appeared in the books of Prince as on April 01, 2017:

**Assets:** Cash in hand ₹ 25,000; Bank balance ₹ 65,000; Debtors ₹ 86,000 (Rahul ₹ 26,000; Seema ₹ 20,000; Sobti ₹ 15,000; Bhatia ₹ 25,000); Stock ₹ 54,000; Computer ₹ 40,000; Furniture ₹ 50,000.

**Liabilities**: Creditors ₹ 66,000 (Ram ₹ 36,000; Rakhi ₹ 30,000); Bills payable ₹ 20,000

Record opening entries in the journal.

**Books of Prince**

**Journal**

| **Date 2017** | **Particulars** | | **L.F.** | **Debit Amount (₹)** | **Credit Amount (₹)** |
|---|---|---|---|---|---|
| January 01 | Cash a/c | Dr. | | 25,000 | |
| | Bank a/c | Dr. | | 65,000 | |
| | Rahul | Dr. | | 26,000 | |
| | Seema | Dr. | | 20,000 | |
| | Sobti | Dr. | | 15,000 | |
| | Bhatia | Dr. | | 25,000 | |
| | Stock a/c | Dr. | | 54,000 | |
| | Computer a/c | Dr. | | 40,000 | |
| | Furniture a/c | Dr. | | 50,000 | |
| | To Ram | | | | 36,000 |
| | To Rakhi | | | | 30,000 |
| | To Bills Payable a/c | | | | 20,000 |
| | To Capital a/c (balancing figure) | | | | 2,34,000 |
| | (Being Balances brought forward) | | | | |

**Adjustment Entries:** There are some journal entries which are recorded at the end of the year. These are also called adjustment entries, as they are made to adjust certain items. These are discussed below:

**Adjustment of xpenses**:

**Outstanding Expenses:** Those expenses which are due but not paid during the current accounting year. In other words, services has been availed by the business but not paid the amount in current year till the preparation of final accounts.

These are brought into the books of accounts as the expense has accrued in the current year and are shown in the current liabilities in the Balance Sheet.

Expenses a/c Dr.

To Outstanding Expenses a/c

**Prepaid Expenses:** Those expenses which have been paid during the current accounting year and have been recorded as expense but services of which will be availed or benefits may expire in the next year e.g. Insurance premium, Advance salary etc. Prepaid expense is an asset.

Prepaid Expense a/c Dr.

To Expense a/c

(Being prepaid expense accounted for)

**Adjustment related to Incomes:**

**Accrued income**: Part of income which is due but not received in the current accounting year. In other words, a service has been provided to the customer therefore, income has been earned but payment not received till the end of year. Since money will be received in future, accrued income is an asset.

Accrued Income a/c Dr.

To Income a/c

(Being accrued income brought into books)

**Income received in advance/Unearned Income**: Income received in the current accounting year but services are yet to be provided to the customer.

Income a/c Dr.

To Unearned income a/c

(Being unearned income adjusted)

**Summary**

1. The book in which the transaction is recorded for the first time is called journal.
2. Transactions are recorded in the journal on the basis of source documents and vouchers.
3. It provides complete record of each transaction at one place and links the debits and credits for each transaction.
4. The process of recording transaction in journal is called journalizing. Once the journalizing process is completed, the journal entry provides a complete and useful description of the event's effect on the organization.
5. For journalizing the transactions, following steps are taken:
    i. Identification of transactions

ii. Accounts involved
iii. Applying rules of Debit and Credit
iv. Passing Journal entries

6. There are two types of Journal entries on the basis of accounts involved in any transaction:
   i. **Simple Journal Entry:** When only two accounts are involved to record a transaction, it is called a simple journal entry.
   ii. **Compound Journal Entry:** When the number of accounts to be debited or credited is more than one, entry made for recording the transaction is called *compound* journal entry. That means compound journal entry involves multiple accounts.
7. Accounts related to goods can be classified as
   **i.** **Purchases a/c:** When business buys those goods which it deals in, Purchases A/c is debited by treating it as an expense for the business.
   **ii.** **Sales a/c:** When goods are sold by the business, it is income for business. It is also treated as nominal account and rul**e** "Credit all the incomes" applies, hence Sales a/c is credited**.**
   **iii.** **Purchases Returns a/c:** Return of goods bought reduces the expenses debited earlier, so "Purchases Returns a/c" is credited.
   **iv.** **Sales Returns a/c:** Return of goods sold reduces the income credited earlier, so "Sales Returns a/c" is debited.
   **v.** **Closing Stock a/c:** Closing stock is valued at cost price or market value, whichever is lower. It is treated as asset hence "Closing Stock a/c" is debited.

**Specific entries**

**Opening Entry**: Entry through which the balances of assets and liabilities as shown in the last balance sheet are brought forward in the beginning of an accounting year.

**Adjustment Entries:** Entries which are passed at the end of the year to adjust certain items.

**Adjustment related to Expenses**:

**Outstanding Expenses:** Those expenses which are due but not paid during the current accounting year

**Prepaid Expenses:** Those expenses which have been paid during the current accounting year but services of which will be availed in the next year

**Adjustment related to Incomes:**

**Accrued Income**: Part of income which is due but not received in the current accounting year.

**Income received in Advance/Unearned Income**: Income received in the current accounting year but services are yet to be provided to the customer.